

Candidate Name	Centre Number	Candidate Number
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GCSE

4702/01

APPLIED BUSINESS

Unit 2

Business Finance and Decision Making

A.M. WEDNESDAY, 12 January 2011

1¼ hours

For Examiner's use only		
Question	Maximum mark	Mark awarded
1.	35	
2.	40	
3.	25	
Total	100	

ADDITIONAL MATERIALS

In addition to this examination paper you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions.

Write your answers to all the questions in the spaces provided in this question-and-answer booklet.

INFORMATION FOR CANDIDATES

The mark allocation for each part of a question is shown in brackets.

Answer **all** the questions in the spaces provided.

1. Study the information below and then answer the questions that follow.

Bookworm Ltd is a bookshop that has been trading successfully for a number of years. It sells every kind of book to retail customers, sourcing its stock from a nearby wholesaler, The Book Place. *Bookworm Ltd* has recently installed a new computerised system to make the task of managing the flow of financial documents easier.



- (a) When *Bookworm Ltd* buys stock from The Book Place a number of documents will be used. These include.

Delivery Note

Purchase Order

Remittance Advice Slip

Credit Note

Statement of Account

Receipt

Identify which document would be used in the following situations by writing the name of the document in the space provided. [4]

- (i) The Book Place sends this document to *Bookworm Ltd* when the order is despatched.

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- (ii) The Book Place sends this document to *Bookworm Ltd* as proof that they have paid for their order.

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- (iii) *Bookworm Ltd* uses this document when it wishes to buy stock from The Book Place.

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- (iv) The Book Place sends this document to *Bookworm Ltd* at the end of the month to inform them how much is owed.

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- (b) *Bookworm Ltd* has completed a stock check and finds that some stock is running low. It decides that it will require the following items:

10 Assorted DIY books, reference number DY7298, £20.00 each

20 Assorted novels, reference number NL1987, £10.00 each

Using this information, complete the shaded areas of the purchase order below which will be sent to The Book Place, The Ridings Industrial Estate, Newport, NE21 8FE on 28 January 2011. [6]

<i>Bookworm Ltd</i>		Tel: (0452) 749326	
20 North Road		Fax: (0452) 749327	
Newport			
NE32 7JU			
PURCHASE ORDER			
To:			
		Order No:	1652
		Date:	
Quantity	Description	Item Ref:	Unit Price (£)
10	Assorted DIY books	DY7298	20.00
Authorised: <i>N. Newbold</i>		Delivery: Immediate	
VAT Registration Number: 78654320			

(c) Explain why the Purchase Order has to be signed by the person in charge of purchasing. [2]

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(d) *Bookworm Ltd* usually pays *The Book Place* by cheque. State **one other** method that *Bookworm Ltd* could use to pay its invoices **and** briefly evaluate the method from the point of view of *Bookworm Ltd*. [3]

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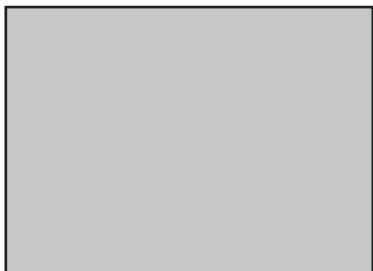


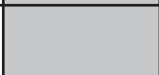

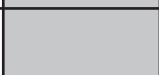
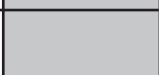
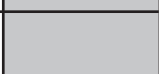
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- (e) On 22 February 2011, *Bookworm Ltd* receives the following invoice from The Book Place, relating to the order in Q1(b) on page 3. Using the information in this Purchase Order, complete the invoice below by filling in all the shaded areas. [8]

The Book Place The Ridings Industrial Estate Newport NE21 8FE		Tel: (0452) 743897 Fax: (0452) 743898		
INVOICE 7892				
To:				
		Order No:		
		Date:	22.02.2011	
Quantity	Description	Item Ref:	Unit Price (£)	Total Price (£)
10	Assorted DIY books	DY7298	20.00	200.00
20	Assorted novels	NL1987	10.00	
			Goods Total	
			Less 15% Discount	
			Sub-total	
			VAT @ 20%	
			Total to Pay	
Delivery: Immediate		Authorised By: NN		
VAT Registration Number: 78654320				

(f) Explain the meaning **and** purpose of each of the following terms:

[6]

(i) Trade Discount;

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(ii) VAT.

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(g) *Bookworm Ltd* now produces its documents using the new computerised system it has installed. Evaluate the new system of computer generated documents as compared with the previous manual system. [6]

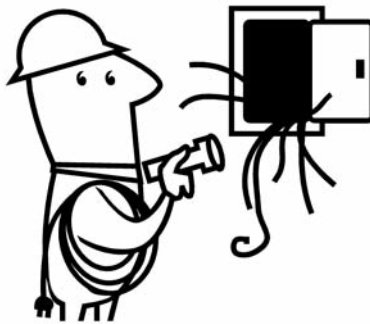
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2. Study the information below and then answer the questions that follow.

William completed his apprenticeship as an electrician and set up a business carrying out electrical repairs and wiring for both private and small business customers. He operates as a sole trader and calls his business *Sparks*. He used his savings of £3000 as capital to buy all the tools and equipment he might need. He does not need retail premises but rents a storage unit for his tools and equipment. He also has a small van that he uses to get to his jobs. *Sparks* has had two successful years of trading and now hopes to buy premises in which to keep the van and store tools and equipment. Before going ahead with the purchase, William needs to complete and interpret his financial statements.



- (a) *Sparks's* income and costs for the first two years of trading are detailed below.

Using these figures, complete the shaded areas of *Sparks's* Trading Profit and Loss Accounts for the years ending December 2009 and December 2010. [8]

Item	2009 £	2010 £
Cash sales	25 000	28 000
Credit sales	30 000	35 000
Stock purchases / Cost of Sales	15 000	17 000
Wages	15 000	16 000
Telephone	360	400
Insurance	2 200	2 500
Fuel and Repairs for Van	5 000	6 500
Rent and Rates	3 000	5 000

<i>Sparks</i> Profit and Loss Account for the Years Ending 31 December 2009 and 31 December 2010				
Item	2009 £		2010 £	
Total Sales		55 000		63 000
<i>Less:</i> Cost of Sales		15 000		
Gross Profit				46 000
<i>Less</i> Expenses:				
				5 000
Wages	15 000			16 000
Insurance	2 200			2 500
				400
Fuel and Repairs for Van	5 000			6 500
Total Expenses		25 560		

(b) Explain the difference between gross profit and net profit.

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(c) Evaluate the usefulness to *Sparks* of using a spreadsheet package to produce end of year statements. [6]

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(d) William has been advised to use Accounting Ratios to interpret his financial statements. Using the information from the Profit and Loss Account on the previous page and the given formulae calculate the ratios below to two decimal places. (You are advised to show your workings.) [8]

(i)
$$\text{Gross Profit Percentage} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

2009

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2010

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(ii) Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

2009

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2010

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(e) William will also need to consider his Balance Sheet before deciding whether to go ahead and purchase premises, as this shows the financial health of the business. Both the Current Assets and the Current Liabilities of the business appear on the Balance Sheet. Define **both** these terms and give an example of each. [4]

(i) Current Assets

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(ii) Current Liabilities

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(f) *Sparks's* Assets and Liabilities for 2009 and 2010 are detailed below.

Item	2009 £	2010 £
Fixed Assets	3 200	3 200
Current Assets	8 500	12 000
Current Liabilities	3 000	4 500

Using the information in the above table and the given formula, calculate the Current Ratio for *Sparks* for **2010**. (You are advised to show your workings.) [2]

Ratio	2009	2010
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.83 : 1	

(g) Using your responses to Questions 2(d) and 2(f), consider all **three** ratios you have calculated and advise William whether he should go ahead with his proposed purchase of premises. [8]

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Total Mark

3. Study the information below and then answer the questions that follow.

Martha and Mary are considering setting up a cake shop called *Melting Moments*. They intend renting a small shop that has just become available on the High Street. They expect *Melting Moment's* monthly costs and revenues to be:



Variable Cost per customer:	£3.00
Fixed Cost:	£1 500.00
Average amount spent by each customer:	£5.00

(a) Before deciding whether to go ahead with the venture Martha and Mary have been advised to calculate their break-even point. In order to do this they will need to know the difference between Fixed Costs and Variable Costs. [6]

(i) Define Fixed Costs and give an example:

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(ii) Define Variable Costs and give an example:

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(b) Explain what the break-even point will tell Martha and Mary. [2]

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(c) (i) Using the formula below and the information provided at the beginning of question 3, insert the correct amounts in the shaded areas. [2]

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price per unit} \text{ minus } \text{variable cost per unit}}$$

$$\text{Break-even point} = \frac{\text{£ } \boxed{}}{\text{£ } \boxed{} \text{ minus } \text{£ } \boxed{}}$$

(ii) Calculate the number of customers *Melting Moments* must have to break even. [1]

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(d) (i) Martha and Mary have been told that the rent is likely to increase after six months. Explain how this will affect the business. [3]

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- (ii) State **one** course of action Martha and Mary could take if there was an unexpected rise in costs once the business has started and explain the impact of this action. [2]

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- (e) Martha and Mary plan to draw conclusions from their break-even analysis. What limitations of this analysis would they need to consider? [4]

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(f) Martha and Mary also plan to construct a budget for the first year of trading.

(i) What is a budget?

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(ii) State **three** advantages to Martha and Mary of preparing a budget when they set up their business. [3]

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III

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Total Mark
