

Candidate Name	Centre Number	Candidate Number
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**GCSE**

4704/01

**APPLIED BUSINESS**

**Unit 4**

**Business Finance and Decision Making II**

P.M. WEDNESDAY, 19 January 2011

1¼ hours

For Examiner's use only		
Question	Maximum mark	Mark awarded
1.	34	
2.	39	
3.	27	
<b>Total</b>	<b>100</b>	

**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.



Alan and Richard plan to takeover a garage which repairs and services cars. They will call their garage *Grease Monkeys*. They will operate as a partnership with **each** contributing £3 000 of capital towards the business, which will be in the business's bank account at the end of December. They intend to start trading at the beginning of January. All the tools and equipment they need are already in place and will cost Alan and Richard £12 000. The present owner has agreed that they will not have to pay him this amount until March.

As they are only just starting up they plan to pay themselves a salary of only £600 **each**, every month.

Alan and Richard estimate that their sales for the first four months of trading will be as follows:

January	February	March	April
£5 050	£5 500	£5 400	£6 300

They estimate that their stock purchases for the same period will be as follows:

January	February	March	April
£3 000	£2 750	£3 500	£4 000

The rent of the garage is £600 per month.

The electricity bill will be due in April and they estimate it will be £850.

(a) During their first year of trading, *Grease Monkeys* will incur start-up costs and running costs.

Define **each** of these costs and, using the information at the start of the question, give an example of **one** start-up cost and **one** running cost that will be incurred by the business. [6]

(i) Definition and example of a start-up cost

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(ii) Definition and example of a running cost:

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(b) Alan and Richard’s accountant has advised them that they should use a computer spreadsheet package to draw up a cash flow forecast. Evaluate the usefulness of such a computer package in the preparation of their cash flow forecast. [6]

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- (c) Using the data given at the start of the question, complete the shaded areas in the cash flow forecast for *Grease Monkeys* that follows. [15]

	A	B	C	D	E	F
1		JAN	FEB	MAR	APRIL	TOTAL
2		£	£	£	£	£
3	Opening Balance at Bank		6 250		-4 700	
4						
5	<b>RECEIPTS</b>					
6	Sales	5 050	5 500		6 300	
7						
8	<b>TOTAL RECEIPTS</b>	5 050	5 500			22 250
9						
10	<b>PAYMENTS</b>					
11	Purchases	3 000		3 500	4 000	13 250
12	Tools and Equipment					12 000
13	Rent	600	600	600	600	2 400
14	Wages		1 200	1 200	1 200	4 800
15	Electricity					850
16						
17	<b>TOTAL PAYMENTS</b>	4 800	4 550			
18						
19	<b>Closing Balance at Bank</b>	6 250	7 200			

(d) State the formula that Alan and Richard would use in cell D19 to calculate the Closing Balance at Bank. [2]

(e) (i) In which month(s) will Alan and Richard expect cash flow problems? [2]

(ii) State **one** possible cause of these cash flow problems [1]

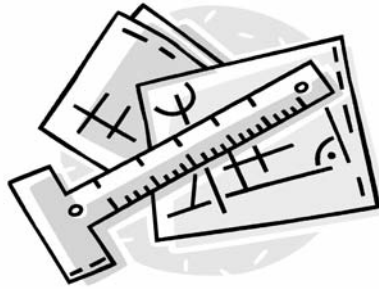
(iii) State **one** course of action Alan and Richard could take to resolve their cash flow problems. [2]

**Total Mark**

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

*Bricks and Blocks Ltd* is a builders' merchant. It sells building materials, mainly to trade customers, but also makes some retail sales. Its main supplier is Allsop Aggregates Ltd which supplies the business with concrete blocks, sand, bricks and cement. Presently, all stock records are held on individual stock cards and are completed manually, although the business does plan to introduce a computerised stock control system in the future.



(a) Individual stock record cards are updated every day. The following details are currently held about nine-inch concrete blocks:

Average daily issue	1 000
Normal delivery time	8 days
Minimum stock	5 000
Maximum stock	25 000

(i) Using the formula below, and the stock card information above, insert the correct amounts into the shaded areas. [3]

$$\text{Re-order level} = \left( \begin{array}{l} \text{Average daily usage} \\ \text{of stock} \end{array} \times \begin{array}{l} \text{number of days for} \\ \text{delivery from supplier} \end{array} \right) + \text{minimum stock}$$

<b>Re-order level</b>	=		×		+	
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(ii) Calculate the re-order level for nine-inch concrete blocks.

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- (iii) Stock records indicate that *Bricks and Blocks Ltd* had a stock balance of 8 000 nine-inch concrete blocks on 1 December 2010.

During the first week of December the stores department received requisition orders from one of its customers as follows:

7 December	Requisition No. 726	1 000 blocks
9 December	Requisition No. 742	2 000 blocks
12 December	Requisition No. 776	1 500 blocks
15 December	Requisition No. 789	2 500 blocks

*Bricks and Blocks Ltd* placed an order for 12 000 blocks with their supplier, Allsop Aggregates Ltd, on 2 December 2010 which was delivered on 10 December 2010. The Purchase Order number was 17941.

Using the information from question 2a(ii), and the details above, complete the Stock Record Card below by filling in the shaded areas. [12]

<b>STOCK RECORD CARD</b>					
<b>Stock Description:</b> <span style="background-color: #cccccc; display: inline-block; width: 300px; height: 15px;"></span>					
<b>Stock Units:</b> 9 inch blocks		<b>Minimum:</b> 5 000			
<b>Stock Ref No.:</b> 9CB		<b>Maximum:</b> 25 000			
<b>Location:</b> Yard A Area 03		<b>Re-order Level:</b> <span style="background-color: #cccccc; display: inline-block; width: 100px; height: 15px;"></span>			
<b>Re-order Quantity: 12 000</b>					
Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
<b>1 Dec</b>					<b>8 000</b>

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- (iv) Why must an authorised employee of the company sign a Stores Requisition? [2]

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- (b) *Bricks and Blocks Ltd* also buys cement from *Allsop Aggregates Ltd*. *Allsop* supplied the cement at a price of £2.00 per bag but from 1 December 2010 they increased the price to £2.50 per bag. The following table shows the deliveries and issues of cement during the month of December.

Date	Goods Received		Goods Issued	
	Ref.	Quantity	Ref.	Quantity
1 Dec 10				
12 Dec 10			Req. No. 455	100
19 Dec 10	Purchase Order 01229	1 000		
23 Dec 10			Req. No. 497	200

Value the closing stock of cement on 31 December 2010 using the FIFO (First In First Out) method. Complete your valuations by filling in the shaded areas in the table below. (You are advised to show all your workings.) [9]

Date	Receipts	Issues	Balance	Valuation
1 Dec 10			150 @ £2.00	£300
12 Dec 10				
19 Dec 10				
23 Dec 10				



(c) Stock can also be valued using the LIFO (Last In First Out) method. Compare the FIFO and LIFO methods of stock valuation. [6]

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(d) Evaluate *Bricks and Blocks Ltd's* proposed introduction of a computerised Bar Code System. [6]

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**Total Mark**

**Turn over.**

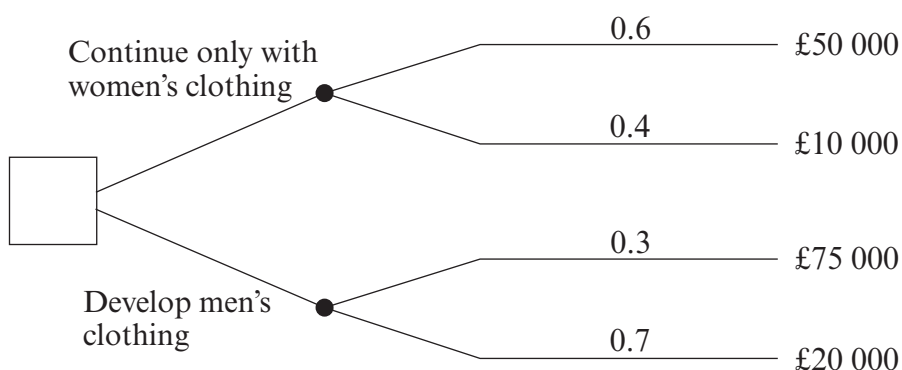
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(d) Now that *Just For You* is established, Susan is thinking of developing the business further by making clothing for men as well as for women. She asked the advice of her accountant who has drawn up the following Decision Tree diagram to help make up her mind. The diagram shows the predicted profit of each outcome and the probability of that outcome occurring.



(i) Calculate the financial outcome (expected value) of each decision. (You are advised to show your workings.)

(I) The expected value of continuing only with women's clothing : [3]

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(II) The expected value of developing men's clothing: [3]

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(ii) Using your calculations in 3(d) (i)

(I) Would you advise Susan to go ahead with her plans for expansion? [1]

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(II) Why would this be your advice? [2]

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**Total Mark**

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