



**4702/01**

**APPLIED BUSINESS**

**Unit 2**

**Business Finance and Decision Making**

**A.M. WEDNESDAY, 30 May 2012**

**1¼ hours plus your additional time allowance**

**Surname** \_\_\_\_\_

**Other Names** \_\_\_\_\_

**Centre Number** \_\_\_\_\_

**Candidate Number 0** \_\_\_\_\_

<b>For Examiner's use only</b>		
<b>Question</b>	<b>Maximum Mark</b>	<b>Mark awarded</b>
<b>1.</b>	<b>33</b>	
<b>2.</b>	<b>36</b>	
<b>3.</b>	<b>31</b>	
<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 or your usual method.**

**Write your name, centre number and candidate number in the spaces on the front cover.**

**Answer ALL the questions.**

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

**If you run out of space, use the continuation page at the back of the booklet, taking care to number the question(s) clearly.**

## **INFORMATION FOR CANDIDATES**

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

**Quality of written communication is assessed in Question 2(e).**

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

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

**THE MUSIC BOX is a music shop that sells musical instruments, sheet music and CDs. Most of its customers are music lovers from the local area, but it also sells to local schools and theatres. It sources its stock from one major wholesaler, Music Works Ltd.**

1(a) When THE MUSIC BOX buys stock from Music Works Ltd, a number of documents will be used to record the transaction. These include:

Remittance Advice      Sales Invoice  
Delivery Note      Receipt      Credit Note

Identify which document will be used in the following situations. Tick (✓) ONE box only for EACH answer. [4]

(i) Music Works Ltd will send this document to THE MUSIC BOX with the stock.

	Tick (✓) one box only
Sales Invoice	
Delivery Note	
Remittance Advice	

- 1.(a) (ii) **Music Works Ltd will send this document to THE MUSIC BOX to request payment for a specific order.**

	Tick (✓) one box only
<b>Sales Invoice</b>	
<b>Credit Note</b>	
<b>Receipt</b>	

- 1(a) (iii) **THE MUSIC BOX will send this document with its payment to Music Works Ltd.**

	Tick (✓) one box only
<b>Receipt</b>	
<b>Sales Invoice</b>	
<b>Remittance Advice</b>	

- (iv) **Music Works Ltd will send this document to THE MUSIC BOX to show that the shop has paid for its stock.**

	<b>Tick (✓) one box only</b>
<b>Delivery Note</b>	
<b>Receipt</b>	
<b>Remittance Advice</b>	

- 1(b) **THE MUSIC BOX** sent the following Purchase Order to Music Works Ltd as a request for goods to be supplied.

Using the information given in the Purchase Order, complete the Sales Invoice opposite by filling in all the shaded areas. [10]

**THE MUSIC BOX**  
The Row  
Llangollen  
LL20 7YU

**Tel: (0547) 344346**

**Fax: (0547) 347347**

**PURCHASE ORDER**

**To:**

**Music Works Ltd**  
**Parc Collen**  
**Industrial Estate**  
**Llangollen**  
**LL20 6TL**

**Order No: 4213**

**Date: 22.05.2012**

<b>Quantity</b>	<b>Description</b>	<b>Item Ref:</b>	<b>Unit Price (£)</b>
<b>30</b>	<b>Small Recorders</b>	<b>SR4291</b>	<b>30.00</b>
<b>50</b>	<b>Assorted Sheet Music</b>	<b>AM7942</b>	<b>5.00</b>

**Authorised**

**T. Howard**

**Delivery: 5 days**

**VAT Registration Number: 48674320**



**1(c) Explain the MEANING and PURPOSE of the following terms that appear on Sales Invoices sent by Music Works Ltd. [6]**

**(i) VAT**

**(I) meaning:** \_\_\_\_\_

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**(II) purpose:** \_\_\_\_\_

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**1(c) (ii) E & OE**

**(I) meaning:** \_\_\_\_\_

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**(II) purpose:** \_\_\_\_\_

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**1(e) Identify and explain TWO consequences for Music Works Ltd of sending out Sales Invoices that are NOT CORRECT. [6]**

**Consequence 1:** \_\_\_\_\_

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**Explanation:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Consequence 2:** \_\_\_\_\_

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**Explanation:** \_\_\_\_\_

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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

**Steff Jones had always been interested in magic. Two years ago he decided to set up a business selling costumes and magic games. He called his business THE ACE OF SPADES. Steff set up as a sole trader with a CAPITAL OF £10 000 in the first year.**

**Steff is now considering expanding his business by buying a van so that he can perform magic shows at different venues.**

- 2(a) Before going ahead and expanding the business Steff will have to consider the financial health of THE ACE OF SPADES. To help him do this he will need to draw up and analyse the financial statements for 31 March 2011 and 31 March 2012.

THE ACE OF SPADES'S income and costs for both years are detailed below.

Using these figures, complete opposite the shaded areas of THE ACE OF SPADES'S Trading Profit and Loss Accounts for the years ending 31 March 2011 and 31 March 2012. [8]

Item	2011 £	2012 £
Cash Sales	24 000	25 000
Credit Sales	26 000	32 000
Stock Purchases/ Costs of Sales	14 500	15 000
Wages	14 000	16 000
Telephone	370	450
Insurance	2 000	2 500
Rent and Rates	3 000	5 000

**2(b) Steff has been advised to use Accounting Ratios to interpret his financial statements. Using the information from the Profit and Loss Account and the given formulae, calculate the ratios below. (You are advised to show your workings.) [8]**

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

**2011**

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**2012**

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

**2011**

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**2012**

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**2(c) THE ACE OF SPADES'S Assets and Liabilities for 2011 and 2012 are noted below.**

<b>Item</b>	<b>2011 £</b>	<b>2012 £</b>
<b>Fixtures and Fittings</b>	<b>10 500</b>	<b>12 000</b>
<b>Stock</b>	<b>4 000</b>	<b>4 500</b>
<b>Debtors</b>	<b>6 000</b>	<b>5 000</b>
<b>Bank</b>	<b>500</b>	<b>-200</b>
<b>Creditors</b>	<b>4 000</b>	<b>3 500</b>

**Using these figures and those given in the information at the start of Question 2, complete the shaded areas of THE ACE OF SPADES'S Balance Sheets opposite as at 31 March 2011 and 31 March 2012. [6]**

2(d) Steff’s accountant has told him that he should also calculate his Debtor Collection Periods, Creditor Payment Periods and his Current Ratio in order to get a more complete picture of the business.

Using the relevant information from THE ACE OF SPADES’S Balance Sheets for 2011 and 2012, the information given for the Profit and Loss Account and the given formulae, calculate the ratios by completing the table below. (You are advised to show your workings.) [6]

Ratios	2011	2012
<b>Debtor Collection Period =</b> $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365$		57.03 days
<b>Creditor Payment Period =</b> $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$	100.69 days	
<b>Current Ratio =</b> $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.63:1	



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

Dave and Sandra are taxi drivers who plan to go into business together providing cars and limousines for special occasions. They intend targeting wedding and party planners as potential customers for their business. Their business will be called **DREAMS COME TRUE**.

They estimate their costs as follows:

**Total Fixed Costs = £3 000 per month**

**Variable Costs = £20 per customer**

They intend charging  
an average price of **£40 per customer**

**3(a) Before deciding whether to go ahead with the venture, Dave and Sandra 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.**

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**(ii) Give an example of a Fixed Cost.**

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**(iii) Define Variable Costs.**

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**(iv) Give an example of a Variable Cost.**

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**3(b) Explain what the break-even point will tell Dave and Sandra. [2]**

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- 3(c) (i) Using the formula below and the information given in the scenario, insert the correct amounts in the shaded areas. [2]

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

$$\text{Break-even point} = \frac{\text{£ } \boxed{\phantom{00000}}}{\text{£ } \boxed{\phantom{00000}} \text{ minus } \text{£ } \boxed{\phantom{00000}}}$$

- (ii) Calculate the number of customers DREAMS COME TRUE must have to break even. [1]
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3(d) Using the information given in the scenario, complete the shaded areas in the table below. [7]

<b>Customers per month</b>	<b>Fixed Costs (£)</b>	<b>Variable Costs (£)</b>	<b>Total Costs (£)</b>	<b>Total Revenue (£)</b>
<b>0</b>	<b>3 000</b>			
<b>50</b>	<b>3 000</b>		<b>4 000</b>	<b>2 000</b>
<b>100</b>	<b>3 000</b>	<b>2 000</b>		<b>4 000</b>
<b>150</b>	<b>3 000</b>		<b>6 000</b>	
<b>200</b>	<b>3 000</b>	<b>4 000</b>	<b>7 000</b>	<b>8 000</b>

**3(e) State the profit OR loss the business would make in a month if it had 100 customers. [2]**

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