

4702/01

**APPLIED BUSINESS** 

Unit 2

**Business Finance and Decision Making** 

A.M. WEDNESDAY, 30 May 2012

1<sup>1</sup>/<sub>4</sub> hours plus your additional time allowance

Surname	
Other Names	
Centre Number	
Candidate Number 0	

For Examiner's use only			
Question	Maximum	Mark	
Question	Mark	awarded	
1.	33		
2.	36		
3.	31		
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 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).

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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 AdviceSales InvoiceDelivery NoteReceiptCredit Note

Identify which document will be used in the following situations. Tick ( $\checkmark$ ) 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
Sales Invoice	
Credit Note	
Receipt	

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

	Tick (✓) one box only
Receipt	
Sales Invoice	
Remittance Advice	

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

	Tick (✓) one box only
Delivery Note	
Receipt	
Remittance Advice	

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]

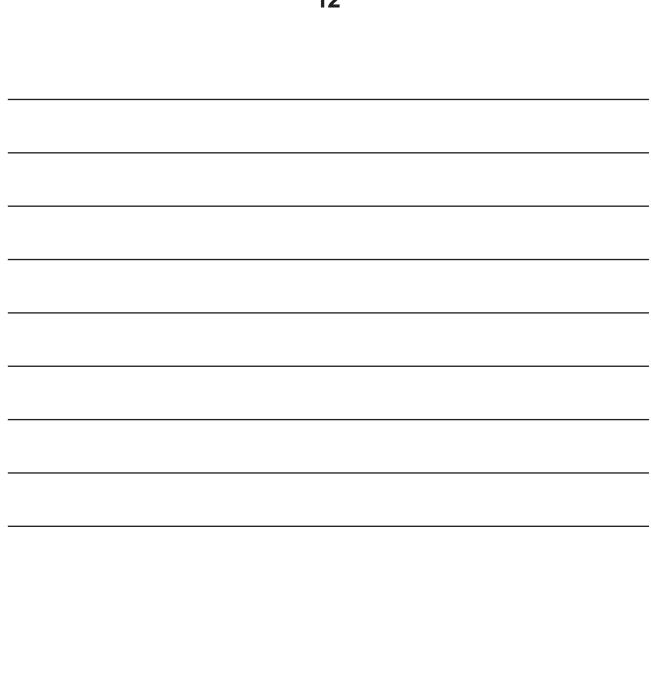
THE MU	SIC BOX		Tel: (054	7) 344346	
The Rov	V				
Llangoll	len		Fax: (0547) 347347		
LL20 7Y	<b>U</b>				
PUI	RCHASE OF	RDER			
То:		_			
Music Wo	orks Ltd		Order No:	4213	
Parc Coll	en				
Industria			Date:	22.05.2012	
Llangolle					
LL20 6TL					
Quantity	Desc	ription	Item Ref:	Unit Price (£)	
30	Small Recorders		SR4291	30.00	
50 Assorted Sheet Music		AM7942	5.00		
Authori	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:		
		(II) purpose:		

1(c)	<b>(</b> ii)	E & OE	
		(I) meaning: _	
		(II) purpose: _	

- 1(d) THE MUSIC BOX usually pays Music Works Ltd by cheque. State ONE other suitable method of payment that THE MUSIC BOX could use and evaluate the method from the point of view of THE MUSIC BOX.
  - (i) Other suitable method of payment. [1]

# (ii) Evaluation of method from the point of view of THE MUSIC BOX. [6]



1(e)	Identify and explain TWO consequences for Music Works Ltd of sending out Sales Invoices that are NOT CORRECT. [6]			
	Consequence 1:			
	Explanation:			
	Consequence 2:			
	•			
	Explanation:			

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]

ltem	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 = 
$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

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2(b)	(ii)	Net Profit Percentage =	Net Profit Sales	× 100
2011				
2012				

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

ltem	2011	2012
	£	£
Fixtures and Fittings	10 500	12 000
Stock	4 000	4 500
Debtors	6 000	5 000
Bank	500	-200
Creditors	4 000	3 500

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.

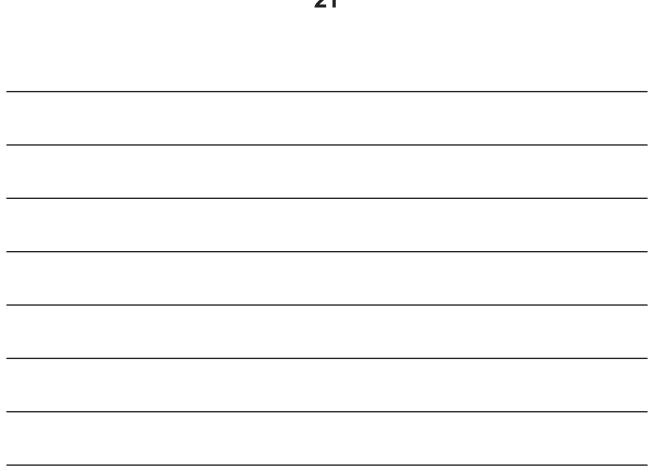
Using the relevant information from THE ACE OF SPADES'S Balance Sheets for 2011 and 2012, the information given for the Profit and Loss Account and the given formulae, calculate the ratios by completing the table below. (You are advised to show your workings.) [6]

Ratios	2011	2012
Debtor Collection Period = Debtors Credit Sales × 365		57.03 days
Creditor Payment Period = Creditors Cost of Sales × 365	100.69 days	

Current Ratio =		
Current Assets	2.63:1	
Current Liabilities		

2(e) Consider all FIVE ratios that you have calculated (Gross Profit Percentage, Net Profit Percentage, Debtor Collection Period, Creditor Payment Period and Current Ratio) and advise Steff whether he should go ahead and buy his van. [8]





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.

(ii) Give an example of a Fixed Cost.

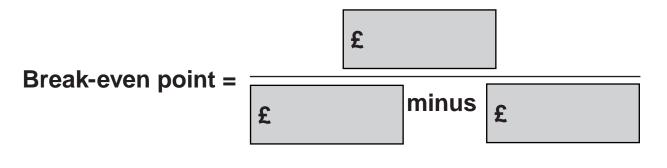
### (iii) Define Variable Costs.

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

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

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





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

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

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

3(f) (i) State ONE course of action Dave and Sandra could take if there was an unexpected rise in petrol and diesel prices once the business had started. [1]

Course of action: \_\_\_\_\_

(ii) Assess the impact of your chosen course of action on DREAMS COME TRUE. [4]



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- 3(g) Evaluate the usefulness to Dave and Sandra of constructing a break-even chart. [6]

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