Surname		Centre Number	Candidate Number
Other Names			0

GCSE

WJEC CBAC

4704/01

APPLIED BUSINESS
Unit 4
Business Finance and Decision Making II

A.M. MONDAY, 11 June 2012
$1\frac{1}{4}$ hours

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.

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 1(f).

VP*(S12-4704-01)

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

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

Sam and Tom are qualified plumbers. They intend setting up as a partnership with **each** contributing £2 000 of capital towards the business which will be in the business's bank account at the end of March. They intend to begin trading at the start of April. Their business will be called *Plumb It*. Sam and Tom already have a lot of tools and equipment, but they will need to buy more if they are to provide a quality service to their customers. They estimate that this will cost £10 000 but they will not need to pay for them until June. As they are only just starting up, they plan to pay themselves a salary of only £500 **each** every month.

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

April	May	June	July
£4 950	£5 750	£5 900	£6 500

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

April	May	June	July
£2 500	£2 750	£3 300	£4 100

The rent they will pay will be £800 per month.

Electricity will be due in July and they estimate it will be £750.

(a) During the first year of trading *Plumb It* will incur start-up costs and running costs.

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

(i) Define start-up costs.

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(ii) Give an example of a start-up cost.

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(iii) Define running costs.

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(iv) Give an example of a running cost.

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(b) Using the data in the scenario, complete the shaded areas in the Cash Flow Forecast for *Plumb It* that follows. [10]

	A	B	C	D	E	F
		APRIL	MAY	JUNE	JULY	TOTAL
1		£	£	£	£	£
3	**Opening Balance at Bank**		4 650			
4						
5	**RECEIPTS**					
6	**Sales**	4 950	5 750	5 900	6 500	23 100
7						
8	**TOTAL RECEIPTS**	4 950	5 750	5 900	6 500	23 100
9						
10	**PAYMENTS**					
11	**Purchases**	2 500		3 300	4 100	12 650
12	**Tools and Equipment**					10 000
13	**Rent**	800	800	800	800	3 200
14	**Wages**	1 000	1 000	1 000	1 000	4 000
15	**Electricity**					750
16						
17	**TOTAL PAYMENTS**	4 300	4 550			30 600
18						
19	**Closing Balance at Bank**	4 650	5 850			

(c) If the Cash Flow Forecast for *Plumb It* was completed using a Spreadsheet Package, state the formula that Sam and Tom would use in cell D19 to calculate the Closing Balance at **Bank**. [2]

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(d) (i) In which month(s) will Sam and Tom expect cash flow problems? [2]

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

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

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(e) Sam and Tom intend to purchase premises in the near future instead of renting. Using the information from *Plumb It's* Cash Flow Forecast, explain whether they should go ahead with this purchase. [4]

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(f) Sam and Tom's accountant has advised them that they should use a **Spreadsheet Package** to draw up the Cash Flow Forecast. Evaluate the usefulness of such a spreadsheet package in the preparation of their Cash Flow Forecast. [6]

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

Green Fingers is a garden centre located at the edge of town. It sells gardening tools and plants, mainly to trade customers, but also makes some retail sales. Its main supplier is Pleasant Fields Nurseries Ltd which supplies the business with plants, tools and garden ornaments.

At present, 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 bedding plants:

Average daily issue   1 500
Normal delivery time   5 days
Minimum stock   6 000
Maximum stock   25 000

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

Re-order level =	Average daily usage of stock	×	number of days for delivery from supplier	+	minimum stock

Re-order level	=		×		+	

(ii) Calculate the re-order level for bedding plants. [1]

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(iii) Stock records indicate that *Green Fingers* had a stock balance of 9 500 bedding plants on 1 April 2012.
During the first week of April the stores department received requisition orders from one of its customers as follows:

8 April	Requisition No. 426	1 500 bedding plants
10 April	Requisition No. 452	2 000 bedding plants
17 April	Requisition No. 476	1 500 bedding plants
28 April	Requisition No. 497	2 000 bedding plants

Green Fingers placed an order for 10 000 bedding plants with their supplier, Pleasant Field Nurseries Ltd, which was delivered on 13 April 2012. The Purchase Order number was 34167.

Using the information above and your response to question (ii), complete the Stock Record Card below by filling in the shaded areas. [10]

STOCK RECORD CARD

Stock Description: **BEDDING PLANTS**

Stock Units:	**bedding plants**	**Minimum:**	**6 000**
Stock Ref No.:	**9CB**	**Maximum:**	**25 000**
Location:	**Yard C Area 2**	**Re-order Level:**	

Re-order Quantity: 10 000

Date	Goods Received		Goods Issued		Balance
	Ref.	**Quantity**	**Ref.**	**Quantity**	
1 APR					**9 500**
	34167				

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(iv)   Why must an authorised official of *Green Fingers* sign a Stores Requisition?   [2]

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(b)   *Green Fingers* also buys garden ornaments from Pleasant Fields Nurseries Ltd. Pleasant Fields Nurseries Ltd supplied the ornaments at a price of £5.00 each, but from 20 April 2012 it increased the price to £5.50 each. *Green Fingers* received and issued the following ornaments in April 2012:

Date	Goods Received		Goods Issued	
	Ref.	Quantity	Ref.	Quantity
1 April 2012				
10 April 2012			Req. No. 791	200
21 April 2012	Purch. Ord. 0141	500		
30 April 2012			Req. No. 836	250

Value the closing stock of garden ornaments at the close of business on 30 April 2012 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 Apr 2012			**350 @ £5.00**	**£1750**
10 Apr 2012				
21 Apr 2012				
30 Apr 2012				

(c) *Green Fingers* operate the Just In Time method of ordering stock. Evaluate the use by *Green Fingers* of the Just In Time method. [6]

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(d) Evaluate whether or not *Green Fingers* should go ahead with its planned introduction of a computerised Stock Control System. [6]

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

> Gillian recently completed a college qualification in furniture upholstery and restoration. She decided to use her savings to set up her own business completing individual orders for upholstery. She has called her business *Unique Upholstery*.

(a) (i) What type of production method would **best** suit Gillian's business? [1]

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(ii) Evaluate this method of production for *Unique Upholstery*. [6]

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(b) (i) Gillian believes that to be successful she has to ensure that the quality of her work is excellent. Which method of ensuring quality would best suit her small business? [1]

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(ii) Evaluate why this method of ensuring quality would be best for *Unique Upholstery*. [4]

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(c) Once *Unique Upholstery* is established, Gillian is thinking of developing the business further by taking on furniture restoration as well as upholstery. She has drawn up the following Decision Tree diagram to help her make up her mind. The diagram shows the predicted profit or loss of each outcome and the probability of that outcome occurring.

Only upholster

Success
0.6
£30 000

Failure
0.4
£10 000

Restore as
well

Success
0.3
£45 000

Failure
0.7
£15 000
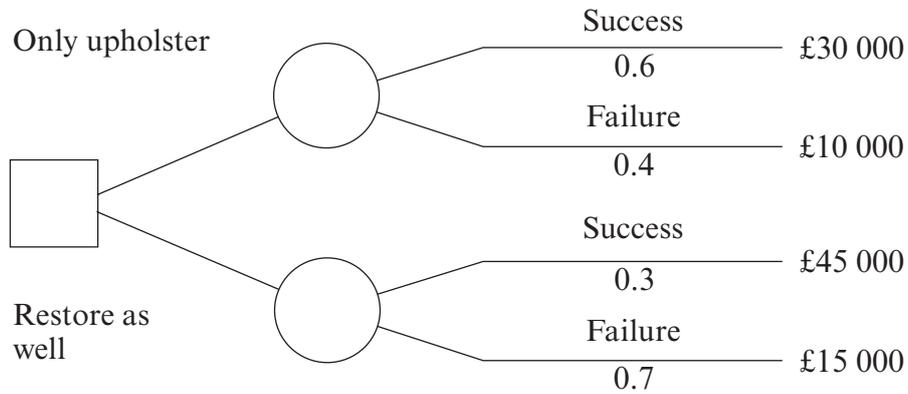
(i) Calculate the financial outcome (expected value) of each decision. (You are advised to show your workings.)

(I) The expected value of only upholstering furniture: [3]

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(II) The expected value of restoring as well as upholstering furniture: [3]

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(ii)   What advice would you give Gillian regarding her expansion plans?   [1]

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(iii) Justify your advice.   [4]

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(d) Gillian would like to buy the premises she is currently renting if it comes up for sale.

(i)   Which source of finance would you recommend she uses to fund the purchase? [1]

Source of finance: ....

(ii)   Evaluate the use of this source of finance for the purchase of the premises.   [6]

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Continuation page