Surname		Centre Number	Candidate Number
Other Names			0

WJEC CBAC

GCSE

4704/01

APPLIED BUSINESS
Unit 4
Business Finance and Decision Making II

A.M. THURSDAY, 19 January 2012

1¼ hours

For Examiner's use only		
Question	**Maximum mark**	**Mark awarded**
1.	**40**	
2.	**33**	
3.	**27**	
Total	**100**	

ADDITIONAL MATERIALS

In addition to this 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** questions.

Write your answers to all 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.

Quality of written communication is assessed in Question **1**(c).

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

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

Danny and Jake have been running a mobile disco for many years. Suitable premises have now become available in the town for a night club. Danny and Jake have decided that they would like to rent this building and set up a club called *Fever*. They will operate as a partnership, with **each** contributing £1 000 of capital towards the business, which will be in the business's bank account at the end of October. They intend to begin trading at the start of December to catch the Christmas trade. They already have the disco equipment, but will need tables, stools etc. They estimate that these will cost £20 000 which will have to be paid for at the end of February.
They plan to pay themselves a wage of **£2 500 each** every month.

(a) Danny and Jake are not sure what the difference is between start-up and running costs.

Explain, with the use of examples, the difference between **each** of these costs. [6]

(i) Start-up costs: ....

....

....

....

Example: ....

(ii) Running costs: ....

....

....

....

Example: ....

(b) Danny and Jake have been advised by their accountant to complete a cash flow forecast. Before completing their Cash Flow Forecast, Danny and Jake will need to identify their Inflows and Outflows. Typical inflows and outflows are:

Rates   Sales Revenue   Loan from the bank

Wages   Electricity   Loan repayments

Classify each of the above items into **either** an inflow **or** outflow by placing them in the correct column below.   [6]

Inflows	Outflows

(c) A computer spreadsheet package will be used by Danny and Jake to draw up their cash flow forecast. Evaluate the usefulness of such a computer package in the preparation of their Cash Flow Forecast.   [6]

....

....

....

....

....

....

....

....

....

....

Turn over.

(d) Using the data given at the start of the question and the additional information given below, complete the shaded areas in the cash flow forecast for *Fever* that follows: [8]

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

December	January	February	March
£28 000	£18 500	£15 000	£18 500

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

December	January	February	March
£5 000	£3 500	£2 800	£3 000

The rent and rates for the premises is £4 500 per month.

Electricity will be due in March and they estimate it will be £3 500.

Fever's Cash Flow Forecast for first four months of trading

	A	B	C	D	E	F
1		DEC	JAN	FEB	MAR	TOTAL
2		£	£	£	£	£
3	Opening Balance at Bank		15 500		3 700	
4						
5	RECEIPTS					
6	Sales	28 000		15 000	18 500	80 000
7						
8	TOTAL RECEIPTS	28 000		15 000	18 500	80 000
9						
10	PAYMENTS					
11	Purchases	5 000	3 500	2 800	3 000	14 300
12	Tables, Stools etc.					20 000
13	Rent and Rates	4 500	4 500	4 500	4 500	18 000
14	Wages	5 000	5 000	5 000	5 000	20 000
15	Electricity					3 500
16						
17	TOTAL PAYMENTS	14 500	13 000	32 300	16 000	
18						
19	Closing Balance at Bank	15 500		3 700	6 200	

Turn over.

(e) (i) Identify **one** payment, which would not affect the running of the business, that Danny and Jake could lower in order to improve their cash flow. [1]

....

(ii) Explain how this would improve their cash flow. [2]

....

....

....

....

(f) Explain the usefulness of a cash flow forecast to:

(i) *Fever* [2]

....

....

....

....

(ii) Potential investors in the business [2]

....

....

....

....

(g) Danny and Jake would like to buy the premises they are using when it comes up for sale.

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

Source of finance: ....

(ii) Evaluate the use of this source of finance to *Fever* for purchasing the premises. [6]

....

....

....

....

....

....

....

....

....

....

....

....

Total Mark

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

> *Dice 'n' Slice Ltd* cleans, prepares and chops vegetables ready for cooking. It sells to trade customers, such as school and works' canteens and restaurants. Its main supplier is Baintree Farm Estates Ltd which supplies the business with most types of root vegetables.
>
> *Dice 'n' Slice Ltd* keeps a record of the stock held of each kind of vegetable on individual stock cards. At present the value of stock held is calculated using the First In First Out method of valuation.

(a) (i) The individual stock cards show a *re-order level*. Define the term *re-order level*. [1]

....

....

(ii) Explain why it is important for the store manager at *Dice 'n' Slice Ltd* to be aware of the re-order levels. [2]

....

....

....

....

(b) *Dice 'n' Slice Ltd* operate the Just In Time (JIT) method of ordering stock. Evaluate the usefulness of this method of ordering stock. [6]

....

....

....

....

....

....

....

....

....

....

....

Turn over.

(c) *Dice 'n' Slice Ltd* also buys potatoes from Baintree Farm Estates Ltd. Baintree supplied the potatoes at a price of £2.50 per bag but from 19 December 2011 it increased the price to £3.00 per bag. *Dice 'n' Slice Ltd* received and issued the following consignments of potatoes during December:

Date	Goods Received		Goods Issued	
	Ref.	Quantity	Ref.	Quantity
1 Dec 11				
15 Dec 11	Purchase Order 217	500		
18 Dec 11			Req. No. 374	350
20 Dec 11	Purchase Order 298	500		
23 Dec 11			Req. No. 471	350
29 Dec 11			Req. No. 489	200

Value the closing stock of potatoes on 31 December 2011 using the FIFO (First In First Out) method. Complete your valuations by filling in the shaded areas in the table that follows. (You are advised to show all your workings.) [12]

Date	Receipts	Issues	Balance	Valuation
1 Dec 11			**150 @ £2.50**	**£375**
15 Dec 11	**500 @ £2.50**			
18 Dec 11				
20 Dec 11	**500 @ £3.00**			
23 Dec 11		**300 @ £2.50** **50 @ £3.00**		
29 Dec 11				

(d) Stock can also be valued using the AVCO (Average Cost) method. Explain the advantages **and** disadvantages of using this method of stock valuation.

Advantages: [3]

....

....

....

....

....

....

Disadvantages: [3]

....

....

....

....

....

....

Turn over.

(e) *Dice 'n' Slice Ltd* is considering whether to install a computerised Bar Code System. Evaluate the usefulness of a Bar Code System to *Dice 'n' Slice Ltd* and give your recommendation. [6]

....

....

....

....

....

....

....

....

....

....

....

....

Total Mark

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

Sporting International Ltd is a manufacturer of sports tops. Its customers are international sports retailers that place large, regular orders for their goods. *Sporting International Ltd* has gained the reputation of being an excellent employer that looks after its employees.

(a) *Sporting International Ltd* is keen to maintain its reputation of being an excellent employer.

(i) Which method of quality assurance would enable it to do this? [1]

....

(ii) Explain how this method of quality assurance would benefit *Sporting International Ltd*. [4]

....

....

....

....

....

....

....

....

Turn over.

(b) (i) *Sporting International Ltd* produces large quantities of sports tops. Identify the production method that would be most suitable for the business. [1]

....

(ii) Evaluate the use of this production method for *Sporting International Ltd*. [6]

....

....

....

....

....

....

....

....

....

....

....

(c) *Sporting International Ltd* is considering the introduction of the CAD/CAM system of manufacture. Evaluate the usefulness of this system to *Sporting International Ltd*. [6]

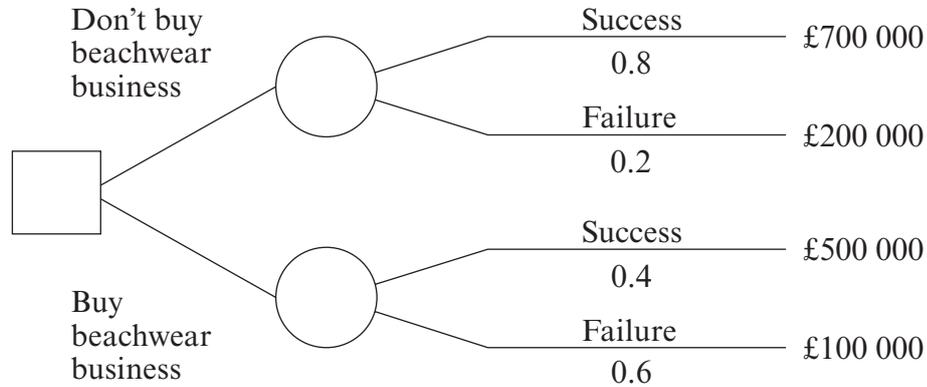...

....

....

....

....

....

....

....

....

....

....

Turn over.

(d) *Sporting International Ltd* is considering buying a nearby business that manufactures beachwear. The Finance Department has drawn up the following Decision Tree diagram to help the Board of Directors make up its mind. The diagram shows the predicted profit of each outcome and the probability of that outcome occurring.

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

(i) The expected value if the beachwear business is **not** bought. [3]

....

....

....

....

....

....

(ii) The expected value of buying the beachwear business. [3]

....

....

....

....

....

....

(e) Using your responses to question **3** *(d)*, give and explain your recommendation to the Board of Directors of *Sporting International Ltd* as to whether they should go ahead with the buying of the beachwear business.

(i) Your recommendation: [1]

....

(ii) Your explanation: [2]

....

....

....

....

Total Mark