



**4702/01**

**APPLIED BUSINESS**

**UNIT 2: Business Finance and Decision Making**

**A.M. MONDAY, 2 June 2014**

**1 hour 15 minutes 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>35</b>	
<b>2.</b>	<b>36</b>	
<b>3.</b>	<b>29</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, black ball-point pen or your usual method.**

**Write your name, centre number and candidate number in the spaces provided 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 pages 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(g).**

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

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

**THE INK SPOT is a stationery business, selling pens and paper to the general public and to local businesses. It is located in a prominent position on the High Street in order to attract customers. Its supplier is the wholesaler Ink Inc. which provides THE INK SPOT with all its stock requirements.**

1(a) **THE INK SPOT** places the following order for supplies with Ink Inc.

**THE INK SPOT**  
**Friary Way**  
**Aberystwyth**  
**SY23 3AQ**

**Tel: (0970) 478962**  
**Fax: (0970) 478965**

**PURCHASE ORDER**

**To:**

**Ink Inc.**  
**Oak Square Estate**  
**Carmarthen**  
**SA31 0FJ**

**Order No: 6892**

**Date: 03.05.2014**

<b>Quantity</b>	<b>Description</b>	<b>Item Ref:</b>	<b>Unit Price (£)</b>
<b>25 boxes</b>	<b>A5 writing pads</b>	<b>WPA5</b>	<b>20.00</b>
<b>8 boxes</b>	<b>Black ballpoint pens</b>	<b>BBP66</b>	<b>5.00</b>

**Authorised: S.K. Thomas**

**Delivery: Next day**

**VAT Registration Number: 38489720**

**Ink Inc.  
Oak Square Estate  
Carmarthen  
SA31 0FJ**

**Tel: (0267) 215931  
Fax: (0267) 215933**

**SALES INVOICE NO. 07452**

**To:**

**Order No:**

**Date:**

<b>Quantity</b>	<b>Description</b>	<b>Item Ref:</b>	<b>Unit Price (£)</b>	<b>Total Price (£)</b>
<b>25</b>	<b>A5 writing pads</b>	<b>WPA5</b>	<b>20.00</b>	<b>500.00</b>
<b>8</b>	<b>Black ballpoint pens</b>	<b>BBP66</b>		
			<b>Goods Total</b>	
			<b>LESS 15% Discount</b>	
			<b>Sub-Total</b>	
			<b>VAT @ 20%</b>	
			<b>Total to Pay</b>	

**Delivery: Immediate**

**Authorised by: S.K. Thomas**

**E&OE**

**VAT Registration Number: 78654320**

1. Using the information given in the Purchase Order on page 5, complete the Sales Invoice opposite by filling in all the shaded areas. [10]

(b) The abbreviation VAT is to be seen on Invoices.

(i) Write out what the abbreviation VAT stands for in full. [1]

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(ii) Explain the purpose of VAT. [2]

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**1(c) When the supplies are received by THE INK SPOT from Ink Inc., a document is presented with the goods.**

**(i) Name this document. [1]**

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**(ii) Explain what this document shows and why it should be signed. [2]**

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**Ink Inc.  
Oak Square Estate  
Carmarthen  
SA31 0FJ**

**Tel: (0267) 215931  
Fax: (0267) 215933**

**Date: 31 May 2014**

**STATEMENT OF ACCOUNT**

**To:**

**THE INK SPOT  
Friary Way  
Aberystwyth  
SY23 3AQ**

<b>Date</b>	<b>Details</b>	<b>Ref No.</b>	<b>Sales £</b>	<b>Payments/ Credit Notes £</b>	<b>Balance £</b>
<b>4 May</b>	<b>Sales Invoice</b>	<b>07452</b>	<b>550.80</b>		<b>550.80</b>
<b>11 May</b>	<b>Sales Invoice</b>	<b>08396</b>	<b>731.00</b>		<b>1 281.80</b>
<b>16 May</b>	<b>Credit Note</b>	<b>CR 741</b>	<b>89.00</b>		<b>1 370.80</b>
<b>24 May</b>	<b>Sales Invoice</b>	<b>08755</b>	<b>322.00</b>		<b>1 692.80</b>
<b>30 May</b>	<b>Cheque</b>	<b>6541732</b>		<b>839.60</b>	<b>853.20</b>
<b>31 May</b>					<b>853.20</b>

**1(e) The Statement of Account opposite was received by THE INK SPOT from Ink Inc. at the end of May 2014.**

**There is an error on the Statement of Account. Identify the error and state the corrected balance as at 31 May 2014.**

**(i) Error: [1]**

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**(ii) Corrected Balance as at 31 May 2014: [1]**

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**(iii) Explain ONE consequence of this error. [2]**

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**1(f) A Remittance Advice Slip is normally sent by THE INK SPOT with its payment to Ink Inc. Explain why this document is used. [1]**

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**(g) Ink Inc. accepts payment by cheque, cash or debit card. Consider an advantage AND a disadvantage to Ink Inc. of EACH of these methods of payment.**

**[6]**

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

**ULTIMATE ALLOYS was set up five years ago by a group of friends. It supplies specialist car parts to cash customers visiting the shop or on the internet and to local garages on a monthly credit basis.**

**The business has grown considerably since its start and the partners are now thinking of asking others to put money into the business so that they can expand. However, before they do this they must have completed financial statements and ratios for the past two years to show potential investors.**

**2(a) Income and costs for the years ending 31 March 2013 and 31 March 2014 are detailed below.**

**Using these figures, complete the shaded areas in ULTIMATE ALLOYS' Trading Profit and Loss Accounts (opposite) for years ending 31 March 2013 and 31 March 2014. [6]**

<b>Item</b>	<b>2013 £</b>	<b>2014 £</b>
<b>Cash Sales</b>	<b>90 000</b>	<b>105 000</b>
<b>Credit Sales</b>	<b>40 000</b>	<b>45 000</b>
<b>Stock Purchases/Costs of Sales</b>	<b>50 000</b>	<b>60 000</b>
<b>Wages</b>	<b>40 000</b>	<b>42 000</b>
<b>Insurance</b>	<b>5 500</b>	<b>5 700</b>
<b>Rent and Rates</b>	<b>4 500</b>	<b>4 700</b>
<b>Advertising</b>	<b>1 800</b>	<b>2 000</b>
<b>Electricity</b>	<b>1 500</b>	<b>1 900</b>



**ULTIMATE ALLOYS****Trading Profit and Loss Account for the Years Ending  
31 March 2013 and 31 March 2014**

<b>Item</b>	<b>2013</b> <b>£</b>		<b>2014</b> <b>£</b>	
<b>Total Sales</b>		<b>130 000</b>		
		<b>50 000</b>		<b>60 000</b>
		<b>80 000</b>		<b>90 000</b>
<b>LESS Expenses</b>				
<b>Rent and Rates</b>	<b>4 500</b>		<b>4 700</b>	
<b>Wages</b>	<b>40 000</b>		<b>42 000</b>	
<b>Insurance</b>	<b>5 500</b>		<b>5 700</b>	
<b>Electricity</b>	<b>1 500</b>		<b>1 900</b>	
<b>Advertising</b>	<b>1 800</b>		<b>2 000</b>	
<b>Total Expenses</b>		<b>53 300</b>		<b>56 300</b>



Ratio	2013	2014
<p data-bbox="165 555 756 600"><b>Gross Profit Percentage =</b></p> $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	<p data-bbox="922 649 1078 694"><b>61.54%</b></p>	
<p data-bbox="197 1093 724 1137"><b>Net Profit Percentage =</b></p> $\frac{\text{Net Profit}}{\text{Sales}} \times 100$		<p data-bbox="1251 1187 1407 1232"><b>22.47%</b></p>

**2(c) ULTIMATE ALLOYS will need to use Accounting Ratios to interpret its Trading Profit and Loss Accounts. Using the information from the Trading Profit and Loss Accounts you have completed and the given formulae, calculate the missing Gross Profit Percentage and Net Profit Percentage Ratios to two decimal places and fill in the shaded boxes in the table opposite. (You are advised to show your workings.) [4]**

**(d) (i) Name ONE stakeholder who would be interested in the information gained from the Gross Profit Percentage. [1]**

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**(ii) Name a different stakeholder who would be interested in the information gained from the Net Profit Percentage. [1]**

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## ULTIMATE ALLOYS

### Balance Sheet as at 31 March 2013 and 31 March 2014

Item	2013 £		2014 £	
<b><u>Fixed Assets</u></b>				
<b>Fixtures and Fittings</b>		<b>36 700</b>		<b>30 200</b>
<b><u>Current Assets</u></b>				
<b>Stock</b>	<b>20 000</b>		<b>25 500</b>	
<b>Debtors</b>	<b>12 000</b>		<b>13 000</b>	
<b>Bank</b>	<b>11 000</b>		<b>11 500</b>	
	<b>43 000</b>		<b>50 000</b>	
<b><u>Current Liabilities</u></b>				
<b>Creditors</b>	<b>21 000</b>		<b>22 200</b>	
<b>Bank Overdraft</b>	<b>2 000</b>		<b>3 500</b>	
	<b>23 000</b>		<b>25 700</b>	
<b>NET CURRENT ASSETS</b>		<b>20 000</b>		
<b>TOTAL NET ASSETS</b>				
<b><u>Financed by:</u></b>				
<b>Opening Capital</b>		<b>60 000</b>		
<b>Net Profit</b>				
		<b>86 700</b>		<b>90 400</b>
<b>Drawings</b>		<b>30 000</b>		<b>35 900</b>
<b>Closing Capital</b>				

2(e) Using the information from Question 2(a), complete the shaded areas of **ULTIMATE ALLOYS'** Balance Sheets opposite as at 31 March 2013 and 31 March 2014. [8]

(f) Using the information given in the Balance Sheet in Question 2(e) and the formula given below, calculate the following ratio for **2013** to two decimal places. (You are advised to show your workings.) [2]

Ratio	2013	2014
<p><b>Return on Capital Employed (ROCE) =</b></p> $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$		<b>59.44%</b>

**Workings for 2(f)**







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

After completing a course in fashion design Jemima decided that she would like to open a clothes shop. She has already seen a vacant shop for rent in town and has named her potential business **ALL DRESSED UP**. Jemima is aware, however, that she will have to plan carefully before going ahead with her business idea.

**Jemima estimates her costs as follows:**

**Fixed Costs = £1 000 per month**

**Variable Costs  
per item sold = £20.00**

**Average price  
per item sold = £30.00**

**3(a) Jemima has been advised to prepare a Sales Budget for the first six months of trading before she goes ahead with her proposed venture.**

**(i) Explain to Jemima what the Sales Budget will show. [2]**

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- 3(a) (ii) Complete the Sales Budget below by filling in the shaded areas. [3]

<b>Sales Budget for ALL DRESSED UP</b>						
<b>April – September 2014</b>						
	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>
<b>Estimated number of items sold</b>	<b>200</b>	<b>280</b>	<b>350</b>		<b>550</b>	<b>600</b>
<b>Average price per item (£)</b>		<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>Estimated Total Net Sales (£)</b>	<b>6 000</b>	<b>8 400</b>	<b>10 500</b>	<b>12 300</b>		<b>18 000</b>

- (iii) Explain to Jemima **THREE** advantages to **ALL DRESSED UP** of preparing a budget.

[6]

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**3(b) Jemima has also been advised that she should construct a break-even chart to calculate her break-even point. In order to do this she will need to know the difference between Fixed Costs and Variable Costs. [6]**

**(i) Define Fixed Costs:**

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**Example from ALL DRESSED UP:**

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**3(b) (ii) Define Variable Costs:**

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**Example from ALL DRESSED UP:**

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

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



**3(c) (i) Using the formula opposite and the information given at the start of Question 3, insert the correct amounts in the shaded areas. [2]**

**(ii) Calculate the number of items of clothing ALL DRESSED UP must sell to break even. (You are advised to show your workings.) [2]**

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**3(d) (i) Identify TWO effects that an unforeseen rise in rent would have on ALL DRESSED UP'S BREAK-EVEN CHART. [2]**

**Effect 1**

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**Effect 2**

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**3(d) (ii) State TWO courses of action that Jemima could take to lessen the impact on ALL DRESSED UP of the rise in rent. [2]**

**Course of Action 1**

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**Course of Action 2**

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**3(d) (iii) Explain the impact on ALL DRESSED UP of each course of action. [4]**

**Impact of Course of Action 1**

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**3(d) (iii) Impact of Course of Action 2**

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