Surname	Centre Number	Candidate Number
Other Names		0

GCSE

4704/01

APPLIED BUSINESS

UNIT 4: Business Finance and Decision Making II

A.M. TUESDAY, 10 June 2014

1 hour 15 minutes

Suitable for Modified Language Candidates

For Examiner's use only		
Question	**Maximum Mark**	**Mark Awarded**
1.	**37**	
2.	**37**	
3.	**26**	
Total	**100**	

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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(s) 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***(b)*.

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

1. Study the information below. Then answer the questions that follow.

Rhian and Rhys met whilst completing a college course in fashion design. They both share a passion for designing hats. Two years ago they set up a business, *On Your Head*, selling all kinds of head gear. Rhian and Rhys have decided that the time is now right to offer specially designed hats, to order, for individual customers. To do this they will need to extend their current premises and buy new machinery. Both Rhian and Rhys intend contributing an extra £2 000 each to help fund the expansion. These funds will be available in the bank on 1 July 2014. Rhian and Rhys estimate that the machinery for making the hats will cost *On Your Head* £2 500. They have arranged a deal with manufacturers and will not have to pay for the machinery until **August** 2014.

(a) Rhian and Rhys have been told that they should look at their costs before going ahead with their proposed expansion of *On Your Head*. They are unsure about the difference between start-up and running costs.

(i) Define **each** of these costs. [4]

Start-up Cost:

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Running Cost:

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(ii) Give Rhian and Rhys an example of **one** start-up cost and **one** running cost that could be incurred by *On Your Head*. [2]

Example of a Start-up Cost:

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Example of a Running Cost:

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(b) Rhian and Rhys have been advised to draw up a cash flow forecast to ensure that *On Your Head* will continue to be able to pay its way. A computer spreadsheet package will be used to draw up the cash flow forecast. Evaluate the usefulness of such a computer package in the preparation of its cash flow forecast. [6]

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(c) Before completing their Cash Flow Forecast, Rhian and Rhys will have to identify their inflows and outflows. Typical inflows and outflows will be:

Insurance	Sales Revenue	Money from Rhian and Rhys
Advertising	Business Rates	Raw Materials for the hats

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

Inflows	**Outflows**

(d) Insert the correct terms in the shaded boxes below to help Rhian and Rhys prepare their Cash Flow Forecast. [3]

Opening Bank Balance	+		–		=	

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(e) Rhian and Rhys have prepared figures for a Cash Flow Forecast for the first four months of their new business. They hope to start selling the specially designed hats on 1 July 2014. They will need to think about:

- the increased business rates for the extended shop which will be £750 for the first two months. This will then rise to £850
- the wages paid to an additional employee to help run the shop will be £1 000 per month
- insurance costs which will be £250 in July but will then increase to £350

There are errors in the Cash Flow Forecast shown opposite.

(i) Identify **three** input errors in the Cash Flow Forecast for *On Your Head*. Use the above data, information given at the start of the question and your own knowledge of Cash Flow Forecasts for your answer. [3]

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Cash Flow Forecast *On Your Head* for four months ending 31 October 2014.

	A	B	C	D	E
1		July	August	September	October
2		£	£	£	£
3	Opening Balance at Bank	4 000	6 090	7 890	8 340
4					
5	RECEIPTS				
6	Sales	6 090	6 500	9 650	10 700
7					
8	TOTAL RECEIPTS	6 090	6 500	9 650	20 700
9					
10	PAYMENTS				
11	Purchases	2 000	2 500	4 500	5 000
12	Machinery			2 500	
13	Rates	750	850	850	850
14	Wages	1 000	1 000	1 000	1 000
15	Insurance	250	350	350	350
16					
17	TOTAL PAYMENTS	4 000	4 700	9 200	7 200
18					
19	Closing Balance at Bank	6 090	7 890	8 340	21 840

Error 1: ....

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Error 2: ....

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Error 3: ....

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(ii) Assess the effect that these errors would have on Rhian and Rhys's decision about whether or not to expand the business. [6]

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(f) Using the information from your corrected version of *On Your Head's* Cash Flow Forecast,

(i) explain whether or not Rhian and Rhys should go ahead with their proposed expansion; [4]

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(ii) state **one** course of action Rhian and Rhys could take to resolve any cash flow problems *On Your Head* could encounter; [1]

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(iii) explain how this course of action would help Rhian and Rhys. [2]

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2. Study the information below. Then answer the questions that follow.

Honey Pot produces honey from a large number of hives that it has located in farmers' fields throughout Wales. In its plant in Shrewsbury it bottles the honey into both glass and plastic containers. The honey is then sent to shops throughout the UK. Its supplier of glass and plastic containers is Valupac Ltd.

Honey Pot keeps a record of the stock held of each kind of container on individual stock cards. At present the value of stock held is calculated using the First In, First Out method of valuation.

(a) Records of stock holdings indicate that *Honey Pot* had a stock balance of 5 boxes of plastic containers on 31 March 2014.
The following orders for plastic containers were placed with Valupac Ltd. The containers were received immediately.

3 April 2014	Purchase Order No. 2971	5 boxes of plastic containers @ £50.00 each
14 April 2014	Purchase Order No. 2984	10 boxes of plastic containers @ £52.00 each
23 April 2014	Purchase Order No. 2992	10 boxes of plastic containers @ £55.00 each

Requisition Order Number 5846 was received and despatched for 15 boxes of honey in plastic containers on 21 April 2014.

(i) Complete the Stock Record Card below by filling in the shaded areas. Use the information above for your answer. [10]

STOCK RECORD CARD

Stock Description:

Stock Ref No: PC
Location: Area A Shelves 1-5

Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
1 April					5

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(ii) Why must an authorised (approved) official of the *Honey Pot* sign a Stores Requisition? [2]

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(b) Individual stock record cards are updated every day. The following details are currently held about boxes of plastic containers:

Average daily issue	2
Normal delivery time	2 days
Minimum stock	3
Maximum stock	25

(i) Insert the correct amounts into the shaded areas of the table below. Use the formula below and the stock card details above for your answer. [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 boxes of plastic containers. [1]

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(iii) Explain the meaning of the term **Re-order Level**. [1]

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(iv) Explain why it is important that the Store Manager at *Honey Pot* is aware of the re-order level. [2]

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(c) *Honey Pot* operates the **Just In Time** method of ordering stock. Evaluate the usefulness of this method of ordering stock. [6]

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(d) Value the closing stock of boxes of plastic containers on 30 April 2014 using the FIFO (First In, First Out) method. Use the information for question **2**(*a*) for your answer. Complete your valuations by filling in the shaded areas in the table below. (You are advised to show all your workings.) [8]

Date	Receipts	Issues	Balance	Valuation
1 April 2014			**5 @ £50.00**	**£250**
3 April 2014	**5**			
14 April 2014	**10**			
21 April 2014		**15**		
23 April 2014	**10**			

(e) Explain the advantages to *Honey Pot* of using the **FIFO** (First In, First Out) method of stock valuation. [4]

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3. Study the information below. Then answer the questions that follow.

WoolWorks is located in a small market town. It is one of its largest employers. It makes different items from wool for local retailers in the tourist industry. *WoolWorks* concentrates on producing one item at any one time.

(a) (i) What type of production method would best suit *WoolWorks*? [1]

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(ii) Evaluate this method of production. [6]

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(b) *WoolWorks* has an aim to maintain its reputation of being an excellent employer in the town.
Explain which method of quality assurance would benefit *WoolWorks* in achieving this aim. [4]

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(c) (i) Name **two** types of stakeholders that would be interested in the way *WoolWorks* is run. [2]

Stakeholder 1: ....

Stakeholder 2: ....

(ii) *WoolWorks* has decided to buy a computerised system that will help it in the manufacturing of its products. Evaluate the impact of this decision on the two stakeholders you have identified. [4]

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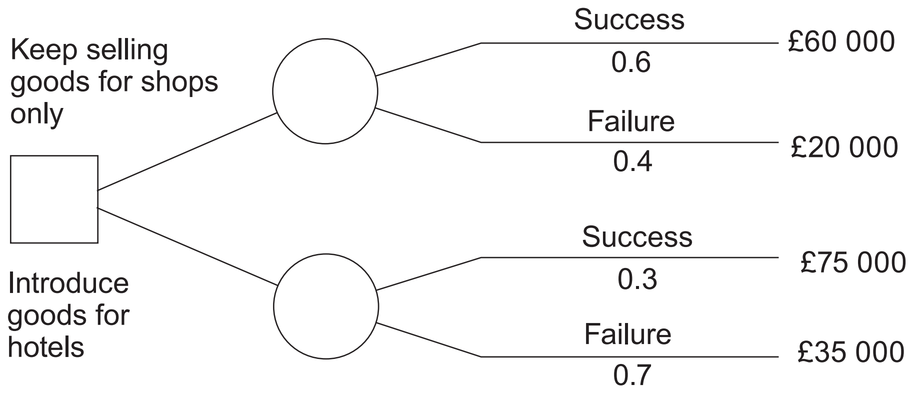
(d) *WoolWorks* is thinking of adding a range of products that local hotels would be keen to use. It has been advised that a Decision Tree Diagram will help it assess the possible outcome of such a decision.
The diagram shows the predicted profit or loss of each outcome and the probability of that outcome occurring.



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

(I) The expected value of selling goods to shops only. [3]

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(II) The expected value of introducing a new range for hotels. [3]

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(ii) What advice would you give *WoolWorks* regarding its plans to introduce a range of products for hotels? [1]

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(iii) Why would this be your advice? [2]

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END OF PAPER

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