

| | | |
|-------------|---------------|------------------|
| Surname | Centre Number | Candidate Number |
| Other Names | | 0 |



GCSE

4702/01



S16-4702-01

APPLIED BUSINESS

UNIT 2: Business Finance and Decision Making

A.M. WEDNESDAY, 25 May 2016

1 hour 15 minutes

| For Examiner's use only | | |
|-------------------------|--------------|--------------|
| Question | Maximum Mark | Mark Awarded |
| 1. | 31 | |
| 2. | 35 | |
| 3. | 34 | |
| Total | 100 | |

4702
010001

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 questions 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** questions in the spaces provided.

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

Fred set up his business, called *The Treasure Trove*, two years ago on The Sea Parade, Rhyl, LL18 1AR. In his shop, he sells Welsh-themed gifts, which he obtains from his supplier, Thomas and Jones Wholesalers, Hill Street, Prestatyn, LL19 0AA.

Fred's main customers are holiday-makers and day-trippers to Rhyl.



- (a) *The Treasure Trove* wanted to place an order with Thomas and Jones Wholesalers for the following items:

150 Welsh mugs @ £1.50 per mug Item Ref. No. WM2239
200 tea towels @ £3.00 per towel Item Ref. No. TT7740

The order was placed on 10 April 2016 with the delivery date set for five days later.

Using the information given above and in the scenario, complete the following Purchase Order form by filling in all the shaded areas. [6]

Tel: (0745) 449877
Fax: (0745) 449876

PURCHASE ORDER

To:

Order No: 9081

Date:

| Quantity | Description | Item Ref: | Unit Price (£) |
|----------|-------------|-----------|----------------|
| | | | |
| | | | |

Authorised:

Delivery:

VAT Registration Number: 98947210

4702
010003

(b) Fred was not available to check the order and some errors were made.

Explain the effects that the following errors would have on the delivery of the order:

(i) the address given for *The Treasure Trove* was incorrect, [2]

.....

.....

.....

.....

(ii) the quantity and item reference number of a product being ordered was incorrect. [2]

.....

.....

.....

.....

(c) When the supplies are received by *The Treasure Trove* from Thomas and Jones Wholesalers, a document is presented with the goods.

(i) Name this document. [1]

(ii) Explain why it has to be signed. [2]

.....

.....

.....

.....

(d) Explain the **purpose** of the following documents:

(i) Sales Invoice

[2]

.....

.....

.....

(ii) Statement of Account

[2]

.....

.....

.....

(iii) What use would *The Treasure Trove* make of the Sales Invoice **and** the Statement of Account after the goods ordered have been delivered and paid for? [2]

.....

.....

.....

(e) The abbreviation E & OE is to be found at the bottom of Invoices. State the meaning of the abbreviation and why Thomas and Jones Wholesaler has this term on its Sales Invoices. [2]

.....

.....

.....

BLANK PAGE

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

Allison Brewer started her business, *The Green Tomato*, two years ago with a starting capital of **£30 000**. The business bakes and sells pizzas which can be eaten on the premises or sold as a take-away. Business customers are allowed to purchase on credit. Allison now thinks her pizzeria would benefit from expanding the seating area.

Before deciding whether or not to go ahead with the expansion Allison needs to complete and consider her financial statements.



- (a) Income and costs for *The Green Tomato* for the years ending 31 March 2015 and 31 March 2016 are detailed below. Using these figures, complete the shaded areas in *The Green Tomato's* Trading Profit and Loss Accounts for years ending 31 March 2015 and 31 March 2016. [5]

| Item | 2015 £ | 2016 £ |
|--------------------------------|-----------|-----------|
| Cash Sales | 64 500 | 72 000 |
| Credit Sales | 6 000 | 6 500 |
| Stock Purchases/Costs of Sales | 25 000 | 26 000 |
| Wages | 30 000 | 32 000 |
| Insurance | 4 500 | 4 700 |
| Rent and Rates | 5 000 | 5 100 |
| Advertising | 1 800 | 1 200 |
| Electricity | 1 450 | 1 500 |

| <i>The Green Tomato</i> Profit and Loss Account for Years Ending 31 March 2015 and 31 March 2016 | | | | |
|---|-----------|-----------|-----------|-----------|
| Item | 2015 £ | 2016 £ | 2015 £ | 2016 £ |
| Total Sales | | | | |
| | | 25 000 | | 26 000 |
| | | 45 500 | | 52 500 |
| Less Expenses | | | | |
| Rent and Rates | 5 000 | | 5 100 | |
| Wages | 30 000 | | 32 000 | |
| Insurance | 4 500 | | 4 700 | |
| Electricity | 1 450 | | 1 500 | |
| Advertising | 1 800 | | 1 200 | |
| Total Expenses | | 42 750 | | 44 500 |
| | | 2 750 | | 8 000 |

4702
010009

(b) In order to understand her accounts Allison will need to know the difference between Gross Profit and Net Profit.

Explain these two terms to Allison.

(i) Gross Profit [2]

.....

.....

.....

.....

(ii) Net Profit [2]

.....

.....

.....

.....

- (c) In order to interpret her Profit and Loss Accounts, Allison will have to use Accounting Ratios. Using the information from the Profit and Loss Accounts you have completed and the given formulae, calculate the Gross Percentage and Net Percentage Ratios, to two decimal places, and fill in the shaded boxes in the table below. (You are advised to show your workings.) [4]

| Ratio | 2015 | 2016 |
|--|------|--------|
| Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$ | | 66.88% |
| Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$ | | 10.19% |

- (d) Using the ratios you have calculated in (c), explain the possible reasons why the profitability of *The Green Tomato* has changed from 2015 to 2016.

- (i) Gross Profit Percentage [2]

.....

.....

.....

.....

- (ii) Net Profit Percentage [2]

.....

.....

.....

.....

- (e) Using the information given at the start of question 2, complete the shaded areas of *The Green Tomato's* Balance Sheets below as at 31 March 2015 and 31 March 2016. [6]

| <i>The Green Tomato</i> Balance Sheets as at 31 March 2015 and 31 March 2016 | | | | |
|---|-----------|--------|-----------|--------|
| Item | 2015 £ | | 2016 £ | |
| <u>Fixed Assets</u> | | | | |
| Fixtures and Fittings | | 16 250 | | 16 250 |
| <u>Current Assets</u> | | | | |
| Stock | 7 000 | | 7 500 | |
| Debtors | 1 000 | | 1 500 | |
| Bank | 700 | | 1 500 | |
| | 8 700 | | 10 500 | |
| <u>Current Liabilities</u> | | | | |
| Creditors | 2 000 | | 2 300 | |
| Bank Overdraft | 500 | | 0 | |
| | | | 2 300 | |
| Net Current Assets | | | | 8 200 |
| Total Net Assets | | 22 450 | | |
| | | | | |
| <u>Financed by:</u> | | | | |
| Opening Capital | | | | |
| Net Profit | | 2 750 | | 8 000 |
| | | 32 750 | | 30 450 |
| Drawings | | 10 300 | | 6 000 |
| Closing Capital | | 22 450 | | |

- (f) Allison needs to be able to judge how her business is doing year after year.
- (i) Calculate the following ratio to two decimal places using the formula given. Use the information given at the start of the question and in the Profit and Loss Accounts completed in question 2(a). (You are advised to show your workings.) [2]

| Ratio | 2015 | 2016 |
|---|-------|------|
| Return on Capital Employed (ROCE) = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$ | 9.17% | |

- (ii) Identify **one** stakeholder, **other than Allison**, who would be interested in the Return on Capital Employed of *The Green Tomato*. [1]

.....

.....

- (g) Advise Allison whether or not she should go ahead with the proposed expansion of her business by considering the **three** ratios that you have calculated (Gross Profit Percentage, Net Profit Percentage, ROCE), as well as the Profit and Loss Accounts and Balance Sheets. [9]

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

Alex has been working for a local hairdresser for three years and she now thinks that the time is right for her to set up her own business. She hopes to provide a mobile hairdressing service for clients who cannot visit a salon. She intends calling her business *Hair on the Go*. Alex expects her Fixed Costs to be £1 000 a month and her Variable Costs, on average, to be £1.50 per client. She will charge an average of £11.50 per client.



(a) It is important that Alex knows the Break-even Point for her business. In order to correctly calculate the Break-even Point of *Hair on the Go*, Alex must understand the terms Total Costs and Total Revenue.

Explain to Alex the meaning of both these terms.

(i) Total Costs [2]

.....

.....

.....

.....

(ii) Total Revenue [2]

.....

.....

.....

.....

(b) Alex can find her Break-even Point in a number of ways.

- (i) Using the formula below and the information given at the start of question 3, insert the correct amounts in the shaded areas. [2]

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

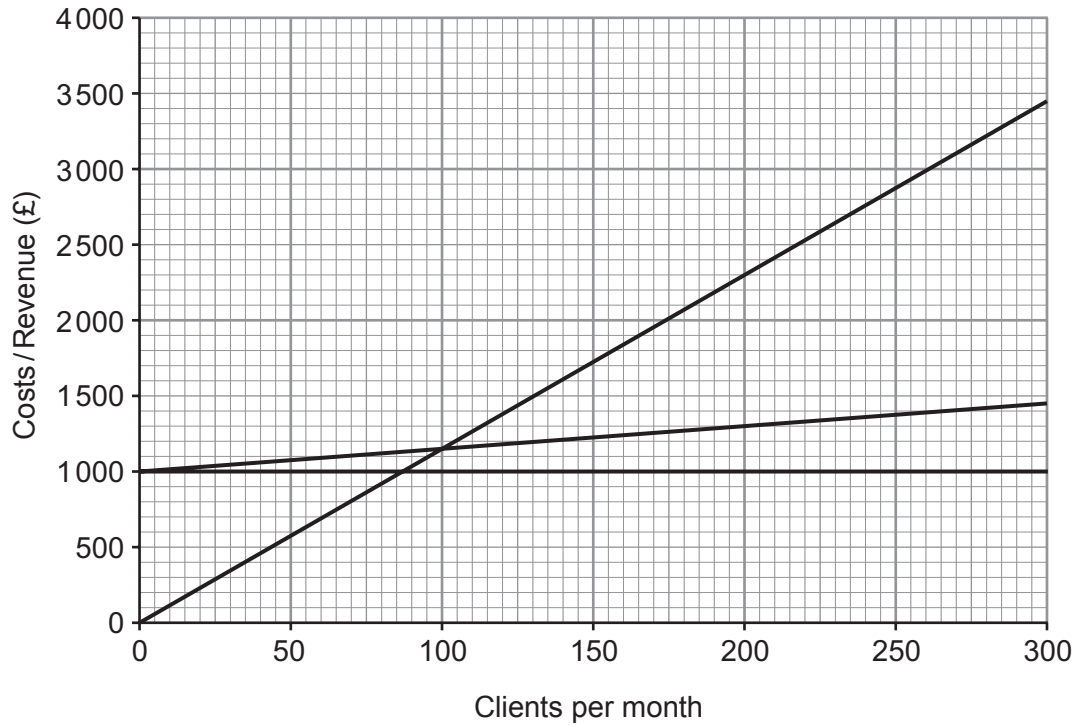
$$\text{Break-even Point} = \frac{\text{£ } \boxed{}}{\text{£ } \boxed{} \text{ minus } \text{£ } \boxed{}}$$

- (ii) Calculate the number of clients *Hair on the Go* must have to break even. [1]
-

(c) Using the information given at the start of question 3, complete the shaded areas in the table below. [4]

| Clients per month | Fixed Costs (£) | Variable Costs (£) | Total Costs (£) | Total Revenue (£) |
|-------------------|-----------------|--------------------|-----------------|-------------------|
| 0 | 1000 | | 1000 | 0 |
| 50 | 1000 | 75 | 1075 | 575 |
| 100 | 1000 | 150 | 1150 | 1150 |
| 150 | 1000 | 225 | | 1725 |
| 200 | 1000 | | 1300 | 2300 |
| 250 | 1000 | 375 | 1375 | |

(d) *Hair on the Go's* Break-even Chart is shown below.



On the Break-even Chart above:

- (i) label the Cost and Revenue lines, [3]
- (ii) label the Break-even Point, [1]
- (iii) shade the Margin of Safety. [1]

(e) Using the information given in the table in question 3(c) and/or the Chart in 3(d) calculate:

- (i) the profit or loss if Alex has 50 clients a month, [2]

.....

.....

.....

.....

- (ii) the margin of safety if Alex has 250 clients a month. [1]

.....

.....

.....

.....

- (f) (i) Identify **two** effects that an unforeseen rise in the cost of petrol would have on *Hair on the Go's Break-even Chart*. [2]

Effect 1

.....
.....

Effect 2

.....
.....

- (ii) State **two** courses of action Alex could take to lessen the impact of the rise in petrol on *Hair on the Go*. [2]

Course of Action 1

.....
.....

Course of Action 2

.....
.....

- (iii) Advise Alex on the best course of action for *Hair on the Go*, by assessing the possible effect of **each** of your stated courses of action. [5]

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

(g) Alex intends using a spreadsheet program to produce her **Break-even Chart**.
Evaluate the usefulness of a **spreadsheet program for this purpose**.

[6]

Examiner
only

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

END OF PAPER

