Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	

General Certificate of Secondary Education
June 2013

Applied Business (Double Award)

413007

Unit 7 Business Finance

Friday 24 May 2013 9.00 am to 10.00 am

You will need no other materials.
You may use a calculator.

Time allowed
- 1 hour

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- You are reminded of the need for good English and clear presentation in your answers. Quality of Written Communication will be assessed in Questions 1(c), 2(c) and 3(d).

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

Total for this question: 20 marks

1 Read **Item A** and then answer the questions that follow.

Item A

Thornley's Fish and Chips

Thornley's is a high quality traditional fish and chip shop in the centre of the busy tourist town of Harrogate. Sister and brother, Alison and Jack Thornley, took over the shop six months ago when their father retired.

Alison and Jack want to be able to use financial information to help them to run their business. They have calculated that the weekly costs and revenue of *Thornley's* are:

- fixed costs of £1800
- average variable costs of £3.00 per meal
- average selling price of £5.50 per meal.

Alison and Jack used the following formula to calculate that they would need to sell 720 meals each week to break even.

$$\textbf{Break-even output} = \frac{\textbf{Fixed costs per week}}{\textbf{(average selling price per meal less average variable costs per meal)}}$$

The shop sells 1400 meals per week. Alison and Jack are worried that fixed costs might rise to £1980 per week because of costs such as rent, and that the business is less busy on Mondays.

Not many young people buy meals at *Thornley's*. Alison and Jack carried out market research which suggested that young people think that *Thornley's* meals are too expensive and also that 40% of young people prefer other types of takeaway.

1 (a) Explain **one** reason why a business would want to calculate break even.

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(2 marks)

1 (b) (i) Using **Item A**, explain how an increase in fixed costs to £1980 per week might affect the break-even output of *Thornley's*. Show your calculations.

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(4 marks)

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Question 1 continues on the next page

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1 (b) (ii) Identify **one** suitable action that Alison and Jack could take if fixed costs increased to £1980 per week. Explain why your choice of action would be suitable for this business.

Action: ....

Explanation: ....

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1 (c) Alison and Jack are considering offering a 20% discount to students who buy *Thornley's* meals on a Monday.

Do you think that this offer will improve Alison and Jack's profits? Use **Item A** to justify your answer.

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Total for this question: 20 marks

2 Read **Item B** and then answer the questions that follow.

Item B

Best way to pay

The fish and chip frying equipment is 10 years old and needs to be replaced. The new frying equipment will cost £29 000. There are also other expensive items of equipment that will need to be replaced soon.

Alison and Jack are thinking of buying the new frying equipment outright and have produced the following cash-flow forecast to help them to decide.

Figure 1: Thornley's cash-flow forecast for the four months ended 30 April 2013

	January £	February £	March £	April £
Cash in				
Sales	33 000	33 000	33 000	33 000
Total inflow	33 000	33 000	33 000	33 000
Cash out				
Wages	4 100	4 100	4 100	4 100
Rent of shop and business rates	2 400	2 400	2 400	2 400
Purchases of food	18 000	18 000	18 000	18 000
Purchase of new frying equipment	29 000			
Money taken out of the business by owners	3 900	3 900	3 900	3 900
Other costs	800	800	800	800
Total outflow	58 200	29 200	29 200	29 200
Net monthly cash flow	(25 200)	3 800	3 800	3 800
Opening balance	5 000	(20 200)	(16 400)	(12 600)
Closing balance	(20 200)	(16 400)	(12 600)	(8 800)

Alison and Jack have savings of £20 000 which they could put towards buying the frying equipment. Their bank will allow them an overdraft of up to £10 000.

The bank has also said that it would be prepared to give the business a bank loan of up to £20 000. This would be repaid over four years, with monthly repayments of £500.

Alternatively, Alison and Jack could lease the frying equipment for £400 per month.

2 (a) Using **Item B**, explain **one** way in which using a cash-flow forecast could help with the financial decision-making of *Thornley's*.

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Question 2 continues on the next page

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2 (b) Using **Item B**, explain the impact on *Thornley's* of leasing the new frying equipment.

(6 marks)

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2 (c) Using **Item B**, recommend to Alison and Jack how they should finance the new frying equipment. Give reasons for your recommendation.

(9 marks)

Extra space

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Turn over ▶

Total for this question: 20 marks

3 Read **Item C** and then answer the questions that follow.

Item C

Opening a restaurant or another shop?

Alison and Jack are looking for ways to improve profits further and have identified two options.

Option 1: Rent the shop next door to Thornley's

The shop next door to their fish and chip shop is empty. Alison and Jack could rent this property and turn it into a fish restaurant which could seat up to 30 people. Harrogate is a wealthy town and there is demand for high quality fish restaurants throughout the year. Running a restaurant would be new to Alison and Jack. The rent and business rates would be £30 000 per year and it would cost £70 000 to equip the restaurant.

Option 2: Buy The Happy Haddock

Alison and Jack have identified a fish and chip shop, *The Happy Haddock*, in Scarborough, 60 miles from Harrogate. The shop would cost £275 000 and would include living accommodation so Jack, who would run this shop, could sell his house for £200 000 and live there. Scarborough is a seaside holiday destination with a lot of local competition and, unlike Harrogate, business is seasonal so *The Happy Haddock* is open only during the summer.

The owners of *The Happy Haddock* have provided Alison and Jack with the most recent balance sheet for the Scarborough business. Alison and Jack have also calculated the gross profit margin for *Thornley's* and *The Happy Haddock*, shown in **Figure 2** below.

Figure 2: Gross profit margin for Thornley's and The Happy Haddock

Ratio	**Formula**	**Thornley's**	**The Happy Haddock**
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}}$ x 100	60%	75%

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3 (a) Complete the balance sheet as at 30 April 2013 for *The Happy Haddock* by filling in the **shaded** boxes in the table below.

The Happy Haddock Balance sheet as at 30 April 2013		
	£	**£**
Non-current assets (fixed assets):		
Shop premises		243 560
Other non-current assets (fixed assets)		30 000
Current assets:		
Debtors	1 240	
Bank	1 000	
Total current assets	2 240	
Less **current liabilities**		
Creditors	600	
Net current assets		
Total net assets		
Financed by:		
Capital (Owners' funds)		275 200
		275 200

(3 marks)

Question 3 continues on the next page

3 (b) Explain how the information in the balance sheet in your answer to question **3 (a)** could be used by Alison and Jack when they are deciding whether or not to buy *The Happy Haddock*.

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3 (c) Using **Item C**, give **one** reason why the gross profit margins of *Thornley's* and *The Happy Haddock* are different. You should explain your answer.

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3 (d) Alison and Jack are trying to improve profits further. Using **Item C** and all the information available to you, advise Alison and Jack which of the following two options they should choose:

- rent the shop next door to *Thornley's* and open a fish restaurant
- buy *The Happy Haddock*.

Give reasons for your choice.

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END OF QUESTIONS

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