

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 2014

Applied Business (Double Award)

413007

Unit 7 Business Finance

Monday 2 June 2014 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 maximum mark for this paper is 60.
- The marks for questions are shown in brackets.
- 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(d), 2(c) and 3(c).



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IB/G/Jun14/E7

413007

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
Quality Clean

For a number of years, Joanne had been working full time cleaning houses. Each house cleaning 'job' took different amounts of time to complete. Her customers were very happy with the high quality of the cleaning. She found that she could not keep up with the demand for her services.

In January 2010, Joanne set up a house cleaning business called Quality Clean. She decided to employ four cleaners and would also have to buy cleaning equipment and a van. She estimated that this team of cleaners would be able to complete up to 60 jobs per week. If they were successful, Joanne would employ further cleaners. Joanne wanted to make a profit of £300 per week.

Joanne conducted market research and discovered that there were two other businesses that provided a similar cleaning service and charged £25 or £26 per job. She calculated the following costs and revenue for Quality Clean.

	£
Average selling price per job	24
Fixed costs per week	120
Average variable costs per job	16

- 1 (a) Complete the table below to identify whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

[3 marks]

	Fixed cost	Variable cost
Insurance of van		
Cost of cleaning materials		
Advertising the cleaning service		



1 (b) Using the formula below, calculate how many jobs Quality Clean needs to complete per week in order to break even.

[3 marks]

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

Number of jobs per week required to break even: _____

1 (c) Using **Item A**, explain how calculating break even might help Joanne to plan for the future of the business.

[5 marks]



Extra space _____

1 (d)

Joanne's main competitors pay their cleaners a higher wage. If Joanne paid the same wage, her variable costs would increase to £18 per job. Do you think that Joanne should pay the same wages to her cleaners as her competitors? Give reasons for your recommendation.

[9 marks]



Extra space _____

20

Turn over for the next question

Turn over ►



Total for this question: 20 marks

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

Item B

Office cleaning contract

Joanne considered providing an office cleaning service. Her accountant had told her that when businesses grew, they could often 'overstretch' themselves with jobs that, whilst profitable, could bring cash-flow problems. At the time, her bank gave her an overdraft facility of up to £2000.

In January 2011, Quality Clean was offered a contract to provide the cleaning for one of National Workspace plc's many offices. The contract was for a four-month trial period and, if National Workspace plc was happy with the work, it would contract Quality Clean for a further year. The forecasted net profit for the four months would be £2988.

The office cleaning job was a really exciting opportunity for Joanne and Quality Clean, particularly as National Workspace plc had other offices in the area. However, Quality Clean would need extra equipment which would cost £4800 and last for four years. She would need to employ more cleaners. National Workspace plc would expect trade credit of 60 days, meaning that it would not pay for the cleaning for January 2011 until March 2011. At the time, Joanne was paying her cleaners weekly.

2 (a) Complete the cash-flow forecast for Quality Clean by inserting your answers in the shaded areas below.

[3 marks]

Quality Clean				
Cash-flow forecast for the four months ended 30 April 2011				
	January	February	March	April
	£	£	£	£
Cash in				
Sales from office cleaning			3 080	3 080
Sales from domestic cleaning	5 760	5 760	5 760	5 760
Total inflow	5 760	5 760	8 840	8 840
Cash out				
Wages for office cleaning	1 848	1 848	1 848	1 848
Wages for domestic cleaning	3 840	3 840	3 840	3 840
Purchase of new equipment	4 800			
Other costs	425	425	425	425
Total outflow	10 913	6 113	6 113	6 113
Net monthly cash flow		(353)	2 727	2 727
Opening balance	300	(4 853)	(5 206)	
Closing balance	(4 853)	(5 206)		248



20

Turn over for the next question

Turn over ►



Total for this question: 20 marks

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

Item C

Decisions for the future

Joanne believes that Quality Clean is a success and she is now facing a decision. She could expand her domestic and office cleaning business into a nearby town. She would then need to employ a manager on a salary of £30 000 per annum as she would not be able to manage the extra work.

Alternatively, she recently received an offer from a local entrepreneur, Douglas Jones, who is impressed with her business. He is prepared to buy her business for £200 000 and to employ her on a salary of £50 000 per annum to manage it. She thinks that the offer is a little low as she believes that her business is possibly worth more than this offer.

She has prepared a statement of financial position (balance sheet) for her business, as shown in **Figure 1** below.

Figure 1 Quality Clean
Statement of financial position (balance sheet) as at 30 April 2014

	£	£
Non-current assets (fixed assets):		
Equipment	15 000	
Vehicles	80 000	95 000
Current assets:		
Receivables (debtors)	64 500	
Bank and cash	38 000	
	102 500	
Less current liabilities:		
Payables (creditors)	9 300	
Net current assets		93 200
Total net assets		188 200
Financed by:		
Capital		188 200
		188 200



3 (a) Complete the income statement (profit and loss account) for Quality Clean for the year ended 30 April 2014 by filling in the shaded boxes below.

[3 marks]

**Quality Clean
Income statement (profit and loss account)
for the year ended 30 April 2014**

		£	£
Revenue (sales)			320 000
Less cost of sales			6 000
Gross profit			
Expenses	Wages	156 000	
	Insurance	5 000	
	Other expenses	8 200	
Net profit			

3 (b) Using **Item C** and your answer to question **3(a)**, explain how Joanne's statement of financial position (balance sheet) and income statement (profit and loss account) show that Quality Clean has been successful.

[8 marks]



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