

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 2015

Applied Business (Double Award)

413007

Unit 7 Business Finance

Tuesday 2 June 2015 1.30 pm to 2.30 pm

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(c), 2(c) and 3(c).



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IB/G/Jun15/E5

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

Eat to the Beat

Most people buy music as downloads, with sales of Compact Discs (CDs) falling. However, sales of vinyl (records that are played on a turntable), both new and second-hand, have increased. Many artists now release vinyl versions of their music.

Phil Jones has made a living buying second-hand records and CDs and selling them on market stalls. In September 2013, he opened a shop called Eat to the Beat. It sells second-hand records and CDs, but also has a café selling drinks and snacks.

Phil needs a large stock of records and CDs for the busy Christmas period. Stock is currently bought and sold for cash. In the future, he might also sell new records. He will not make as much profit on these new records but will be able to buy them on trade credit, giving him 30 days to pay for them.

When Phil opened Eat to the Beat, he paid for the following fixed assets:

- decorating and furnishing the shop – £3 500
- buying café equipment and a sound system – £10 500.

Phil produced a cash-flow forecast for the first 4 months of the business. The forecast showed negative balances during these months. At the time, his bank only allowed him an overdraft facility of up to £3000.

Phil's research suggested that the business would be profitable during its first year and that sales would improve as the business became better known. He predicted a net profit margin of 20% and a Return on Capital Employed (ROCE) of 50%.

Phil used £7000 of his own savings when he set up the business; he had another £6000 of savings to use for living expenses.



- 1 (a) Complete the cash-flow forecast for Eat to the Beat by inserting your answers in the shaded areas below.

[3 marks]

Eat to the Beat				
Cash-flow forecast for the 4 months ended 31 December 2013				
	September	October	November	December
	£	£	£	£
Cash in				
Sales	5 400	7 200	7 800	10 800
Total inflow	5 400	7 200	7 800	10 800
Cash out				
Purchase of stock	7 150	3 200	3 550	4 300
Wages for an assistant	1 400	1 400	1 400	1 400
Purchase of fixed assets	14 000			
Rent	300	300	300	300
Other costs	70	70	70	70
Total outflow	22 920	4 970	5 320	6 070
Net monthly cash flow	(17 520)	2 230	2 480	
Opening balance	7 000		(8 290)	(5 810)
Closing balance	(10 520)	(8 290)		(1 080)

- 1 (b) Eat to the Beat was forecast to have a cash-flow problem during the first 4 months of opening. Using **Item A** and your answer to question 1(a), explain **two** ways in which Phil might have tried to solve this cash-flow problem.

[8 marks]



Extra space

1 (c) Do you think that Phil should have opened Eat to the Beat? Use **Item A** and your answer to question **1(a)** to justify your answer. **[9 marks]**



Total for this question: 20 marks

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

Item B

Sunday opening or record fairs?

After the shop opened, Phil explored two options to increase its sales and profits. Before making his decision, he had to consider profit and how easy each option would be to manage.

Option 1: Sunday opening

Whilst other shops are open in the town centre on a Sunday, there are few places to get drinks or a snack. Although Phil did not feel that the music sales in the shop would be as busy as other days of the week, the lack of competition for a café might attract customers to his shop. Phil also thought that he could pay local bands a small fee to play in the shop.

Option 2: Sunday record fairs

Sunday record fairs are held throughout the country where Phil can sell records and CDs to collectors. However, there would be a lot of competition and Phil would need to reduce his prices. He would also have to rent a space at each fair and pay for travel and advertising. Phil would, however, be able to use his existing stock of records to sell at the fairs.

Further information:

	Sunday opening		Sunday record fairs
Fixed costs per Sunday	£120		£150
	Music	Café	Music
Average selling price	£8	£4	£7
Average variable cost	£4	£3	£4

- 2 (a)** Complete the table below to identify for Phil 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 shop		
Purchase of stock of CDs		
Rent of shop		



2 (b) Using **Item B**, explain **two** reasons why profits for Sunday opening may be different from profits for Sunday record fairs.

[8 marks]

Extra space _____



2 (c)

Phil wants to increase Eat to the Beat's sales and profits further and has identified two options:

- opening the shop on Sundays **or**
- selling at record fairs on Sundays.

Using **Item B**, recommend which option he should choose. Give reasons for your recommendation.

[9 marks]



Extra space _____

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**

Eat to the Beat has been operating for over a year. Phil has prepared an income statement (profit and loss account) and is pleased that he has made a profit in the first year of running the business.

Eat to the Beat
Income statement (profit and loss account)
for the year ended 31 August 2014

		£	£
Revenue (sales)			125 200
Less cost of sales			72 200
Gross profit			53 000
Expenses	Wages	18 000	
	Rent	4 000	
	Other expenses	1 040	23 040
Net profit			<u>29 960</u>

Phil is keen to improve profits. He has researched other record shops and discovered that these competitors make most of their profits by selling online. To sell online, Phil would need space for much more stock. He would also need to pay for a website that could take online orders.

Phil has calculated that he will need £30 000 to finance his plans and to keep his cash flow positive. If he could get a bank loan for this amount, he would need to repay £7100 each year for 5 years.

Debbie, a friend, is prepared to invest £60 000 in Eat to the Beat in return for half the profits. She has owned a successful café and would like to develop the food side of the business.



- 3 (a) Complete the statement of financial position (balance sheet) for Eat to the Beat for the year ended 31 August 2014 by filling in the shaded boxes below.

[3 marks]

Eat to the Beat
Statement of financial position (balance sheet) as at 31 August 2014

	£	£
Non-current assets (fixed assets):		
Fixtures and fittings	3 500	
Equipment	10 500	
Current assets:		
Inventory (stock)	6 000	
Bank and cash	5 960	
	11 960	
Less current liabilities:		
Payables (creditors)	4 000	
Net current assets		
Total net assets		
Financed by:		
Capital at 1 September 2013		7 000
Add net profit		29 960
		36 960
Less drawings by owner		15 000
Owner's funds		21 960

Question 3 continues on the next page



3 (b) Using **Item C** and your answer to question **3(a)**, explain how Eat to the Beat's statement of financial position (balance sheet) **and** income statement (profit and loss account) would help in persuading a bank to lend money to the business.

[8 marks]

Extra space _____



3 (c)

Phil wants to expand Eat to the Beat. Should he:

- try to get a loan from a bank **or**
- accept Debbie’s offer to invest in the business?

Use **Item C** and your answer to question **3(a)** to justify your answer.

[9 marks]

Extra space _____



20

END OF QUESTIONS



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