



Please write clearly in block capitals.

Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

GCSE APPLIED BUSINESS

Unit 7 Business Finance

Tuesday 7 June 2016

Afternoon

Time allowed: 1 hour

Materials

For this paper you may use:

- a calculator.

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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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

Lee's Gardening Services

Lee runs his own gardening business, Lee's Gardening Services. For the first year, Lee worked on his own using a small van to transport his equipment to and from customers' gardens. His jobs included cutting grass, tidying gardens and weeding flower beds. In the autumn, he also cleared leaves. Lee's customers were very happy with the service that he provided and the prices that he charged. However, the work was very slow and took a long time and Lee was not making as much profit as he would have liked.

After a year, Lee decided to expand the business. He paid cash for new gardening equipment and had £2000 left in his bank account. He also employed two workers. This allowed the business to do more jobs whilst keeping the same service that its existing customers liked.

A bigger van was needed to transport the workers and equipment. Lee considered financing the new van, which would cost £19 000, by taking out a loan. The loan would be repaid over four years with monthly repayments of £444.

Lee wanted to make a minimum of £360 profit per week. Market research suggested that there was a market for 45 jobs per week.

Lee calculated the following costs and revenue:

- fixed costs per week £168
- average selling price per job £25
- average variable costs per job £13.

Lee used the following formula to calculate a break-even output of 14 jobs per week.

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



Extra space _____

1 (c) Instead of buying the van, Lee could have leased the van for an initial payment of £1020 and monthly payments of £336 over four years.

Using **Item A**, recommend to Lee whether he should have leased the van or taken out a loan to buy it. 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

A new contract

Lee's Gardening Services continued to be successful and, by the beginning of 2015, Lee had added another van to the business and employed more workers.

Lee's business is seasonal and operates from March to November each year. Every March, Lee replaces equipment that has worn out and re-stocks items such as grass treatments and weed killer which he likes to buy in bulk. The business was forecast to have a small cash balance in March 2015 of only £750. At the time, Lee's bank allowed him an overdraft facility of £800.

Lee produced the following cash-flow forecast.

Lee's Gardening Services				
Cash-flow forecast for the four months ending 30 June 2015				
	March	April	May	June
	£	£	£	£
Cash in				
Sales	3150	5500	7400	8000
Total inflow	3150	5500	7400	8000
Cash out				
Wages	2340	3120	4160	4160
Purchase of fixed assets	1500			
Other costs	1085	1085	1085	1085
Total outflow	4925	4205	5245	5245
Net monthly cash flow	(1775)	1295	2155	2755
Opening balance	750	(1025)	270	2425
Closing balance	(1025)	270	2425	5180

Lee was approached by an estate agent who rents out a number of houses for landlords. The estate agent offered Lee the opportunity to provide gardening services for these houses. This work would be undertaken all year round, starting in March 2015. If the estate agent was happy with the work during the first year, the contract would be renewed.

If Lee accepted the work, the estate agent would pay one month after the work was completed. There would be extra sales of £900 per month and labour costs of £500 per month. No extra equipment would be needed. At the time, Lee was unsure if he should accept the contract.



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2 (c) Using **Item B**, recommend to Lee whether or not Lee's Gardening Services should accept the estate agent's contract. Give reasons for your recommendation. **[9 marks]**



Total for this question: 20 marks

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

Lee would like to expand his business and is considering buying a local, larger gardening business, Top Gardens, for £55 000.

Lee has been provided with the forecast financial information for Top Gardens for the year ending 31 May 2017. This is shown below.

Top Gardens
Forecast statement of financial position (balance sheet)
for the year ending 31 May 2017

	£	£
Non-current assets (fixed assets):		
Equipment	8 000	
Vehicles	40 000	48 000
Current assets:		
Receivables (debtors)	780	
Bank and cash	1 390	
	2 170	
Less current liabilities:		
Payables (creditors)	290	
Net current assets		1 880
Total net assets		49 880
Financed by:		
Owner's funds		49 880
		49 880

Lee would need to take out a loan to buy Top Gardens. The only way that Lee could borrow the money would be to use his own house as security. For a five-year loan of £55 000, Lee would pay £1 029 per month repaying a total of £61 740.

The net profit margins are currently 28.14% for Top Gardens and 26.51% for Lee's Gardening Services. If Lee buys Top Gardens, the combined business would need fewer assets and workers than the two separate businesses use.



3 (a) Complete the forecast income statement for Top Gardens for the year ending 31 May 2017 by filling in the shaded boxes below.

[3 marks]

Top Gardens
Forecast income statement (profit and loss account)
for the year ending 31 May 2017

		£	£
Revenue (sales)			88 400
Less cost of sales			4 300
Gross profit			
Expenses	Wages	45 000	
	Fuel	2 220	
	Other expenses	12 000	
Net profit			

3 (b) Using **Item C** and your answer to question **3(a)**, explain how Lee could use Top Gardens' forecast statement of financial position (balance sheet) **and** forecast income statement (profit and loss account) to decide if he should buy the business.

[8 marks]

Forecast statement of financial position (balance sheet) _____

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