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|---------------------|--|--|--|--|--|------------------|--|--|--|--|
| 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  
Specimen Paper

# Business Subjects and Economics

## 4130/07

### Unit 7 Business Finance

#### Written Paper

**For this paper you must have:**

- a calculator
- a ruler
- a pencil.

**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 space provided. Answers written in margins or on blank pages will not be marked.
- 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. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in question 1 (d) (ii), 2 (b), 3 (b) and 3 (c).



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## 4130/07

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

**Total for this question: 24 marks**

Read the **Background Information** before answering the questions that follow.

### **Background Information**

Dan is a sole trader. He owns *Dan's Diner*, an American themed restaurant. The restaurant is open for breakfast, lunch and dinner seven days a week.

The business has been successfully operating for five years, and has built up a reputation for the quality of its food. Dan is investigating ways to expand his business. These include:

- an outside catering service for functions, such as birthdays, anniversaries, office parties and other special occasions
- opening a new *Dan's Diner* restaurant in a nearby town.

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

### **Item A**

Dan has calculated that his planned outside catering service will have:

- fixed costs of £10 000 per year
- average variable costs of £250 per function
- an average selling price of £500 per function.

The market research that Dan has carried out suggests that he will be able to cater for 60 functions in the first year of running the outside catering service.



- 1 (a) Dan is not sure if some of the costs of his outside catering service are fixed or variable.

Complete the table below to identify for Dan whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

| Costs                               | Fixed Costs | Variable Costs |
|-------------------------------------|-------------|----------------|
| Insurance of delivery van           |             |                |
| Buying ingredients for meals served |             |                |
| Road fund licence                   |             |                |
| Wages of hourly paid staff          |             |                |

(4 marks)

- 1 (b) Using **Item A** and the formula below, state how many functions Dan will need to cater at each year to break-even. Show your calculations.

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{(average selling price per unit less variable cost per unit)}}$$

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(3 marks)

(Extra space).....

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**1** (c) Explain the effect on the break-even point for Dan's outside catering service, if the fixed costs were to rise to £12 500 per year.

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*(3 marks)*

*(Extra space)* .....

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- 1** (d) (i) Identify **two** possible actions that Dan could take if the fixed costs for the outside catering service were to rise to £12 500. Explain the possible effects of each action.

Action 1 .....

Explanation .....

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*(4 marks)*

*(Extra space)* .....

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Action 2 .....

Explanation .....

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*(4 marks)*

*(Extra space)* .....

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**1 (d) (ii)** Which of the actions that you identified in **question 1 (d) (i)** would you recommend Dan takes? Justify your recommendation.

Recommendation .....

Justification.....

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(6 marks)

(Extra space).....

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**Turn over for the next question**

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ANSWER IN THE SPACES PROVIDED**



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**Total for this question: 15 marks**2 Read **Item B** and then answer the questions that follow.**Item B**

Dan has decided to start an outside catering service and has prepared a cash-flow forecast for the first four months of operating.

The cash-flow forecast combines the cash-flow for *Dan's Diner* and the new outside catering service. Dan expects that it will take a few months for the new outside catering service to build up a customer base.

| <b>Dan's Diner</b>  |                 |               |               |               |
|---|-----------------|---------------|---------------|---------------|
| <b>Cash-flow forecast for the four months ended 30 September 2008</b> |                 |               |               |               |
|   | June            | July          | August        | September     |
|   | £               | £             | £             | £             |
| <b>Cash In</b>  |                 |               |               |               |
| Cash sales – restaurant sales   | 25 000          | 25 000        | 25 000        | 25 000        |
| Credit sales – outside catering                                       | 0               | 500           | 1 000         | 1 500         |
| <b>Total inflow</b>   | <b>25 000</b>   | <b>25 500</b> | <b>26 000</b> | <b>26 500</b> |
| <b>Cash Out</b>   |                 |               |               |               |
| Payments for ingredients  | 14 500          | 15 500        | 16 000        | 17 000        |
| Wages   | 2 200           | 2 600         | 2 600         | 3 500         |
| Purchase of van   | 13 000          |               |               |               |
| Replacement of kitchen furniture                                      | 15 000          |               |               |               |
| Other costs   | 3 000           | 2 200         | 2 200         | 2 200         |
| <b>Total outflow</b>  | <b>47 700</b>   | <b>20 300</b> | <b>20 800</b> | <b>22 700</b> |
| <b>Net monthly cash flow</b>  | <b>(22 700)</b> | <b>5 200</b>  | <b>5 200</b>  | <b>3 800</b>  |
| Opening Balance   | 8 000           | (14 700)      | (9 500)       | (4 300)       |
| Closing Balance   | (14 700)        | (9 500)       | (4 300)       | (500)         |





2 (a) Identify and explain **two** actions that Dan could take to improve the cash-flow position of *Dan's Diner*.

Action 1 .....

Explanation .....

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(5 marks)

(Extra space) .....

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Action 2 .....

Explanation .....

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(5 marks)

(Extra space) .....

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2 (b) Which of the actions that you identified in **question 2 (a) (i)** would you recommend Dan takes? Justify your recommendation.

Recommendation .....

Justification .....

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(5 marks)

(Extra space) .....

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**Total for this question: 21 marks****3** Read **Item C** and then answer the questions that follow.**Item C**

Dan has decided to further expand his business by buying a new restaurant in a nearby town. After carrying out market research Dan anticipates that the new restaurant will make similar profits to his existing restaurant.

Dan has calculated that it will cost him £220 000 to buy and equip the new restaurant and he will approach his bank for a loan, to be paid back over ten years. The annual amount to be repaid will be £26 000.

The bank has asked Dan to provide them with the following financial information to support his loan application:

- a profit and loss account for the year ended 31 May 2008
- a balance sheet at 31 May 2008
- accounting ratios.

Dan has produced a profit and loss account for the year ended 31 May 2008 and some accounting ratios.

**Table 1**

| <i>Dan's Diner</i>  |        |         |
|---|--------|---------|
| <b>Profit and Loss Account for the year ended 31 May 2008</b> |        |         |
|   | £      | £       |
| Sales revenue   |        | 300 000 |
| Cost of sales   |        | 220 000 |
| Gross Profit  |        | 80 000  |
|   |        |         |
| <i>Expenses</i>   |        |         |
| Wages   | 24 000 |         |
| Other costs   | 26 000 |         |
| Total Expenses  |        | 50 000  |
| Net Profit  |        | 30 000  |

**Table 2****Solvency Ratios**

|                 |        |
|-----------------|--------|
| Current Ratio   | 2.43:1 |
| Acid Test Ratio | 1.14:1 |

**Profitability Ratios**

|                            |     |
|----------------------------|-----|
| Gross Profit Margin        | 27% |
| Net Profit Margin          | 10% |
| Return on Capital Employed | 20% |



- 3 (a) Complete the following Balance Sheet for *Dan's Diner* as at 31 May 2008 by filling in the **shaded** boxes below.

| <b><i>Dan's Diner</i></b>              |          |          |
|--|----------|----------|
| <b>Balance Sheet as at 31 May 2008</b> |          |          |
|  | <b>£</b> | <b>£</b> |
| <b>Fixed assets</b>                    |          |          |
| Premises                               |          | 140 000  |
| Equipment                              |          | 30 000   |
|  |          |          |
| <b>Current assets</b>                  |          |          |
| Stock                                  | 9 000    |          |
| Bank                                   | 8 000    |          |
| <b>Total current assets</b>            | 17 000   |          |
| <b>Less current liabilities</b>        |          |          |
| Creditors                              | 7 000    |          |
| Net current assets                     |          |          |
| <b>Net total assets</b>                |          |          |
| <b>Financed by</b>                     |          |          |
| Capital                                |          | 150 000  |
| Add net profit                         |          | 30 000   |
|  |          | 180 000  |

(3 marks)



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**21**

**END OF QUESTIONS**



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