Centre No.						Paper Reference	Surname	Initial(s)
Candidate No.						4 3 4 0 / 0 3	Signature	

Paper Reference(s)

4340/03

London Examinations IGCSE

Commerce

Paper 3

Common to both tiers

Tuesday 23 November 2010 – Afternoon

Time: 1 hour, plus reading time of 10 minutes

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
1	
2	
3	
4	
Total	

Materials required for examination	Items included with question papers
Nil	Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer ALL the questions. Write your answers in the spaces provided in this question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 4 questions in this question paper. The total mark for this paper is 40.
There are 12 pages in this question paper. Any blank pages are indicated.

Advice to Candidates

You are reminded of the importance of clear English and careful presentation in your answers.

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Answer ALL questions

You run a small UK investment bank which has recently become part publicly owned. Each year you have funds to invest in business projects, either through loans or purchase of equity (shares). Your task is to choose between Business A (in the sources) and Business B (below), as each is seeking £100 000 funding from you. You will need to assess the risks and the rate of return from each business.

Business B

This is a long-established business selling a wide variety of goods in many different markets, at home and abroad.

Trading and Profit & Loss for year

	2009	**2008**
Sales	30 000 000	30 000 000
Cost of Sales	25 000 000	25 500 000
Gross Profit	5 000 000	4 500 000
Overheads	3 000 000	2 450 000
Depreciation	1 000 000	1 000 000
Net Profit	1 000 000	1 050 000

Balance Sheet as at 31 December 2009

Fixed Assets	50 000 000
Stock	5 000 000
Debtors	1 000 000
Cash	1 000 000
	57 000 000
Current Liabilities	1 000 000
Assets Employed	56 000 000
Shareholder Funds	52 000 000
Loans	4 000 000

At the end of this examination paper, there are various sources of information. You should use the information together with your own knowledge and understanding of Commerce, to prepare a report. This has been divided into a series of tasks on the following pages.

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1. My task is to advise the investment bank about …

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(2)

Q1

(Total 2 marks)

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2. (a) Using an example in each case, discuss **two** services that banks provide for businesses.

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(6)

(b) What is meant by 'part publicly owned'?

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(2)

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(c) Examine **one** possible business risk that an investment bank should consider when lending money.

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(2)

(d) What is meant by 'rate of return'?

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(2)

Q2

(Total 12 marks)

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3. (a) Using **three** financial tests, analyse Business A's trading results.

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(b) Using **three** financial tests, analyse Business B's trading results.

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(9)

Q3

(Total 18 marks)

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4. Considering your analysis in Question 3 and using other information, assess in which of the two businesses your bank should invest £100 000.

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(8)

Q4

(Total 8 marks)

TOTAL FOR PAPER: 40 MARKS

END

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Source A

<u>Business A</u>

This is a relatively new firm, just four years old. It sells fashion clothing in a small, specialist market.

Trading and Profit & Loss for year

	2009	**2008**
Sales	4 000 000	3 000 000
Cost of Sales	2 800 000	2 000 000
Gross Profit	1 200 000	1 000 000
Overheads	400 000	400 000
Depreciation	200 000	200 000
Net Profit	600 000	400 000

Balance Sheet as at 31 December 2009

Fixed Assets	2 000 000
Stock	500 000
Debtors	200 000
Cash	50 000
	2 750 000
Current Liabilities	750 000
Assets Employed	2 000 000
Loans	1 000 000
Capital Owned	1 000 000
Capital Employed	2 000 000

Source B

Investment banks provide finance for private sector businesses. They aim to secure a high rate of return on their investments. This can be done in many ways, two of which are:

- charging interest on the loans made
- buying equity (shares) which is later sold at a profit when the business is successful.

Source C

From mid-2008 to late-2009, the British economy was in a recession that was triggered by a worldwide financial crisis. This occurred because several big banks took large risks with their loans and investments in the pursuit of even bigger profits. The British Government had to step in to avoid a meltdown of the banking system. It ended up owning more than 40% of two big banks, Halifax Bank of Scotland (HBOS) and Royal Bank of Scotland (RBS), which became part publicly owned.

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Source D

Financial Tests

When the trading results of a business are analysed, accountants use several financial tests, including the following:

- Gross Profit % = $\frac{\text{Gross Profit}}{\text{Sales}}$ x 100%
- Net Profit % = $\frac{\text{Net Profit}}{\text{Sales}}$ x 100%
- Return on Capital Employed = $\frac{\text{Net Profit}}{\text{Capital Employed}}$
- Liquidity Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- The Acid Test = $\frac{\text{Current Assets – Stock}}{\text{Current Liabilities}}$

From the calculations, the profitability and viability of a business can be assessed and compared with other businesses.

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