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Business, Administration and Finance
Level 3
Unit 4: Business Finance and Accounting

Tuesday 8 June 2010 – Morning Time: 1 hour 30 minutes	Paper Reference BA304/01
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You may use a calculator.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided – *there may be more space than you need.*

Information

- The total mark for this paper is 60.
- The marks for **each** question are shown in brackets – *use this as a guide as to how much time to spend on each question.*

Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

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Scenario

The questions in this examination are about Hearthstone Ltd.

Hearthstone Ltd makes fireplaces in stone, wood and cast iron; fire boxes and household fire accessories such as spark guards, tongs, buckets and pokers. These products are sold on-line to customers and through DIY outlets such as B&Q, Homebase and Focus.

Hearthstone trades in a competitive market where the cost of natural stone, wood and metal have increased. However customers are demanding lower prices and better value for money. Employees have recently asked for a pay increase. The directors of Hearthstone are trying to manage their budgets to stay on target for the year.

Hearthstone Ltd has been based in the same manufacturing unit for 10 years. It is adequate for their current level of activity but it is a constraint to further growth. The directors of Hearthstone have been investigating the possibility of buying the unit next door. This would enable them to increase their output and reach new customers in the other European Union states.

John Creasy is the Financial Director of Hearthstone Ltd.



Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

1 One reason why a sole trader might want to convert to a private limited company is:

A	to reduce the marginal cost of products and services	<input type="checkbox"/>
B	to limit liability for the debts of the business	<input type="checkbox"/>
C	to make it easier to lease vehicles	<input type="checkbox"/>
D	to access government grants and subsidies	<input type="checkbox"/>

(Total for Question 1 = 1 mark)

2 A possible internal source of finance for Hearthstone Ltd is:

A	venture capital	<input type="checkbox"/>
B	trading income	<input type="checkbox"/>
C	hire purchase	<input type="checkbox"/>
D	grants and subsidies	<input type="checkbox"/>

(Total for Question 2 = 1 mark)

3 A possible external source of finance for Hearthstone Ltd is:

A	trading income	<input type="checkbox"/>
B	sale of surplus assets	<input type="checkbox"/>
C	trade credit	<input type="checkbox"/>
D	profits	<input type="checkbox"/>

(Total for Question 3 = 1 mark)

4 Private Equity Finance is also known as:

A	accounts receivable	<input type="checkbox"/>
B	debt factoring	<input type="checkbox"/>
C	full cost	<input type="checkbox"/>
D	venture capital	<input type="checkbox"/>

(Total for Question 4 = 1 mark)



5 One factor that is **most likely** to influence how much a business can borrow from an external source of finance is:

A	type of ownership	<input type="checkbox"/>
B	the size of the company office	<input type="checkbox"/>
C	health benefits offered to staff	<input type="checkbox"/>
D	productivity of staff	<input type="checkbox"/>

(Total for Question 5 = 1 mark)

6 Hearthstone received a delivery of marble for making fire surrounds that cost £350.78 inclusive of VAT at 17.5%.

How much VAT was Hearthstone charged on this delivery?

Show your working.

VAT charged £

(Total for Question 6 = 2 marks)



7 (a) The following financial tasks listed below are carried out in Hearthstone's finance office.

Put a cross ☒ in one box in each row to show the most appropriate software to carry out the task.

Three have been completed for you.

(3)

	Spreadsheet	Database	Word Processing
Calculating monthly expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Constructing cash flow statements	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Maintaining supplier records	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Producing breakeven analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Producing delivery notes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Contacting customers	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

(b) John Creasy manages a finance office with six accounts staff. One job role is that of finance clerk.

Identify **two** financial tasks that this person would carry out.

(2)

- 1
- 2

(Total for Question 7 = 5 marks)



8 (a) The Directors of Hearthstone Ltd have been discussing how to finance the proposed expansion. They are considering two possible sources of business finance.

- Trading income
- A bank loan

Explain what is meant by the following terms.

(i) Trading income

(2)

.....

.....

.....

(ii) Bank loan

(2)

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.....

.....

(b) The Directors of Hearthstone Ltd have decided to use venture capital to finance the expansion.

(i) Give **two** advantages of using venture capital.

(2)

1

.....

2

.....



(ii) Give **two** disadvantages of using venture capital.

(2)

1

.....

2

.....

(Total for Question 8 = 8 marks)



7
Turn over ▶

- 9 John Creasy has given you the following list of balances. He needs you to draft the company's final accounts for the period ended 30th April 2010.

Data for Income Statement

	£000s
Administrative expenses	1 824
Distribution costs	1 044
Sales	6 710
Opening inventory	226
Closing inventory	230
Purchases	2 994

Using the information above, construct an Income Statement for Hearthstone Ltd for the period ended 30th April 2010 clearly showing cost of sales, gross profit, gross expenses and net profit.

Hearthstone Ltd Income Statement for period ended 30th April 2010	£ 000	£ 000
Sales		6 710
Opening inventory		
Cost of Sales		
Gross Profit		
Administrative expenses		
Gross expenses		
Net Profit		

(Total for Question 9 = 10 marks)



11 John Creasy has asked you to calculate the expected breakeven point for the Chantey fire surround. John has obtained the following information.

Fixed costs for the Chantey fire surround are calculated as £1300 per month.

Variable costs for each Chantey are:

Labour	£25.00
Raw materials	£15.00
Variable overheads	£11.00

Market research suggests that Hearthstone Ltd will be able to make and sell 30 Chantey fire surrounds each month at a retail price of £105.50

(a) Calculate the monthly breakeven units for the Chantey fire surround.
Show your working.

(4)

Breakeven point



(b) Hearthstone Ltd expects the maximum production output of the Chantey fire surround will be 30 units per month.

Calculate the margin of safety for the Chantey.
Show your working.

(2)

Margin of safety

(c) Breakeven analysis can be a useful analytical tool.

Explain **two** limitations of using breakeven analysis.

(4)

1

.....

.....

.....

2

.....

.....

.....

(Total for Question 11 = 10 marks)



12 Hearthstone Ltd have prepared full financial statements (final accounts), which include the following information:

	2009	2008
	£ 000	£ 000
Sales	6 000	5 600
Gross profit	3 060	2 916
Net profit	780	784
Current assets	342	306
Of which stocks were	228	216
Current liabilities	190	180

In 2008, Hearthstones' net profit margin was 14% and the liquidity ratio (acid test) was 0.7:1.

(a) Using the above information, calculate

(i) the net profit margin for 2009

(2)

(ii) the liquidity ratio (acid test) for 2009.

(2)



(b) Analyse why Hearthstone may be concerned about the trends shown by these ratios.

(8)

Dotted lines for writing.

(Total for Question 12 = 12 marks)

TOTAL FOR PAPER = 60 MARKS



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