AQA

Please write clearly in block capitals.

Centre number		Candidate number	

Surname ______________________________

Forename(s) ______________________________

Candidate signature ______________________________

Level 3 Certificate/Extended Certificate in Applied Business

FINANCIAL PLANNING AND ANALYSIS

Unit Number: R/507/6695

Monday 30 January 2017 Afternoon Time allowed: 1 hour 30 minutes

Materials
For this paper you must have:
- scientific calculator (non-programmable).

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 marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- There are two sections to this paper.
- Both sections should be attempted.
- Candidates should spend approximately 60 minutes on **Section A** and 30 minutes on **Section B**.

Advice
- Please read each question carefully before starting.

Section A

Answer **all** questions in this section.

Total for this section: 40 marks

In the multiple choice questions, only **one** answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD ⬬ WRONG METHODS

If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

0 1 Which of the following is an example of a start-up cost for an enterprise?

A Purchase of shop equipment. ○

B Quarterly electricity charges. ○

C Salaries for employees. ○

D Petrol for delivery vans. ○

[1 mark]

0 2 Which of the following is an example of an internal source of finance?

A Bank overdraft. ○

B Sale of non-current assets. ○

C Leasing of new equipment. ○

D Venture Capital. ○

[1 mark]

0 3 Which of the following tasks is **not** a use of break-even analysis?

A Undertaking 'What if?' analysis.

B Setting profit targets.

C Calculating the margin of safety for the business.

D Calculating the net profit for the year of the business.

[1 mark]

0 4 Kyle is about to open a hairdressing business in a local shop. Which of the following would be an example of capital expenditure?

A Installing sinks in the hairdressing salon.

B Buying shampoo and other hairdressing products.

C Paying wages for a stylist to work in the shop.

D Advertising the shop in the local paper each week.

[1 mark]

0 5 The 'Training Restaurant' is a not-for-profit enterprise that provides work experience for young people with learning needs, and wants to expand. Explain **one** reason why the 'Training Restaurant' would want to make a surplus from its activities.

[3 marks]

0 6 ABC driving school is currently one of the most expensive in the area. The cost of petrol has risen by 20%.

Explain the effect of this increase on the break-even position of ABC driving school.

[3 marks]

0 7 Ikram owns a go-kart track, which he opens in the evenings and at weekends. A potential customer has asked if they can use the track on one weekday afternoon for 20 people.

Ikram normally charges £10 per person and variable costs are £6 per person. The customer will only pay £9 per person. Explain **one** reason why Ikram might accept this booking.

[3 marks]

0 8 In the Yorkshire town of Slaithwaite, the local greengrocer has closed. No one was willing to take over the shop. It meant that one employee would lose their job and local residents would be less likely to visit the high street, causing a negative effect on other businesses in the area.

A group of residents had the idea of setting up the greengrocer as a community-owned shop. They developed a business plan and created a co-operative that would allow the community to purchase shares in the business and have control. In just one week £10 000 was raised. A few months later, the community-owned shop opened as The Green Valley Grocer.

Use the information above to analyse why the residents chose a co-operative legal structure to save the local greengrocer.

[9 marks]

0 9 Dave has owned a business building extensions and repairing houses for 2 years. He has produced a cash flow forecast for the next 4 months for his business.

Table 1 Cash flow forecast for Dave's business

	March	April	May	June	Total
	£	£	£	£	£
Cash in					
Receipts from customers	30 000	35 000	40 000	40 000	145 000
Total inflow	30 000	35 000	40 000	40 000	145 000
Cash out					
Materials	15 000	16 000	17 500	17 500	66 000
Purchase of non-current assets	8 000		6 000		14 000
Owner's earnings	2 400	2 400	2 400	2 400	9 600
Other costs	10 100	10 100	10 100	10 100	40 400
Total outflow	35 500	28 500	36 000	30 000	130 000
Net monthly cash flow	(5 500)	6 500	4 000	10 000	15 000
Opening balance	3 000	(2 500)	4 000	8 000	3 000
Closing balance	(2 500)	4 000	8 000	18 000	18 000

A housing association needs a new building company to work on renovating some of its houses and has offered the contract to Dave. This work would be in addition to Dave's existing work and will take 4 months to complete.

The housing association will pay Dave £60 000 for this work, which will be paid at the end of the contract in June. Dave estimates the contract will increase his outflows for materials by 30% and other costs by 20% each month. The cash flow forecast in **Table 1** does not include the housing association contract.

All Dave's savings are invested in the business and his bank will only allow an overdraft of £4000. Dave pays himself £2400 per month. He pays for materials straight away in order to take advantage of a 5% cash discount and he buys non-current assets, rather than leasing, so that he can own the assets outright.

Use the information to analyse the financial implications for Dave's business of accepting the contract.

[9 marks]

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Turn over for the next question

1 0 Jenitta owns a gift shop, which she opened in July 2016. Some of the gifts that she sells are seasonal, such as those sold at Halloween and Christmas markets as well as year-round birthday and other gifts. Before opening the shop she prepared a Budgeted Income Statement for the next 6 months. At the end of the 6-month period she compared the forecast with the actual results for the period.

Budgeted Income Statement for 6 months ended 31 December 2016 (extracts)

	Budgeted	Actual	Difference
	£	£	£
Revenue	120 000	110 000	10 000 A
Cost of sales	91 000	87 000	4 000 F
Gross profit	24 000	20 500	3 500 A
Expenses	8 000	9 000	1 000 A
Net profit	16 000	11 500	4 500 F

Jenitta realises that she has an adverse (A) net profit variance of £4500 for the first 6 months of her business.

Use the information to analyse the implications for Jenitta of this adverse net profit variance for the first 6 months of operating the business.

[9 marks]

Turn over for Section B

Section B

Answer the question in this section.

Total for this section: 20 marks

Read **Item A** and then answer question **1 1**.

Item A

The Clothes Hanger Ltd

In 2011, Karen and Sophie opened *The Clothes Hanger*, a shop which sold designer clothing, shoes and accessories aimed at women aged 35 and over. The shop was located in an affluent Cheshire town in the North West of England.

The shop was a success and they opened two more in other affluent Cheshire towns, which they manage between themselves. In addition, they have started selling online.

Karen and Sophie would like to expand *The Clothes Hanger* chain of shops. They have carried out extensive market research, which shows that online shopping is expected to be increasingly popular. Research also indicates that the shopping experience that *The Clothes Hanger* provides is also likely to be popular with its market as there are few direct competitors.

Karen and Sophie have identified locations in Brighton, Solihull and Guildford that provide the customer base for their shops. However, they would need expensive external finance to cover the start-up costs of £100 000 per shop and then running costs to do this.

Table 1 *The Clothes Hanger* selected financial information

	2016	**2015**
	£	£
Turnover	750 413	665 657
Profit before taxation	30 008	34 800
Net Assets	147 293	129 908

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Table 2 *The Clothes Hanger* selected financial ratios

Ratio	**2016**	**2015**
Profit margin (%)	4.00	5.23
Return on Capital Employed (%)	11.50	13.53
Fixed Asset Turnover	5.43	4.72
Gearing (%)	86.03	107.43
Current Ratio	2.15	2.54
Acid Test Ratio	0.10	0.32
Stock turnover (x)	3.44	3.97
Creditors' payment (days)	18.05	16.52

1 1 Considering the financial and marketing information described in **Item A**, evaluate whether Karen and Sophie should seek external finance to expand into three new shops.

[20 marks]

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END OF QUESTIONS