Rewarding Learning

ADVANCED SUBSIDIARY (AS)

General Certificate of Education

2019

Centre Number

Candidate Number

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

SPB31

[SPB31]

TUESDAY 28 MAY, AFTERNOON

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.
Write your answers in the spaces provided in this question paper.
Answer **all three** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in Questions **1(c)**, **2(d)** and **3(c)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question in allocating the available examination time.
If you do not have sufficient space to complete your answers, you may use the additional pages at the back of the paper.

For Examiner's use only	
Question Number	Marks
1	
2	
3	
Total Marks	

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Answer **all three** questions

Examiner Only	
Marks	Remark

1 Joyce and John run a dairy farm as a partnership in Co Tyrone and wish to diversify their farm by producing elderflower cordial. John is concerned about how they will finance this new business venture, but Joyce feels that with their own capital and some additional finance they will be able to fund it successfully.

You are a financial consultant and have been approached by Joyce and John for your professional business services advice.

(a) Explain the term financial decision making.

[2]

(b) Joyce and John will continue to operate their dairy farm in addition to producing the elderflower cordial. Explain **three** reasons why effective financial decision making is important for Joyce and John's business.

[6]

Examiner Only	
Marks	Remark

(c) Joyce and John have £20,000 of their own capital, taken from personal savings, to invest in their new business venture. They plan to use this for the refurbishment of a building on the farm to make it suitable for the production of their elderflower cordial.

As Joyce and John's financial consultant, discuss **two** advantages and **two** disadvantages of using their own capital to finance this new business venture.

The quality of written communication is assessed in this question.

Examiner Only	
Marks	Remark

[16]

Examiner Only	
Marks	Remark

2 **(a)** Identify **five** areas in which a financial consultant can calculate ratios for a business.

1. ______________________________ [1]

2. ______________________________ [1]

3. ______________________________ [1]

4. ______________________________ [1]

5. ______________________________ [1]

(b) **Table 1** and **Table 2** show the projected financial statements produced by Devine, McSorley and Weir Accountants Ltd for Joyce and John's farm.

Table 1: Projected Income Statement for Joyce and John's Farm for the year ending 30th June 2019

	£	£	£
Sales Revenue			40,000
			40,000
Opening Inventory		0	
Add Purchases		18,000	
		18,000	
Less Closing Inventory		3,000	
Cost of Goods Sold			15,000
Gross Profit			25,000
Less Expenses			
Wages		8,750	
Rates		3,500	
Electricity		2,500	
Telephone		500	
Insurance		2,250	
Advertising		2,500	20,000
Net Profit			5,000

Table 2: Projected Statement of Financial Position for Joyce and John's Farm for the year ending 30th June 2019

	£	£	£
	COST	DEPRECIATION TO DATE	WRITTEN DOWN VALUE
Non-Current Assets			
Buildings	10,000	0	10,000
Fixtures and Fittings	12,000	3,500	8,500
Equipment	6,000	2,000	4,000
Total Non-Current Assets	28,000	5,500	22,500
Current Assets			
Inventory			3,000
Trade Receivables			8,000
Bank			2,500
Cash			500
Total Current Assets			14,000
Total Assets			36,500
Equity			
Opening Capital			25,000
Add Net Profit			5,000
Less Drawings			8,500
Closing Capital			21,500
Non-Current Liabilities			
Bank Loan			8,000
Total Non-Current Liabilities			8,000
Current Liabilities			
Trade Payables			4,600
Bank Overdraft			2,400
Total Current Liabilities			7,000
Total Equity and Liabilities			36,500

Examiner Only	
Marks	Remark

Using financial data from **Table 1** and **Table 2**, calculate the following business ratios in the space provided:

Examiner Only	
Marks	Remark

(i) Net Profit Margin %

$$\frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100 =$$

[2]

(ii) Return on Capital Employed %

$$\frac{\text{Net Profit}}{\text{Total Assets} - \text{Current Liabilities}} \times 100 =$$

[2]

(iii) Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

[2]

(c) For each of the ratios calculated in part **(b)**, analyse the findings for Joyce and John in relation to their farm.

Examiner Only	
Marks	Remark

(i) Net Profit Margin

[2]

(ii) Return on Capital Employed

[2]

(iii) Current Ratio

[2]

(d) Joyce and John are unclear about the purpose of cash flow forecasting. As their financial consultant, analyse **two** benefits and **one** limitation of cash flow forecasting for their farm.

The quality of written communication is assessed in this question.

[12]

Examiner Only	
Marks	Remark

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(Questions continue overleaf)

Examiner Only: Marks | Remark

3 Joyce and John need to purchase new equipment for the production of the elderflower cordial. They are aware of investment appraisal methods including payback and net present value but are unsure of their purpose.

(a) As Joyce and John's financial consultant, explain the payback and net present value methods of investment appraisal.

Payback method:

[3]

Net present value method:

[3]

Examiner Only: Marks | Remark

(b) (i) Joyce and John have the option of two pieces of equipment for their new business venture. Carry out the payback method of investment appraisal using the following financial data.
Show all your workings.

Equipment 1	**Equipment 2**
Initial investment £25,000	Initial investment £30,000
Estimated net cash inflow: Year 1 £ 8,500 Year 2 £11,500 Year 3 £15,000	Estimated net cash inflow: Year 1 £10,000 Year 2 £10,000 Year 3 £20,000

Initial investment				
Year 1				
Year 2				
Year 3				
Answer				

[8]

(ii) Based on your investment appraisal outcomes, recommend which piece of equipment Joyce and John should purchase.

____ [1]

(c) Evaluate payback as a method of investment appraisal for the new equipment that Joyce and John plan to purchase.

The quality of written communication is assessed in this question.

[12]

Examiner Only	
Marks	Remark

Continuation page. (Use this page if you need more space to complete your answers.)

Number your answers clearly.

Examiner Only	
Marks	Remark

Continuation page. (Use this page if you need more space to complete your answers.)

Number your answers clearly.

Examiner Only	
Marks	Remark

THIS IS THE END OF THE QUESTION PAPER