

Surname	Centre Number	Candidate Number
Other Names		0

**GCSE**

4702/01

APPLIED BUSINESS**UNIT 2: Business Finance and Decision Making**

A.M. MONDAY, 2 June 2014

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	35	
2.	36	
3.	29	
Total	100	

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010001**ADDITIONAL MATERIALS**

In addition to this examination paper you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions.

Write your answers to all the questions in the spaces provided in this question-and-answer booklet.

If you run out of space, use the continuation page at the back of the booklet, taking care to number the question(s) clearly.

INFORMATION FOR CANDIDATES


The mark allocation for each part of a question is shown in brackets.

Quality of written communication is assessed in Question 2(g).

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

1. Study the information below and then answer the questions that follow.

The Ink Spot is a stationery business, selling pens and paper to the general public and to local businesses. It is located in a prominent position on the High Street in order to attract customers. Its supplier is the wholesaler Ink Inc. which provides *The Ink Spot* with all its stock requirements.



- (a) *The Ink Spot* places the following order for supplies with Ink Inc.

<i>The Ink Spot</i> Friary Way Aberystwyth SY23 3AQ	Tel: (0970) 478962 Fax: (0970) 478965
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PURCHASE ORDER

To:	Order No: 6892
Ink Inc. Oak Square Estate Carmarthen SA31 0FJ	Date: 03.05.2014

Quantity	Description	Item Ref:	Unit Price (£)
25 boxes	A5 writing pads	WPA5	20.00
8 boxes	Black ballpoint pens	BBP66	5.00

Authorised: <i>S.K. Thomas</i>	Delivery: Next day
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VAT Registration Number: 38489720

Using the information given in the Purchase Order, complete the Sales Invoice by filling in all the shaded areas. [10]

Ink Inc.
Oak Square Estate
Carmarthen
SA31 0FJ

Tel: (0267) 215931

Fax: (0267) 215933

SALES INVOICE NO. 07452

To:

Order No:

Date:

Quantity	Description	Item Ref:	Unit Price (£)	Total Price (£)
25	A5 writing pads	WPA5	20.00	500.00
8	Black ballpoint pens	BBP66		
			Goods Total	
			Less 15% Discount	
			Sub-Total	
			VAT @ 20%	
			Total to Pay	

Delivery: Immediate

Authorised by: *S.K. Thomas*

E&OE

VAT Registration Number: 78654320

(b) The abbreviation VAT is to be seen on Invoices.

(i) Write out what the abbreviation VAT stands for in full. [1]

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(ii) Explain the purpose of VAT. [2]

(c) When the supplies are received by *The Ink Spot* from Ink Inc., a document is presented with the goods.

(i) Name this document. [1]

(ii) Explain what this document shows and why it should be signed. [2]

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(d) Ink Inc. sends *The Ink Spot* both Invoices and Statements of Account.

Explain the different purpose of these two documents. [4]

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- (e) The following Statement of Account was received by *The Ink Spot* from Ink Inc. at the end of May 2014.

Ink Inc.
Oak Square Estate
Carmarthen
SA31 0FJ

Tel: (0267) 215931
Fax: (0267) 215933

Date: 31 May 2014

STATEMENT OF ACCOUNT

To:

The Ink Spot
Friary Way
Aberystwyth
SY23 3AQ

Date	Details	Ref No.	Sales £	Payments/Credit Notes £	Balance £
4 May	Sales Invoice	07452	550.80		550.80
11 May	Sales Invoice	08396	731.00		1281.80
16 May	Credit Note	CR 741	89.00		1370.80
24 May	Sales Invoice	08755	322.00		1692.80
30 May	Cheque	6541732		839.60	853.20
31 May					853.20

There is an error on the Statement of Account. Identify the error and state the corrected balance as at 31 May 2014.

(i) Error: [1]

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(ii) Corrected Balance as at 31 May 2014: [1]

(iii) Explain **one** consequence of this error. [2]

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(f) A Remittance Advice Slip is normally sent by *The Ink Spot* with its payment to Ink Inc. Explain why this document is used. [1]

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(g) Ink Inc. accepts payment by cheque, cash or debit card. Consider an advantage **and** a disadvantage to Ink Inc. of **each** of these methods of payment. [6]

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(h) Ink Inc. is considering installing a computerised **accounting system** to assist in its completion and management of documents used in the buying and selling of goods and services. Explain **two** advantages to Ink Inc. of installing this type of system. [4]

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2. Study the information below and then answer the questions that follow.

Ultimate Alloys was set up five years ago by a group of friends. It supplies specialist car parts to cash customers visiting the shop or on the internet and to local garages on a monthly credit basis.

The business has grown considerably since its start and the partners are now thinking of asking others to put money into the business so that they can expand. However, before they do this they must have completed financial statements and ratios for the past two years to show potential investors.



- (a) Income and costs for the years ending 31 March 2013 and 31 March 2014 are detailed below.

Using these figures, complete the shaded areas in *Ultimate Alloys'* Trading Profit and Loss Accounts for years ending 31 March 2013 and 31 March 2014. [6]

Item	2013 £	2014 £
Cash Sales	90 000	105 000
Credit Sales	40 000	45 000
Stock Purchases/Costs of Sales	50 000	60 000
Wages	40 000	42 000
Insurance	5 500	5 700
Rent and Rates	4 500	4 700
Advertising	1 800	2 000
Electricity	1 500	1 900

<i>Ultimate Alloys</i> Trading Profit and Loss Account for the Years Ending 31 March 2013 and 31 March 2014				
Item	2013 £		2014 £	
Total Sales		130 000		
		50 000		60 000
		80 000		90 000
<i>Less Expenses</i>				
Rent and Rates	4 500		4 700	
Wages	40 000		42 000	
Insurance	5 500		5 700	
Electricity	1 500		1 900	
Advertising	1 800		2 000	
Total Expenses		53 300		56 300

- (b) As part of its expansion strategy *Ultimate Alloys* is considering installing a computerised **spreadsheet program** to assist in the construction of the Trading Profit and Loss Account. Discuss the drawbacks of such a system to the business. [4]

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- (c) *Ultimate Alloys* will need to use Accounting Ratios to interpret its Trading Profit and Loss Accounts. Using the information from the Trading Profit and Loss Accounts you have completed and the given formulae, calculate the missing Gross Profit Percentage and Net Profit Percentage Ratios to two decimal places and fill in the shaded boxes in the table below. (You are advised to show your workings.) [4]

Ratio	2013	2014
Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	61.54%	
Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$		22.47%

- (d) (i) Name **one** stakeholder who would be interested in the information gained from the Gross Profit Percentage. [1]

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- (ii) Name a different stakeholder who would be interested in the information gained from the Net Profit Percentage. [1]

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- (e) Using the information from Question 2(a), complete the shaded areas of *Ultimate Alloys'* Balance Sheets below as at 31 March 2013 and 31 March 2014. [8]

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<i>Ultimate Alloys</i> Balance Sheet as at 31 March 2013 and 31 March 2014				
Item	2013 £		2014 £	
Fixed Assets				
Fixtures and Fittings		36 700		30 200
Current Assets				
Stock	20 000		25 500	
Debtors	12 000		13 000	
Bank	11 000		11 500	
	43 000		50 000	
Current Liabilities				
Creditors	21 000		22 200	
Bank Overdraft	2 000		3 500	
	23 000		25 700	
Net Current Assets		20 000		
Total Net Assets				
Financed by:				
Opening Capital		60 000		
Net Profit				
		86 700		90 400
Drawings		30 000		35 900
Closing Capital				

- (f) Using the information given in the Balance Sheet in Question 2(e) and the formula given below, calculate the following ratio for **2013** to two decimal places. (You are advised to show your workings.) [2]

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Ratio	2013	2014
Return on Capital Employed (ROCE) = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$		59.44%

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- (g) Consider the financial statements (Trading Profit and Loss Accounts and Balance Sheets) and the ratios that you have calculated (Gross Profit Percentage, Net Profit Percentage, ROCE) and advise the potential investors whether or not they should invest in *Ultimate Alloys*. [10]

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3. Study the information below and then answer the questions that follow.

After completing a course in fashion design Jemima decided that she would like to open a clothes shop. She has already seen a vacant shop for rent in town and has named her potential business *All Dressed Up*. Jemima is aware, however, that she will have to plan carefully before going ahead with her business idea.



Jemima estimates her costs as follows:

Fixed Costs	=	£1 000 per month
Variable Costs per item sold	=	£20.00
Average price per item sold	=	£30.00

- (a) Jemima has been advised to prepare a Sales Budget for the first six months of trading before she goes ahead with her proposed venture.

- (i) Explain to Jemima what the Sales Budget will show.

[2]

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(ii) Complete the Sales Budget below by filling in the shaded areas.

[3]

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Sales Budget for <i>All Dressed Up</i> April – September 2014						
	April	May	June	July	Aug	Sept
Estimated number of items sold	200	280	350		550	600
Average price per item (£)		30	30	30	30	30
Estimated Total Net Sales (£)	6000	8400	10500	12300		18000

(iii) Explain to Jemima **three** advantages to *All Dressed Up* of preparing a budget. [6]

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- (b) Jemima has also been advised that she should construct a break-even chart to calculate her break-even point. In order to do this she will need to know the difference between Fixed Costs and Variable Costs. [6]

(i) Define Fixed Costs:

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Example from *All Dressed Up*:

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(ii) Define Variable Costs:

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Example from *All Dressed Up*:

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- (c) (i) Using the formula below and the information given at the start of Question 3, insert the correct amounts in the shaded areas. [2]

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price per unit} \text{ minus } \text{variable cost per unit}}$$

$$\text{Break-even point} = \frac{\text{£ } \boxed{}}{\text{£ } \boxed{} \text{ minus } \text{£ } \boxed{}}$$

- (ii) Calculate the number of items of clothing *All Dressed Up* must sell to break even. (You are advised to show your workings.) [2]

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- (d) (i) Identify **two** effects that an unforeseen rise in rent would have on *All Dressed Up's Break-even Chart*. [2]

Effect 1

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Effect 2

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- (ii) State **two** courses of action that *Jemima* could take to lessen the impact on *All Dressed Up* of the rise in rent. [2]

Course of Action 1

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Course of Action 2

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- (iii) Explain the impact on *All Dressed Up* of each course of action. [4]

Impact of Course of Action 1

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Impact of Course of Action 2

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