

Surname	Centre Number	Candidate Number
Other Names		0

**GCSE**

4704/01



S16-4704-01

APPLIED BUSINESS**UNIT 4: Business Finance and Decision Making II**

P.M. TUESDAY, 7 June 2016

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	37	
2.	29	
3.	34	
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 questions 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(c)**.

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

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

The Dog House provides dog owners with a place to leave their dogs when they are away from home. It was set up by Miriam five years ago and she now feels that the business can expand by building more kennels. She already has sufficient land, so would only require materials to build the kennels. Miriam intends investing a **further £1 000 of capital** in the business, which will be available to the business at the start of August. She estimates that the materials will cost £1 800 but she has negotiated a deal with the supplier enabling her to pay this in two equal monthly instalments, starting in July. *The Dog House* already has a small bank loan.



- (a) *The Dog House* will have different types of costs that Miriam will need to be aware of and understand.

- (i) Explain to Miriam the difference between Start-up Costs and Running Costs. [4]

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- (ii) Identify an example of **one** Start-up Cost and **one** Running Cost that *The Dog House* will have to pay. [2]

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(b) *The Dog House* has had cash flow problems in the past but has always made a profit. Explain the terms profit and cash flow to Miriam. [4]

Profit

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Cash flow

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- (c) Before going ahead with the expansion, Miriam should complete a Cash Flow Forecast. To complete the Cash Flow Forecast, Miriam will need to identify *The Dog House's* Inflows and Outflows. Some of the inflows and outflows are:

Rates for the building	Sales Revenue	Dog food
Loan from the bank	Loan repayments	Electricity
Wages for the dog handlers	Miriam's capital	

Classify each of the items above into **either** an inflow **or** outflow by placing them in the correct column in the table below. [8]

Inflows	Outflows

(d) Miriam will use a computer spreadsheet package to draw up *The Dog House's* Cash Flow Forecast. Evaluate the usefulness of such a computer package in the preparation of ***The Dog House's*** Cash Flow Forecast. [6]

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(e) Identify **two** stakeholders and explain why **each** may be interested in *The Dog House's* Cash Flow Forecast.

(i) Stakeholder 1 [2]

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(ii) Stakeholder 2 [2]

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- (f) Using the data given at the start of the question and your knowledge, complete the shaded areas in the following Cash Flow Forecast for *The Dog House*. [5]

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The Dog House's Cash Flow Forecast for four months ending 31 October 2016

	A	B	C	D	E
1		JULY	AUG	SEPT	OCT
2		£	£	£	£
3	Opening Balance at Bank	200		1 800	1 800
4					
5	RECEIPTS				
6	Sales	11 000	12 800	12 500	13 500
7	Capital Introduced				
8					
9	TOTAL RECEIPTS	11 000	13 800	12 500	13 500
10					
11	PAYMENTS				
12	Purchases	3 000	3 000	2 800	3 000
13	Materials for new kennels				
14	Rent and Rates	3 500	3 500	3 500	3 500
15	Wages	4 000	4 000	4 000	3 000
16	Electricity			2 000	
17	Loan interest	200	200	200	200
18					
19	TOTAL PAYMENTS	11 600	11 600	12 500	9 700
20					
21	Closing Balance at Bank		1 800	1 800	5 600

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(g) Using the information from *The Dog House's* Cash Flow Forecast, advise Miriam whether or not she would be wise to go ahead with her expansion plans. [4]

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

Temptation Chocolates manufactures chocolates and packages them in cardboard boxes. It sells its boxes of chocolates to shops and restaurants. It is supplied with cocoa butter and flavourings by a regular supplier as well as cardboard boxes from The Box Company Limited.

Temptation Chocolates keeps a record of stock held on individual stock cards. At present the value of stock held is calculated using the Last In First Out (LIFO) method of valuation.



- (a) *Temptation Chocolates* records stock holdings of cardboard boxes on individual Stock Record Cards. The Stock Record Cards indicate that *Temptation Chocolates* had a closing stock balance of 250 cardboard boxes on 31 March 2016. The following orders were placed with The Box Company Ltd and the cardboard boxes were received on the same day.

7 April 2016	Purchase Order No.4498	250 cardboard boxes	@ £1.00 each
15 April 2016	Purchase Order No.4532	300 cardboard boxes	@ £1.00 each
20 April 2016	Purchase Order No.4781	250 cardboard boxes	@ £1.50 each

Requisition Order Number 5846 for 450 cardboard boxes was received on 12 April 2016 and goods despatched on the same day.

- (i) Using the information above, complete the Stock Record Card below by filling in the shaded areas. [10]

STOCK RECORD CARD					
Stock Description: 					
Stock Ref No.: CbB					
Location: Area D Shelves 5 – 7					
Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
1 April					

- (ii) Why must an authorised official of *Temptation Chocolates* sign a Stores Requisition? [2]

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- (b) Individual Stock Record Cards are updated every day. The following details are currently held about cardboard boxes:

Average daily issue	100
Normal delivery time	3 days
Minimum stock	50
Maximum stock	600

- (i) Using the formula below, and the stock card information above, insert the correct amounts into the shaded areas. [3]

$$\text{Re-order level} = \frac{\text{Average daily usage of stock}}{\text{of stock}} \times \frac{\text{number of days for delivery from supplier}}{\text{delivery from supplier}} + \text{minimum stock}$$

Re-order level	=		×		+	
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- (ii) Calculate the re-order level for cardboard boxes. [1]

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(d) *Temptation Chocolates* is considering whether or not to install a computerised Bar Code System to monitor levels of all stock held. Explain to the managers of *Temptation Chocolates* **three** advantages of installing such a system. [6]

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(b) (i) Identify the type of production method that would **best suit** *Hopscotch Ltd* in the production of play equipment. [1]

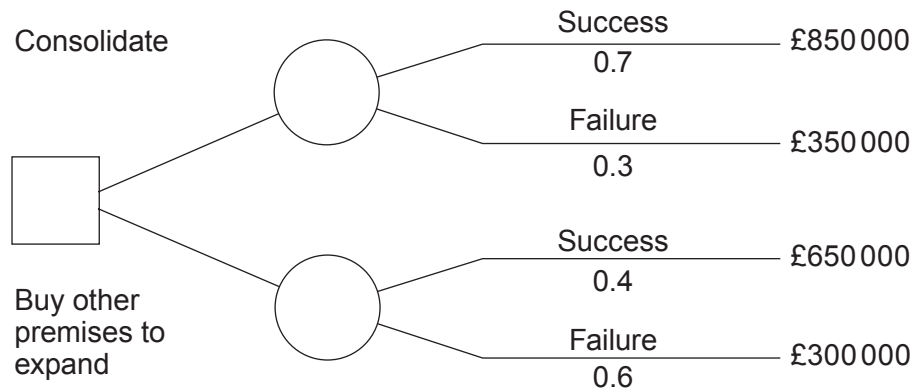
(ii) Explain **two** advantages to *Hopscotch Ltd* of using this method of production. [4]

(c) *Hopscotch Ltd* has the reputation of being an excellent employer and the company is keen to maintain this reputation.

(i) Identify the method of quality assurance that would enable it to do this. [1]

(ii) Explain how the method of quality assurance you have identified would benefit the employees and/or *Hopscotch Ltd*. [4]

(d) *Hopscotch Ltd* is considering whether or not to buy a nearby manufacturing premises. The Finance Department has drawn up the following Decision Tree diagram to help the Board of Directors make up its mind whether to consolidate or expand. The diagram shows the predicted profit or loss of each outcome and the probability of that outcome occurring.



Calculate the financial outcome (expected value) of each decision. (*You are advised to show your workings.*)

(i) The expected value of consolidating: [3]

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(ii) The expected value of buying the new premises: [3]

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(e) Using your calculations from question 3(d), recommend to the Board of Directors of *Hopscotch Ltd* whether or not they should go ahead with the acquisition of the premises. Give reasons for your recommendation.

(i) Your recommendation: [1]

(ii) Your reasons: [2]

(f) If *Hopscotch Ltd* decide to go ahead with the purchase of the nearby premises:

(i) state which source of finance you would recommend it uses to fund the purchase, [1]

(ii) evaluate the use of this source of finance for purchasing the premises. [6]

END OF PAPER

