

Surname	Centre Number	Candidate Number
Other Names		0

**GCSE**

4702/01



S18-4702-01

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

WEDNESDAY, 23 MAY 2018 – MORNING

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	39	
2.	30	
3.	31	
Total	100	

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010001**ADDITIONAL MATERIALS**

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(e)**.

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

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

Insight cares for the eyes of its customers by checking their eyesight and supplying the relevant spectacles or contact lenses, and has been trading successfully for a number of years. It sources its supplies from Glasses and Lenses Ltd, London Road, Lampeter, SA48 5FF.

To make the task of managing the flow of financial documents easier, *Insight* has recently installed a new computerised system.



- (a) *Insight's* manager completed a stock check and found that some stock was running low. He decided that the following items were required:

50 assorted spectacle frames, reference number ASF329 @ £70.00 each

100 assorted spectacle cases, reference number SPC090 @ £10.00 each

Using this information, and that given at the start of the question, complete the shaded areas of the Purchase Order below which was sent on 10 April 2018. [4]

Insight
10 Riverside
Aberystwyth
SY23 1ZY

Tel: (0970) 779421

Fax: (0970) 779427

PURCHASE ORDER

To:

Order No: 1652

Date:

Quantity	Description	Item Ref:	Unit Price (£)
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Authorised: *F. Samuels*

Delivery: Immediate

VAT Registration Number: 4398579016

- (b) Explain why the Purchase Order has to be signed by the person in charge of purchasing. [2]

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- (c) On 17 April 2018 *Insight* received the following invoice from Glasses and Lenses Ltd, relating to that order placed in Question 1(a). Using the information in this Purchase Order, complete the invoice below by filling in all the shaded areas. [8]

Glasses and Lenses Ltd London Road Lampeter SA48 5FF		Tel: (0570) 514283 Fax:(0570) 514294		
INVOICE 4397				
To:				
			Order No: 	
			Date: 17 April 2018	
Quantity	Description	Item Ref	Unit Price (£)	Total Price (£)
50	Assorted Spectacle Frames	ASF329	70.00	3500.00
100	Assorted Spectacle Cases	SPC090	10.00	
			Goods Total	
			Less 15% Discount	
			Sub-Total	
			VAT@ 20%	
			Total to Pay	
Delivery: Immediate		Authorised by: FS		
VAT Registration Number: 78654320 E&OE				

(d) The following terms can be found on an Invoice. Explain the meaning **and** purpose of each of the terms. [6]

(i) Trade Discount

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(ii) VAT

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(e) When the supplies are received by *Insight* from Glasses and Lenses Ltd, a document is presented with the goods.

(i) Name this document. [1]

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

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(f) Glasses and Lenses Ltd sends *Insight* both Invoices and Statements of Account. Explain how these two documents are different.

[2]

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(g) (i) *Insight* needs to pay for the items listed below. State the best method of payment for each. [2]

(I) Spectacle frames obtained for stock

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(II) Electricity for heating and lighting the shop

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(ii) For each method of payment you have identified above, state and discuss **one** advantage and **one** disadvantage to *Insight* of using that method of payment. [4]

(I)

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(II)

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(h) *Insight* sends a Remittance Advice Slip with its payment to Glasses and Lenses Ltd. Explain the purpose of this document. [2]

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(i) *Insight* now produces the documents used in buying and selling on the new computerised system it has installed. Evaluate whether or not this new system is **better than a manual system** for the business. [6]

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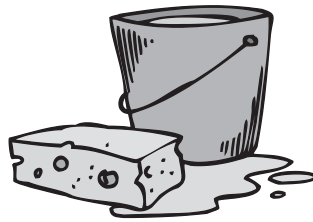
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2. Study the information below and then answer the questions that follow.

When Phillip left school he was unsure which career to pursue and decided to start a handwash car cleaning business. He used rented land by his home, until he was sure where his future lay. Two years on, Phil is trading successfully and hopes to expand into premises that have recently become available nearby. He operates as a sole trader and calls his business *The Magic Sponge*. He used his savings of £1,000 as capital to buy all the tools and equipment he needed when initially setting up.



- (a) *The Magic Sponge's* Profit and Loss Accounts for the years ending 31 March 2017 and 31 March 2018 are detailed below.

<i>The Magic Sponge</i> Profit and Loss Account for the Years Ending 31 March 2017 and 31 March 2018				
Item	2017 £		2018 £	
Cash Sales		15 000		22 000
Credit Sales		8 000		10 000
Less: Costs of Sales		5 000		6 000
Gross Profit		18 000		26 000
Less Expenses				
Wages	6 000		8 000	
Insurance	1 000		1 100	
Rent and Rates	1 000		1 200	
Advertising	100		0	
Electricity	800		850	
Total Expenses		8 900		11 150
Net Profit		9 100		14 850

Phil will need to use Accounting Ratios to interpret his Profit and Loss Accounts. Using the information from the Profit and Loss Accounts (P.7) and the formulae given below, calculate, to **two decimal places**, the missing Gross Profit Percentage and Net Profit Percentage Ratios and insert them into the shaded areas in the table below. (You are advised to show your workings.)

[4]

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Ratio	2017	2018
Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	78.26%	
Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$		46.41%

- (b) Phil will also need to look at *The Magic Sponge's* Balance Sheets. Using your own knowledge and the information at the start of Question 2, complete the shaded areas of the Balance Sheets below as at 31 March 2017 and 31 March 2018. [8]

<i>The Magic Sponge</i> Balance Sheet as at 31 March 2017 and 31 March 2018				
Item	2017 £		2018 £	
<i>Fixed Assets</i>				
Fixtures and Fittings		1 400		4 500
<i>Current Assets</i>				
Stock	150		300	
Debtors	500		550	
Bank	500		1 500	
	1 150			
<i>Current Liabilities</i>				
Creditors	200		350	
Bank Overdraft	0		0	
	200			
Net Current Assets		950		
Total Net Assets		2 350		
<u>Financed by:</u>				
Opening Capital				
Net Profit		9 100		14 850
		10 100		17 200
Drawings		7 750		10 700
Closing Capital				

- (c) Phil should also calculate his Debtor Collection Periods and Creditor Payment Periods in order to get a more complete picture of his business.

Using the relevant information from *The Magic Sponge's* Balance Sheets for 2017 and 2018, the information from the Profit and Loss Accounts (P.7) and the formulae given below, calculate the ratios to **two decimal places** by completing the shaded areas in the table. (You are advised to show your workings.) [4]

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Ratios	2017	2018
Debtor Collection Period = $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365$		20.08 days
Creditor Payment Period = $\frac{\text{Creditors}}{\text{Costs of Sales}} \times 365$	14.60 days	

(d) To further check that his business is viable, Phil should work out his Return on Capital Employed. Using the information given about *The Magic Sponge* in the Balance Sheet (P.9) and the formula given below:

- (i) calculate the following ratio for 2017 to **two decimal places**. (You are advised to show your workings.) [2]

Ratio	2017	2018
Return on Capital Employed $\text{ROCE} = \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$		631.91%

- (ii) name **one** stakeholder for Phil's business, who would be interested in the information gained from the ROCE. [1]
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(e) Advise Phil whether or not he should go ahead and expand, by considering all the ratios you have calculated (Gross Profit and Net Profit Percentages, Debtor Collection and Creditor Payment Periods and ROCE). [11]

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

Gill has been helping friends and family decorate their homes and has decided that she would like to set up a painting and decorating business. She will call her business *Changing Rooms*. She intends renting a small garage to store her equipment and van. Gill expects the monthly cost and revenues for *Changing Rooms* to be as follows:



Variable Cost per customer:	£25.00
Fixed Cost:	£1 500
Average amount spent by each customer:	£50.00

- (a) Before deciding whether or not to go ahead with the venture, Gill has been advised to calculate *Changing Rooms*' break-even point. In order to do this, she will need to know the difference between Fixed Costs, Variable Costs and Total Revenue. [9]

- (i) Define and give an example of *Changing Rooms*' **Fixed Costs**.

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- (ii) Define and give an example of *Changing Rooms*' **Variable Costs**.

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(iii) Define **Total Revenue** and give an example of revenue for *Changing Rooms*.

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(b) Explain what the break-even point will tell Gill.

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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 customers *Changing Rooms* must have to break even. [1]

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(d) Gill has been told by her main supplier that the price she pays for paint is likely to increase after six months.

(i) Identify **two** effects of this on *Changing Rooms*' Break-even Chart. [2]

Effect 1

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Effect 2

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(ii) Explain **two** courses of action Gill could take to lessen the effects of the rise in the price of paint on *Changing Rooms*. [4]

Course of Action 1

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Course of Action 2

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(iii) Explain the effect of **each** course of action on *Changing Rooms*.

[4]

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Impact of Course of Action 1

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Impact of Course of Action 2

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(e) Advise Gill, by assessing both the advantages and disadvantages of break-even analysis, whether or not she would be wise to draw conclusions from her break-even calculations.

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