

Surname	Centre Number	Candidate Number
Other Names		0

**GCSE**

4702/01

**APPLIED BUSINESS****Unit 2****Business Finance and Decision Making**

A.M. WEDNESDAY, 30 May 2012

1¼ hours

For Examiner's use only		
Question	Maximum Mark	Mark awarded
1.	33	
2.	36	
3.	31	
<b>Total</b>	<b>100</b>	

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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(e).

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

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

*The Music Box* is a music shop that sells musical instruments, sheet music and CDs. Most of its customers are music lovers from the local area, but it also sells to local schools and theatres. It sources its stock from one major wholesaler, Music Works Ltd.



- (a) When *The Music Box* buys stock from Music Works Ltd, a number of documents will be used to record the transaction. These include:

Remittance Advice      Sales Invoice      Delivery Note      Receipt      Credit Note

Identify which document will be used in the following situations. Tick (✓) **one** box only for **each** answer. [4]

- (i) Music Works Ltd will send this document to *The Music Box* with the stock.

	Tick (✓) <b>one</b> box only
Sales Invoice	
Delivery Note	
Remittance Advice	

- (ii) Music Works Ltd will send this document to *The Music Box* to request payment for a specific order.

	Tick (✓) <b>one</b> box only
Sales Invoice	
Credit Note	
Receipt	

- (iii) *The Music Box* will send this document with its payment to Music Works Ltd.

	Tick (✓) <b>one</b> box only
Receipt	
Sales Invoice	
Remittance Advice	

- (iv) Music Works Ltd will send this document to *The Music Box* to show that the shop has paid for its stock.

	Tick (✓) <b>one</b> box only
Delivery Note	
Receipt	
Remittance Advice	

(b) *The Music Box* sent the following Purchase Order to Music Works Ltd as a request for goods to be supplied.

*The Music Box*  
The Row  
Llangollen  
LL20 7YU

Tel: (0547) 344346

Fax: (0547) 347347

PURCHASE ORDER

To:

Music Works Ltd Parc Collen Industrial Estate Llangollen LL20 6TL
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Order No: 4213

Date: 22.05.2012

Quantity	Description	Item Ref:	Unit Price (£)
30	Small Recorders	SR4291	30.00
50	Assorted Sheet Music	AM7942	5.00

Authorised *T. Howard*

Delivery: 5 days

VAT Registration Number: 48674320

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

Music Works Ltd  
Parc Collen Industrial Estate  
Llangollen  
LL20 6TL

Tel: (0547) 344250  
Fax: (0547) 347260

SALES INVOICE NO.7452

To:

Order No:

Date:

Quantity	Description	Item Ref:	Unit Price (£)	Total Price (£)
30	Small Recorders	SR4291	30.00	900.00
50	Assorted Sheet Music	AM7942		
			Goods Total	
			<i>Less 15% Discount</i>	
			Sub-Total	
			VAT @ 20%	
			Total to Pay	

Delivery: Immediate

Authorised by: T. Shaw

E&OE

VAT Registration Number: 78654320

(c) Explain the **meaning** and **purpose** of the following terms that appear on Sales Invoices sent by Music Works Ltd. [6]

(i) VAT

(I) meaning: .....

(II) purpose: .....

(ii) E & OE

(I) meaning: .....

(II) purpose: .....

(d) *The Music Box* usually pays Music Works Ltd by cheque. State **one** other suitable method of payment that *The Music Box* could use and evaluate the method from the point of view of *The Music Box*.

(i) Other suitable method of payment. [1]

(ii) Evaluation of method from the point of view of *The Music Box*. [6]

(e) Identify and explain **two** consequences for Music Works Ltd of sending out Sales Invoices that are **not correct**. [6]

Consequence 1: .....

Explanation: .....

Consequence 2: .....

Explanation: .....

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

Steff Jones had always been interested in magic. Two years ago he decided to set up a business selling costumes and magic games. He called his business *The Ace of Spades*. Steff set up as a sole trader with a **capital of £10 000** in the first year. Steff is now considering expanding his business by buying a van so that he can perform magic shows at different venues.



- (a) Before going ahead and expanding the business Steff will have to consider the financial health of *The Ace of Spades*. To help him do this he will need to draw up and analyse the financial statements for 31 March 2011 and 31 March 2012.

*The Ace of Spades's* income and costs for both years are detailed below.

Using these figures, complete the shaded areas of *The Ace of Spades's* Trading Profit and Loss Accounts for the years ending 31 March 2011 and 31 March 2012. [8]

Item	2011 £	2012 £
Cash Sales	24 000	25 000
Credit Sales	26 000	32 000
Stock Purchases/Costs of Sales	14 500	15 000
Wages	14 000	16 000
Telephone	370	450
Insurance	2 000	2 500
Rent and Rates	3 000	5 000



<i>The Ace of Spades</i> Profit and Loss Account for the Years Ending 31 March 2011 and 31 March 2012				
Item	2011 £		2012 £	
Total Sales		50 000		
<i>Less: Cost of Sales</i>		14 500		15 000
				42 000
<i>Less Expenses</i>				
Rent and Rates	3 000		5 000	
Wages	14 000		16 000	
Insurance	2 000		2 500	
Telephone	370		450	
Total Expenses				

- (b) Steff has been advised to use Accounting Ratios to interpret his financial statements. Using the information from the Profit and Loss Account and the given formulae, calculate the ratios below. (You are advised to show your workings.) [8]

(i) 
$$\text{Gross Profit Percentage} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

2011

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2012

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$$(ii) \text{ Net Profit Percentage} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

2011

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2012

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(c) *The Ace of Spades's* Assets and Liabilities for 2011 and 2012 are noted below.

Item	2011 £	2012 £
Fixtures and Fittings	10 500	12 000
Stock	4 000	4 500
Debtors	6 000	5 000
Bank	500	-200
Creditors	4 000	3 500

Using these figures and those given in the information at the start of Question 2, complete the shaded areas of *The Ace of Spades's* Balance Sheets as at 31 March 2011 and 31 March 2012. [6]

<i>The Ace of Spades</i> Balance Sheet as at 31 March 2011 and 31 March 2012				
Item	2011 £		2012 £	
<u>Fixed Assets</u>				
Fixtures and Fittings		10 500		12 000
<u>Current Assets</u>				
Stock	4 000		4 500	
Debtors	6 000		5 000	
Bank	500		0	
	10 500		9 500	
<u>Current Liabilities</u>				
Creditors	4 000		3 500	
Bank Overdraft	0		200	
	4 000		3 700	
<b>Net Current Assets</b>				5 800
<b>Total Net Assets</b>		17 000		
<b>Financed by:</b>				
Opening Capital				17 000
Net Profit				
		26 130		35 050
Drawings		9 130		17 250
Closing Capital		17 000		

- (d) Steff's accountant has told him that he should also calculate his Debtor Collection Periods, Creditor Payment Periods and his Current Ratio in order to get a more complete picture of the business.

Using the relevant information from *The Ace of Spades's* Balance Sheets for 2011 and 2012, the information given for the Profit and Loss Account and the given formulae, calculate the ratios by completing the table below. (You are advised to show your workings.) [6]

Ratios	2011	2012
Debtor Collection Period = $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365$		57.03 days
Creditor Payment Period = $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$	100.69 days	
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.63:1	

(e) Consider all **five** ratios that you have calculated (Gross Profit Percentage, Net Profit Percentage, Debtor Collection Period, Creditor Payment Period and Current Ratio) and advise Steff whether he should go ahead and buy his van. [8]

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

Dave and Sandra are taxi drivers who plan to go into business together providing cars and limousines for special occasions. They intend targeting wedding and party planners as potential customers for their business. Their business will be called *Dreams Come True*.



They estimate their costs as follows:

Total Fixed Costs = £3 000 per month

Variable Costs = £20 per customer

They intend charging  
an average price of £40 per customer

- (a) Before deciding whether to go ahead with the venture, Dave and Sandra have been advised to calculate their break-even point. In order to do this they will need to know the difference between Fixed Costs and Variable Costs. [6]

- (i) Define Fixed Costs.

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- (ii) Give an example of a Fixed Cost. ....

- (iii) Define Variable Costs.

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- (iv) Give an example of a Variable Cost. ....

(b) Explain what the break-even point will tell Dave and Sandra. [2]

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(c) (i) Using the formula below and the information given in the scenario, insert the correct amounts in the shaded areas. [2]

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

$$\text{Break-even point} = \frac{\text{£ } \boxed{\phantom{00000}}}{\text{£ } \boxed{\phantom{00000}} \text{ minus } \text{£ } \boxed{\phantom{00000}}}$$

(ii) Calculate the number of customers *Dreams Come True* must have to break even. [1]

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(d) Using the information given in the scenario, complete the shaded areas in the table below. [7]

Customers per month	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
0	3 000			
50	3 000		4 000	2 000
100	3 000	2 000		4 000
150	3 000		6 000	
200	3 000	4 000	7 000	8 000

(e) State the profit **or** loss the business would make in a month if it had 100 customers. [2]

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(f) (i) State **one** course of action Dave and Sandra could take if there was an unexpected rise in petrol and diesel prices once the business had started. [1]

Course of action: .....

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(ii) Assess the impact of your chosen course of action on *Dreams Come True*. [4]

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(g) Evaluate the usefulness to Dave and Sandra of constructing a break-even chart. [6]

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