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Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4702/01



APPLIED BUSINESS

UNIT 2: Business Finance and Decision Making

WEDNESDAY, 24 MAY 2017 - MORNING

1 hour 15 minutes

For Examiner's use only				
Question Maximum Mark Awarded				
1. 38				
2.	36			
3.	26			
Total	100			

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.

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INFORMATION FOR CANDIDATES

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

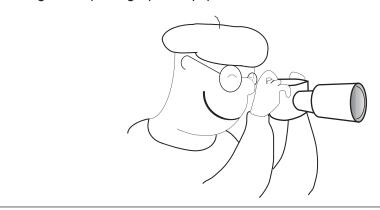
Quality of Written Communication is assessed in Question 2(f).

Answer all questions in the spaces provided.

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

Picture Me is a photography shop located in Chepstow. Justin, the owner, takes special occasion photographs and also sells photographic equipment to customers who visit the shop.

Justin is responsible for handling all documents involved in the buying and selling of the photographic equipment.



(a) Picture Me's main supplier of photographic equipment is Photography Ltd. Justin required further supplies and sent the following Purchase Order to Photography Ltd.

Picture Me John Street Chenstow Tel: (0291) 439716 Fax: (0291) 439717

Chepstow NP16 4FG

PURCHASE ORDER

To:

Photography Ltd

Order No: 4439

Chapel Hill

Date: 21.03.2017

Liverpool L10 3DA

Quantity	Description	Item Ref:	Unit Price (£)
12	Boxes A5 Photographic Paper	PP925	25.00
3	Camera Tripods	CT31	100.00

Authorised: J. Sanderson

Delivery: 25 April 2017

VAT Registration Number: 48279964

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	Tel: (0151) 444888 Fax: (0151) 444887
SALES	INVOICE NO.10397
To:	Date: 30 April 2017 Order no:

Quantity	Description	Item Ref	Unit Price (£)	Total Price (£)
12	Boxes A5 Photographic Paper	PP925		
3	Camera Tripods	CT31	100.00	300.00
		(Goods Total	
		Less 15	% Discount	
			Sub-Total	
			VAT@ 20%	
			Total to Pay	

E&OE Authorised by: R Williamson

VAT Registration Number: 78654320

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(b)	Iden	tify the following transaction documents:	
	(i)	sent at the end of the month to show Picture Me the transactions and balances	s, [1]
	(ii)	a record, compiled by <i>Picture Me</i> , of what it received from Photography Ltd,	[1]
	(iii)	shows that payment has been received and that the transaction is complete,	[1]
	(iv)	comes with the order when it arrives from Photography Ltd,	[1]
	(v)	shows which invoices <i>Picture Me</i> is paying.	[1]
(c)	Photo	tography Ltd has given <i>Picture Me</i> a trade discount. Identify two reasons why it e this.	has [2]

(d) Photography Ltd sent the following Statement of Account to Picture Me on 31 May 2017.

Photography Ltd Chapel Hill Liverpool L10 3DA Tel: (0151) 444888 Fax: (0151) 444887

Date: 31 May 2017

STATEMENT OF ACCOUNT

To:

Picture Me John Street Chepstow NP16 4FG

Date	Details	Ref No.	Sales	Payment/Credit Notes	Balance
			£	£	£
12 April	Sales Invoice	33894	213.00		213.00
18 April	Sales Invoice	33908	419.00		632.00
21 April	Cheque	113117	198.00		830.00
26 April	Sales Invoice	33921	105.00		935.00
30 April	Credit Note	CR4231		210.00	725.00

Justin realises that there is an error on the Statement.

(i)	Identify the error.	[1]

(ii) State the Corrected Balance as at 30 April 2017. [1]

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	(iii)	Identify the document that would be completed to rectify this error.	[1]	Examiner only
	(iv)	Explain one consequence of this error.	[2]	
(e)	in or selli	owners of Photography Ltd are considering the installation of a computerised sy der to help the business complete and manage documents used in the buying ng of products. se the owners, by assessing the advantages and disadvantages of a compute	and	
•••••		em, whether or not such a system will help the business avoid further errors .	[7]	
•••••				

(f)

Pict	ure Me always pays Photography Ltd by cheque.	
(i)	Assess the usefulness of this method of payment to Picture Me.	[4]
•••••		
(ii)	Recommend another method <i>Picture Me</i> could use to pay Photography Ltd.	[1]
(iii)	Explain why you would recommend this method of payment.	[4]
•••••		
•••••		

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

John and Gareth have owned a travel agency for a number of years. As the shop next door has become available for rent, they have decided that they would like to expand the business by offering suitcases, bags and travel accessories for sale. John and Gareth call their business *En Route*. Before deciding whether or not to go ahead with the proposed expansion John and Gareth need to complete and interpret their financial statements.



(a)	John and Gareth have decided to purchase a computer spreadsheet programme to help them complete their financial statements. Evaluate how useful such a programme could be to them when completing their Profit and Loss Accounts and Balance Sheets . [6]

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(b) En Route's Balance Sheets for years ending 31 March 2016 and 31 March 2017 are detailed below but they have not been completed. To help John and Gareth, fill in the shaded areas.

En Route Balance Sheets as at 31 March 2016 and 31 March 2017 2016 2017 Item **Fixed Assets** Fixtures and Fittings 25 000 27 000 **Current Assets** 2 000 Stock 2 500 **Debtors** 4 000 4 500 Bank 100 1 500 6 600 8 000 **Current Liabilities** 1 800 2 500 Creditors Bank Overdraft 1 000 200 2 000 3 500 4 600 4 500 **Net Current Assets Total Net Assets** Financed by: **Opening Capital** 12 000 **Net Profit** 28 500 29 450 40 500 59 050 10 900 27 550 Drawings

Closing Capital

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(c)	John and Gareth will also need to understand the terms Gross Profit and Net Profit.
	Explain the meaning of the terms and how they can be calculated.

(i)	Gross Profit	[2]
(ii)	Net Profit	[2]
•••••		•••••
• • • • • • • • • • • • • • • • • • • •		

(d) As well as completing the financial statements it is important that John and Gareth are able to compare the performance of their business year on year. To do this they must undertake ratio analysis.

Using the information in the Balance Sheets and at the start of Question 2 complete the following ratios for John and Gareth by filling in the shaded boxes. Calculate the missing ratios to **two decimal places**. You are advised to show your workings.

(i) [2]

Ratio	2016	2017
Return on Capital Employed (ROCE) = Net Profit × 100 Capital Employed	237.50%	

(ii)

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Ratio	2016	2017
Current Ratio = Current Assets Current Liabilities		2.29:1
Acid Test Ratio = Current Assets – Stock Current Liabilities	2.05:1	

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(e) It is important that John and Gareth know the Debtor Collection Periods and the Creditor Payment Periods.

Using the information from *En Route's* Balance Sheets, the information regarding sales and costs in the table below and the given formulae, calculate the ratios to **two decimal places** by completing the shaded boxes. You are advised to show your workings. [4]

	2016	2017
Sales	35 500	39 000
Credit Sales	13 000	17 000
Cost of Sales	15 000	16 500

Ratio	2016	2017
Debtor Collection Period = Debtors Credit Sales × 365	112.31 days	
Creditor Payment Period = Creditors Cost of Sales × 365	43.80 days	

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(f)	By considering all five ratios you have calculated (Return on Capital Employed, Current Ratio, Acid Test Ratio, Debtor Collection Period and Creditor Payment Period), as well as the information in the Balance Sheets, advise John and Gareth whether or not they should go ahead with their proposed expansion. [11]
•••••	
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3. Study the information below and then answer the questions that follow.

After working in a beauty parlour, Bob decided to obtain further qualifications so that he could open his own business offering henna body art. He will specialise in henna art for Indian weddings and his services will be available for all clients over sixteen years of age. He has decided to call his body art parlour *Body Beautiful*.

Initially, he will work from rented premises and will employ someone for a few months, to answer the telephone and keep the parlour clean, whilst he gains experience.

After undertaking research Bob expects his Fixed Costs to be £1 400 per month and his Variable Costs to amount to £6.00 per henna artwork. He expects to charge an average of £20.00 for each piece of body art.



Bob intends using Break Even Analysis to help plan his new business. Explain to Bob the meaning of the following terms.

(i) Variable Costs: [2]

Example of a Variable Cost Body Beautiful would have: [1]

(ii) Fixed Costs: [2]

Example of a Fixed Cost Body Beautiful would have: [1]

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(b)	(b) Explain to Bob what the break-even point will show him.		

(c) To help Bob calculate his costs and revenue use the information given at the start of Question 3 to complete the shaded areas in the table below. [4]

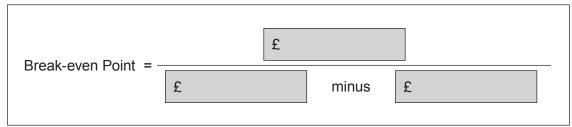
Artworks per month	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
0				
100	1 400	600	2 000	2 000
200	1 400	1 200	2 600	4 000
300	1 400	1 800	3 200	6 000
400	1 400	2 400	3 800	8 000

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(d)	(i)	Using the formula below and the information given at the start of Question	n 3,
		calculate Body Beautiful's break-even point by inserting the correct amounts in	n the
		shaded areas.	[2]

Break-even Point = -	Fixed costs		
	Selling price per unit	minus	variable cost per unit
			•



- (ii) State the number of henna artworks Bob must do every month to break even. [1]
- (e) Using the information in the table in Question 3(c) state,
 - (i) the profit or loss if 200 henna artworks were sold in a month; [2]
 - (ii) the Margin of Safety if 400 henna artworks were sold in a month. [1]

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f)	Bob has to consider how any changes in costs might affect his business.				
	(i)	Identify two effects that an unforeseen rise in the cost of henna ink would have or Body Beautiful's break-even chart . [2]			
		Effect 1			
		Effect 2			
	(ii)	Suggest one course of action that Bob could take to lessen the impact of each of the effects you have noted above. [2] Course of action effect 1			
		Course of action effect 2			
	(iii)	Explain the impact of each of your suggested courses of action on <i>Body Beautiful</i> [4] Impact of course of action 1			
		Impact of course of action 2			

END OF PAPER

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