



Rewarding Learning
ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2019

Centre Number

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Candidate Number

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Professional Business Services

Assessment Unit AS 3
assessing
 Financial Decision Making



SPB31

[SPB31]

TUESDAY 28 MAY, AFTERNOON

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

Write your answers in the spaces provided in this question paper.

Answer **all three** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in Questions **1(c)**, **2(d)** and **3(c)**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question in allocating the available examination time.

If you do not have sufficient space to complete your answers, you may use the additional pages at the back of the paper.

For Examiner's use only	
Question Number	Marks
1	
2	
3	

Total Marks	
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Answer **all three** questions

Examiner Only	
Marks	Remark

1 Joyce and John run a dairy farm as a partnership in Co Tyrone and wish to diversify their farm by producing elderflower cordial. John is concerned about how they will finance this new business venture, but Joyce feels that with their own capital and some additional finance they will be able to fund it successfully.

You are a financial consultant and have been approached by Joyce and John for your professional business services advice.

(a) Explain the term financial decision making.

[2]

(b) Joyce and John will continue to operate their dairy farm in addition to producing the elderflower cordial. Explain **three** reasons why effective financial decision making is important for Joyce and John's business.

[6]

2 (a) Identify **five** areas in which a financial consultant can calculate ratios for a business.

1. _____ [1]
2. _____ [1]
3. _____ [1]
4. _____ [1]
5. _____ [1]

(b) **Table 1** and **Table 2** show the projected financial statements produced by Devine, McSorley and Weir Accountants Ltd for Joyce and John's farm.

Table 1: Projected Income Statement for Joyce and John's Farm for the year ending 30th June 2019

	£	£	£
Sales Revenue			<u>40,000</u>
			40,000
Opening Inventory		0	
Add Purchases		<u>18,000</u>	
		18,000	
Less Closing Inventory		<u>3,000</u>	
Cost of Goods Sold			<u>15,000</u>
Gross Profit			25,000
Less Expenses			
Wages		8,750	
Rates		3,500	
Electricity		2,500	
Telephone		500	
Insurance		2,250	
Advertising		<u>2,500</u>	<u>20,000</u>
Net Profit			<u>5,000</u>

Examiner Only	
Marks	Remark

Table 2: Projected Statement of Financial Position for Joyce and John's Farm for the year ending 30th June 2019

	£	£	£
	COST	DEPRECIATION TO DATE	WRITTEN DOWN VALUE
Non-Current Assets			
Buildings	10,000	0	10,000
Fixtures and Fittings	12,000	3,500	8,500
Equipment	<u>6,000</u>	<u>2,000</u>	<u>4,000</u>
Total Non-Current Assets	<u>28,000</u>	<u>5,500</u>	22,500
Current Assets			
Inventory			3,000
Trade Receivables			8,000
Bank			2,500
Cash			<u>500</u>
Total Current Assets			<u>14,000</u>
Total Assets			<u>36,500</u>
Equity			
Opening Capital			25,000
Add Net Profit			5,000
Less Drawings			<u>8,500</u>
Closing Capital			21,500
Non-Current Liabilities			
Bank Loan			<u>8,000</u>
Total Non-Current Liabilities			8,000
Current Liabilities			
Trade Payables			4,600
Bank Overdraft			<u>2,400</u>
Total Current Liabilities			<u>7,000</u>
Total Equity and Liabilities			<u>36,500</u>

Examiner Only

Marks

Remark

Using financial data from **Table 1** and **Table 2**, calculate the following business ratios in the space provided:

Examiner Only

Marks Remark

(i) Net Profit Margin %

$$\frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100 =$$

[2]

(ii) Return on Capital Employed %

$$\frac{\text{Net Profit}}{\text{Total Assets} - \text{Current Liabilities}} \times 100 =$$

[2]

(iii) Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

[2]

(c) For each of the ratios calculated in part (b), analyse the findings for Joyce and John in relation to their farm.

(i) Net Profit Margin

_____ [2]

(ii) Return on Capital Employed

_____ [2]

(iii) Current Ratio

_____ [2]

Examiner Only	
Marks	Remark

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(Questions continue overleaf)

3 Joyce and John need to purchase new equipment for the production of the elderflower cordial. They are aware of investment appraisal methods including payback and net present value but are unsure of their purpose.

(a) As Joyce and John's financial consultant, explain the payback and net present value methods of investment appraisal.

Payback method:

[3]

Net present value method:

[3]

Examiner Only	
Marks	Remark

- (b) (i)** Joyce and John have the option of two pieces of equipment for their new business venture. Carry out the payback method of investment appraisal using the following financial data. Show all your workings.

	Equipment 1		Equipment 2	
	Initial investment £25,000		Initial investment £30,000	
	Estimated net cash inflow:		Estimated net cash inflow:	
	Year 1	£ 8,500	Year 1	£10,000
	Year 2	£11,500	Year 2	£10,000
	Year 3	£15,000	Year 3	£20,000
Initial investment				
Year 1				
Year 2				
Year 3				
Answer				

[8]

- (ii)** Based on your investment appraisal outcomes, recommend which piece of equipment Joyce and John should purchase.

_____ [1]

Examiner Only

Marks Remark

THIS IS THE END OF THE QUESTION PAPER

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