

Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4702/01



S17-4702-01

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	Mark Awarded
1.	38	
2.	36	
3.	26	
Total	100	

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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(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
Chepstow
NP16 4FG

Tel: (0291) 439716
Fax: (0291) 439717

PURCHASE ORDER

To:

Photography Ltd
Chapel Hill
Liverpool
L10 3DA

Order No: 4439

Date: 21.03.2017

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

After the order was delivered the following invoice was sent by Photography Ltd to *Picture Me*.
Using the given Purchase Order complete the shaded areas in the invoice below. [10]

	Tel: (0151) 444888 Fax: (0151) 444887
SALES INVOICE NO.10397	
To: <div style="background-color: #cccccc; width: 100%; height: 100px; margin-top: 10px;"></div>	Date: 30 April 2017 Order no: <div style="background-color: #cccccc; width: 100px; height: 20px; display: inline-block; vertical-align: middle;"></div>

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

VAT Registration Number: 78654320

Authorised by: *R Williamson*

(b) Identify the following transaction documents:

(i) sent at the end of the month to show *Picture Me* the transactions and balances, [1]

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(ii) a record, compiled by *Picture Me*, of what it received from Photography Ltd, [1]

.....
(iii) shows that payment has been received and that the transaction is complete, [1]

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(iv) comes with the order when it arrives from Photography Ltd, [1]

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(v) shows which invoices *Picture Me* is paying. [1]

(c) Photography Ltd has given *Picture Me* a trade discount. Identify **two** reasons why it has done this. [2]

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- (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:					
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Picture Me John Street Chepstow NP16 4FG </div>					
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]

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- (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]

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(iv) Explain **one** consequence of this error.

[2]

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(e) The owners of Photography Ltd are considering the installation of a computerised system in order to help the business complete and manage **documents used in the buying and selling of products**.

Advise the owners, by assessing the advantages and disadvantages of a computerised system, whether or not such a system will help the business **avoid further errors**. [7]

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(f) *Picture Me* always pays Photography Ltd by cheque.

(i) Assess the usefulness of this method of payment to *Picture Me*. [4]

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(ii) Recommend another method *Picture Me* could use to pay Photography Ltd. [1]

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(iii) Explain why you would recommend this method of payment. [4]

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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]

- (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. [5]

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

- (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]

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(ii) Net Profit

[2]

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- (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) = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$	237.50%	

(ii)

[4]

Examiner
only

Ratio	2016	2017
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$		2.29:1
Acid Test Ratio = $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$	2.05:1	

- (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 = $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365$	112.31 days	
Creditor Payment Period = $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$	43.80 days	

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.



- (a) 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]

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Example of a Variable Cost *Body Beautiful* would have:

[1]

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(ii) Fixed Costs:

[2]

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Example of a Fixed Cost *Body Beautiful* would have:

[1]

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

[2]

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(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

- (d) (i) Using the formula below and the information given at the start of Question 3, calculate *Body Beautiful's* break-even point by inserting 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) State the number of henna artworks Bob must do every month to break even. [1]

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- (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]

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- (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 on *Body Beautiful's* **break-even chart**. [2]

Effect 1

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Effect 2

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- (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

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Course of action effect 2

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- (iii) Explain the impact of **each** of your suggested courses of action on *Body Beautiful*. [4]

Impact of course of action 1

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Impact of course of action 2

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END OF PAPER

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