

Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4704/01



APPLIED BUSINESS

UNIT 4: Business Finance and Decision Making II

WEDNESDAY, 7 JUNE 2017 – AFTERNOON

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	37	
2.	34	
3.	29	
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(e)**.

Answer all the questions in the spaces provided.

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

After gaining qualifications as a potter and making pots and crockery for friends and family on a part-time basis, Julian decided that the time was right to set up in business full-time. To do this he will need to extend his current premises to provide room for a store room and a small shop. He will call his pottery *Pots and Crocks*. Julian intends contributing an extra **£4 000** to help fund the expansion and these funds will be available in the bank on 1 July 2017. Julian has had a quotation for the cost of the store room and shop of £5 000 which he will have to pay in September 2017.



- (a) Julian has been advised that before deciding to go ahead with his business idea he should draw up a cash flow forecast for *Pots and Crocks*. Evaluate the **usefulness** of a **cash flow forecast** to Julian. [6]

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(b) Before completing his cash flow forecast, Julian will have to identify *Pots and Crocks'* Inflows and Outflows. Typical inflows and outflows will be:

- | | | |
|-------------------|----------------|----------------------------|
| Money from Julian | Insurance | Revenue from sales of pots |
| Clay for the pots | Business rates | Advertising |

Classify each of the above items as **either** an inflow **or** outflow by placing them in the correct column below. [6]

Inflows	Outflows

(c) Julian will need to know the formula to enable him to calculate the cash flow forecast. Fill in the shaded areas in the formula below. [3]

	Plus	Total Receipts	Minus		Equals	
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(d) Julian has prepared figures for a cash flow forecast for the first four months of his planned new venture. He hopes to start selling the pottery and crockery on 1 July 2017. He will need to take into account:

- the increased business rates for the extended shop which will be £500 for the **first** month but will then rise to £600
- the wages paid to an additional employee to help run the shop will be £1000 per month
- insurance costs, which will be £150 in July but will then increase to £200 per month

Using the above data, information given at the start of the question and your own knowledge of cash flow forecasts, identify the **input errors** in the cash flow forecast for *Pots and Crocks* that follows. [3]

Cash Flow Forecast *Pots and Crocks* for four months of trading

	A	B	C	D	E
1		July	August	September	October
2		£	£	£	£
3	Opening Balance at Bank	3 000	4 948	7 348	4 498
4					
5	<u>RECEIPTS</u>				
6	Sales	5 498	6 200	10 150	11 200
7					
8	TOTAL RECEIPTS	5 498	6 200	10 150	11 200
9					
10	<u>PAYMENTS</u>				
11	Store room and shop set-up costs			8 000	
12	Purchases	1 800	2 000	3 200	3 600
13	Rates	600	600	600	600
14	Wages	1 000	1 000	1 000	1 000
15	Insurance	150	200	200	200
16					
17	TOTAL PAYMENTS	3 550	3 800	13 000	5 400
18					
19	Closing Balance at Bank	4 948	7 348	4 498	10 298

(i) Error 1:

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Error 2:

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Error 3:

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(ii) Assess the effect each of these errors would have on Julian's decision whether or not to expand the business. [6]

Error 1:

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Error 2:

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Error 3:

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(e) Using the information from *Pots and Crocks*' corrected Cash Flow Forecast:

(i) Explain whether or not Julian should go ahead with his proposed expansion. [4]

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(ii) State **one** course of action Julian could take to resolve any cash flow problems *Pots and Crocks* could encounter whilst trading. [1]

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(iii) Explain how this course of action would help *Pots and Crocks*. [2]

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(f) Julian has been told that he should look at his costs before going ahead with his proposed expansion. However, he is unsure what the difference is between start-up costs and running costs.

Define each of these terms and give an example of each from *Pots and Cocks*.

(i) Start-up Costs: [2]

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Example: [1]

(ii) Running Costs: [2]

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Example: [1]

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

All You Need is the local store in a small village in Mid-Wales. It sells a variety of products, most of them locally produced. One of its main suppliers is Powys Producers Ltd which supplies the shop with locally produced cheese and vegetables.

All You Need keeps a record of the stock held for products on individual stock cards. At present, the value of stock held is calculated using the First In First Out (FIFO) method of valuation.



(a) Records of stock holdings indicate that *All You Need* had a stock balance of 2 boxes of vegetables on 31 March 2017. The following orders for boxes of vegetables were placed with Powys Producers Ltd and received immediately.

- 4 April 2017 Purchase Order No. 3942 6 boxes of vegetables @ £45.00 each
- 18 April 2017 Purchase Order No. 4391 3 boxes of vegetables @ £50.00 each
- 26 April 2017 Purchase Order No. 4921 4 boxes of vegetables @ £50.00 each

The following order from *All You Need's* customers was received and despatched on the same day.

15 April 2017 Requisition No. 9980 5 boxes of vegetables

Using the information above, complete the Stock Record Card by filling in the shaded areas. [9]

STOCK RECORD CARD					
Stock Description:		Boxes of Vegetables			
Stock Ref No.: VGB					
Location: Area D					
Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
1 April					2

(b) Individual stock record cards are updated every day. The following details are currently held about boxes of vegetables:

Average daily usage	1
Normal delivery time	3 days
Minimum stock	2
Maximum stock	10

(i) Using the formula below, and the stock card information above, insert the correct amounts into the shaded areas. [3]

Re-order level = $\frac{\text{average daily usage of stock}}{\text{number of days for delivery from supplier}} + \text{minimum stock}$
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Re-order level = × +

(ii) Calculate the re-order level for boxes of vegetables. [1]

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(iii) Define the term **re-order level**. [1]

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(iv) Explain why it is important that the owners of *All You Need* are aware of the **re-order level**. [2]

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- (c) Using the information given for question 2(a), value the closing stock of boxes of vegetables on 30 April 2017 using the FIFO (First In First Out) method. Complete your valuations by filling in the shaded areas in the table below. (You are advised to show all your working.) [8]

Date	Receipts	Issues	Balance	Valuation
1 April 2017			2 @ £45.00	£90
4 April 2017	6			
15 April 2017		5		
18 April 2017	3			
26 April 2017	4			

- (d) Explain the advantages to *All You Need* of using the FIFO (First in First Out) method of stock valuation. [4]

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(e) *All You Need* is thinking of introducing the Just In Time method of ordering stock. Evaluate the usefulness of this method of ordering stock. [6]

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

Cool Treats Ltd makes a variety of flavoured ice creams. It is located in Newcastle Emlyn, a small market town, and is one of the area's largest employers. It sells its ice creams to large restaurant chains and supermarkets.



(a) Explain which method of quality assurance would best suit *Cool Treats Ltd* and its employees. [4]

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(b) (i) What type of production method would best suit *Cool Treats Ltd*? [1]

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(ii) Evaluate this method of production for *Cool Treats Ltd*. [6]

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(c) (i) Name **three** types of stakeholders that would be interested in the way *Cool Treats Ltd* is run. [3]

Stakeholder 1:

Stakeholder 2:

Stakeholder 3:

(ii) The management of *Cool Treats Ltd* have decided to buy a computerised system to manufacture their ice cream. Evaluate the impact of this decision on the **three** stakeholders you have identified in question (c)(i). [6]

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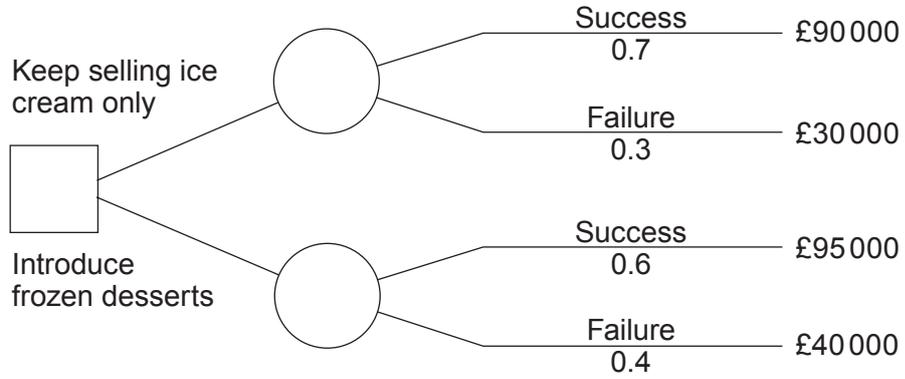
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- (d) *Cool Treats Ltd* is thinking of adding frozen desserts to its range of products. The management has been advised that a Decision Tree Diagram will help it assess the possible outcome of such a decision. The diagram shows the predicted profit or loss of each outcome and the probability of that outcome occurring.



- (i) Calculate the financial outcome (expected value) of each decision. (You are advised to show your working.)

I. The expected value of manufacturing ice cream only: [3]

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II. The expected value of introducing the range of frozen desserts: [3]

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(ii) Would you advise *Cool Treats Ltd* to go ahead with its plans to introduce the range of frozen desserts? [1]

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(iii) Explain why you would give this advice. [2]

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END OF PAPER

