

Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4702/01

APPLIED BUSINESS

UNIT 2: Business Finance and Decision Making

P.M. THURSDAY, 9 January 2014

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	35	
2.	34	
3.	31	
Total	100	

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ADDITIONAL MATERIALS

In addition to this 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 pages 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(g).

Answer all the questions in the spaces provided.

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

Connection is a shop which sells mobile phones of all makes and specifications. It is located on the High Street in Pontypool, Torfaen, NP20 7CD and sells to local businesses as well as customers who visit the shop. *Connection's* main supplier is The Communication Warehouse, Sandbanks Industrial Estate, Ebbw Vale, NP23 4YQ.



(a) *Connection* wishes to place an order with The Communication Warehouse for the following items:

30 CP4 phones @ £40.00 per phone. Item Ref. No. CP4921

20 EP7 phones @ £50.00 per phone. Item Ref. No. EP7982

The order was placed on 4 January 2014 with the delivery date set for six days later.

Using the information given above and in the scenario, complete the Purchase Order Form opposite by filling in all the shaded areas. [5]

(b) Explain why the Purchase Order has to be signed. [2]

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(c) When the order is completed:

(i) What document is completed by *Connection* for its own records? [1]

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(ii) Why does *Connection* keep this record? [1]

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Tel: (0495) 297415
Fax: (0495) 297416



PURCHASE ORDER

To:



Order No: 4397

Date:

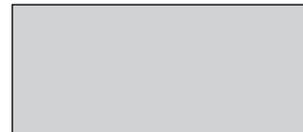


Quantity	Description	Item Ref:	Unit Price (£)

Authorised:

J. Williams

Delivery:



VAT Registration Number: 98947210

- (d) On 15 January 2014, *Connection* receives the following invoice from The Communication Warehouse, relating to the order in Question 1(a).

The Communication Warehouse Sandbanks Industrial Estate Ebbw Vale NP23 4YQ		Tel: (0452) 743897 Fax: (0452) 743898		
INVOICE 391				
To:				
<i>Connection</i> Cook Street Newport NP43 4ZF		Order No: 4397 Date: 15.01.2014		
Quantity	Description	Item Ref:	Unit Price (£)	Total Price (£)
30	CP4 Phones	CP4921	50.00	1500.00
20	EP7 Phones	EP7982	50.00	1000.00
			Goods Total	2500.00
			<i>Less</i> 10% Discount	250.00
			Sub-Total	2250.00
			VAT @ 20%	150.00
			Total to Pay	2400.00
E&OE		Authorised by: AEW		
VAT Registration Number: 78654320				

- (i) *Connection* realises that there are errors on the Invoice. Identify and correct **three** errors. [6]

Error 1

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Correction

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Error 2

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Correction

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Error 3

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Correction

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(ii) Explain the consequence of **each** of these errors.

[6]

Consequence of Error 1

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Consequence of Error 2

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Consequence of Error 3

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(e) The abbreviation E&OE (Errors and Omissions Excepted) is to be found at the bottom of Invoices. Explain the purpose of this term. [2]

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(f) After a payment has been made, a receipt is usually sent.

(i) Identify which business sends the receipt, *Connection* or The Communication Warehouse. [1]

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(ii) Explain the purpose of this receipt. [1]

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(g) *Connection* usually pays The Communication Warehouse by cheque. However, it pays some of its other suppliers by Direct Debit or Credit Card. Explain **one** benefit of using **each** of the following methods of payment. [4]

(i) Direct Debit
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(ii) Credit Card
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(h) The Communication Warehouse is considering installing a computerised accounting system to assist in its completion and management of documents used in the buying and selling of goods and services. Evaluate the usefulness of such a system in helping The Communication Warehouse **avoid errors**. [6]

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

Brother and sister, James and Alice Horne, started up in business two years ago selling take-away wraps and baguettes. Their business is called *The Wrap* and it sells its products to cash paying customers who visit the shop and to local businesses on credit.

James and Alice are currently thinking of expanding the business by providing a seating area for customers to eat their purchases inside the shop. They **each** put in starting **capital of £15 000** when they first set up the business.

Before deciding whether to go ahead with the expansion James and Alice need to complete and interpret their financial statements.



- (a) The Profit and Loss Accounts for the years ending 31 December 2012 and 31 December 2013 are detailed below.

<i>The Wrap</i>				
Profit and Loss Account for the Years Ending 31 December 2012 and 31 December 2013				
Item	2012 £		2013 £	
Cash Sales		55 000		38 000
Credit Sales		33 000		47 000
<i>Less: Costs of Sales</i>		32 000		35 000
Gross Profit		56 000		50 000
<i>Less Expenses</i>				
Wages	20 000		20 000	
Insurance	2 000		2 200	
Rent and Rates	3 500		3 700	
Advertising	1 000		1 000	
Electricity	1 500		1 600	
Total Expenses		28 000		28 500
Net Profit		28 000		21 500

James and Alice will need to use Accounting Ratios to interpret their Profit and Loss Account. Using the information from the Profit and Loss Accounts on the previous page and the given formulae, calculate the missing Gross Profit Percentage and Net Profit Percentage Ratios and enter them into the shaded boxes in the table below. (You are advised to show your workings and give your answer to 2 decimal places.) [4]

Ratio	2012	2013
Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	63.64%	
Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$		25.29%

(b) Using the ratios you have calculated in Question 2(a), explain the possible reasons why the profitability of *The Wrap* has changed from 2012 to 2013.

(i) Gross Profit Percentage [2]

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(ii) Net Profit Percentage [2]

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(c) James and Alice will also need to look at their Balance Sheet. They will need to be able to distinguish between the assets and liabilities of the business. Examples of assets and liabilities are:

Creditors Debtors Fixtures and Fittings

Classify **each** of the items above as a Fixed Asset, Current Asset or a Liability by putting them into the correct column in the table. [3]

Fixed Asset	Current Asset	Liability

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Question 2 continues on page 14

- (d) Using your own knowledge and the information at the start of Question 2, complete the shaded areas of *The Wrap's* Balance Sheets below as at 31 December 2012 and 31 December 2013. [8]

Examiner
only

<i>The Wrap</i> Balance Sheet as at 31 December 2012 and 31 December 2013				
Item	2012 £		2013 £	
Fixed Assets				
Fixtures and Fittings		25 000		24 500
Current Assets				
Stock	5 000		5 500	
Debtors	4 000		3 000	
Bank	1 000		500	
	10 000			
Current Liabilities				
Creditors	1 000		1 200	
Bank Overdraft	0		0	
			1 200	
Net Current Assets				7 800
Total Net Assets		34 000		
Financed by:				
Opening Capital				
Net Profit		28 000		21 500
		58 000		55 500
Drawings		24 000		23 200
Closing Capital				

- (e) Using the information in the Balance Sheet and the formula given below, calculate the following ratio for **2012** to two decimal places. (You are advised to show your workings.) [2]

Ratio	2012	2013
Return on Capital Employed (ROCE) = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$		63.24%

- (f) James and Alice should also calculate their Debtor Collection Periods and Creditor Payment Periods in order to get a more complete picture of their business.

Using the relevant information from *The Wrap's* Balance Sheets for 2012 and 2013, the information given for the Profit and Loss Account and the formulae given, calculate the ratios to two decimal places by completing the shaded boxes in the table. (You are advised to show your workings.) [4]

Ratios	2012	2013
Debtor Collection Period = $\frac{\text{Debtors}}{\text{Credit Sales}} \times 365$		23.30 days
Creditor Payment Period = $\frac{\text{Creditors}}{\text{Cost of Sales}} \times 365$	11.41 days	

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

Janet is considering setting up a business she will call *Blooming Marvellous*. She has always been interested in flowers and has recently completed a flower arranging course. She intends selling cut flowers arranged into bouquets and will deliver them to customers.



She estimates her costs as follows:

Fixed Costs = £1 000 per month

Variable Costs each bouquet = £6.00

Average price each bouquet = £10.00

Janet will pay herself a salary for running and managing the business and will employ one other part-time worker who will be paid wages dependent on the number of bouquets they sell.

Blooming Marvellous will operate from rented premises for the time being.

(a) Below are listed some of *Blooming Marvellous's* expected costs. Classify the costs into Fixed Costs and Variable Costs by placing them in the correct column. [6]

- Salary paid to Janet Rent Flowers Insurance
- Fuel for deliveries Wages paid to the part-time worker

Fixed Costs	Variable Costs

(b) Janet has been advised to prepare a budget for her proposed business.

(i) Define the term 'budget' for Janet. [2]

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(ii) Explain to Janet **two** advantages to *Blooming Marvellous* of preparing a budget. [4]

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(c) (i) Using the formula below and the information given at the start of Question 3, insert 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) Calculate the number of bouquets *Blooming Marvellous* must sell to break even. [1]

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- (d) Using the information given at the start of Question 3, complete the shaded areas in the table below. [4]

Bouquets per month	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
0	1000		1000	
50	1000	300	1300	500
100	1000	600	1600	1000
150	1000	900	1900	1500
200	1000		2200	2000
250	1000	1500	2500	2500
300	1000	1800		3000

- (e) (i) Identify **two** effects that a rise in the cost of flowers would have on *Blooming Marvellous's* break-even chart. [2]

I.

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II.

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- (ii) State **one** course of action for **each** of the **two** effects identified that Janet could take to lessen the impact of a rise in the cost of flowers. [2]

I.

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II.

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- (iii) Explain the impact of **each** course of action on *Blooming Marvellous*. [2]

I.

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II.

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(f) Janet intends using a **spreadsheet application** to produce her **break-even chart**.
Evaluate the usefulness of a spreadsheet application for this purpose.

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