

Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4704/01



S18-4704-01-R1

APPLIED BUSINESS

UNIT 4: Business Finance and Decision Making II

THURSDAY, 7 JUNE 2018 – AFTERNOON

1 hour 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	39	
2.	27	
3.	34	
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.

Faith and Robin met through their passion for health and fitness and decided to set up a business selling all kinds of sports equipment. They called their business *Fit and Healthy*. Faith and Robin think that they should now also offer food and supplements that promote health and fitness and intend to extend their shop in order to do so. Both Faith and Robin will contribute £1 500 each, to help fund the expansion. These funds will be available in the bank on 1 July 2018. The refurbishment is likely to cost £36 500 for the new fixtures and fittings but this will not need to be paid for until September 2018.



- (a) Before undertaking the expansion, Faith and Robin should draw up a cash flow forecast to ensure that *Fit and Healthy* has sufficient funds to continue trading. They intend to use a computer spreadsheet package to draw up the cash flow forecast. Evaluate the usefulness of such a computer package in the preparation of their cash flow forecast. [6]

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- (b) Faith and Robin will have to identify *Fit and Healthy's* Inflows and Outflows before completing a cash flow forecast.

Define the terms Inflow and Outflow and give **one** example of each for *Fit and Healthy*.

[4]

- (i) Definition of Inflow:

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Example:

- (ii) Definition of Outflow:

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Example:

- (c) Faith and Robin are undecided about whether or not they should proceed with the cash flow forecast. Explain to them **three** advantages of completing a cash flow forecast. [6]

Advantage 1.

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Advantage 2.

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Advantage 3.

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- (d) Faith and Robin have prepared the following figures for the first four months of the planned new venture. They hope to start selling the foods and supplements from the extended premises on 1 July 2018 and will need to consider the following:

- the increased rent for the extended shop which will be £1 800 for the **first** month and will then rise to £2 000;
- the wages paid to an additional employee to help run the shop will be £1 200 per month;
- insurance costs will be £550 in July and will then increase to £600.

Using the above data, information given at the start of Question 1 and your own knowledge of cash flow forecasts, complete the cash flow forecast below by filling in the shaded areas. [10]

	A	B	C	D	E
1		July	August	Sept	October
2		£	£	£	£
3	Opening Balance at Bank	3 000			
4					
5	RECEIPTS				
6	Sales	15 000	18 500	20 000	22 100
7					
8	TOTAL RECEIPTS	18 000	28 950	40 650	16 950
9					
10	PAYMENTS				
11	Purchases	4 000	4 500	5 500	7 000
12	Fixtures and Fittings	0			0
13	Rent	1 800		2 000	2 000
14	Wages		1 200	1 200	1 200
15	Insurance		600	600	600
16					
17	TOTAL PAYMENTS	7 550	8 300	45 800	10 800
18					
19	Closing Balance at Bank	10 450	20 650		

- (e) (i) Using the information from *Fit and Healthy's* cash flow forecast, advise Faith and Robin whether or not to go ahead with their proposed expansion and justify your answer. [4]

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- (ii) State **one** course of action Faith and Robin could take to resolve any cash flow problems *Fit and Healthy* encounters. [1]

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- (iii) Explain how your proposed course of action would help Faith and Robin overcome any cash flow problems. [2]

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- (f) Faith and Robin should also be aware of any extra costs *Fit and Healthy* might have because of the expansion.

To help them, classify **each** of the following items into **either** a start-up cost **or** running cost by placing them in the correct columns below. [6]

Shelves and fridges for the new shop

Stocks of foods and supplements

Advertising for the opening

Wages for the new worker

Insurance for the shop and contents

Rent for the new premises

Start-up Cost	Running Cost

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

Shed Catering Ltd is a catering business, located on an out-of-town industrial estate, that makes ready-made meals which it sells to local hotels, pubs and restaurants.

Shed Catering Ltd keeps a record, on individual stock cards, of the stock held of each kind of ready-made meal in stock.



- (a) *Shed Catering Ltd's* records of stock holdings indicate that there was a stock balance of 40 boxes of chicken madras curry meals on 1 April 2018. These boxes were purchased for £2.00 each.

The following orders for boxes for chicken madras curry meals were received from customers and were sent immediately.

4 April 2018 Requisition Order No.2971, 20 boxes for chicken madras curry meals

15 April 2018 Requisition Order No.2911, 30 boxes for chicken madras curry meals

25 April 2018 Requisition Order No. 3112, 10 boxes for chicken madras curry meals

Shed Catering Ltd placed an order for 40 boxes for chicken madras curry meals with its supplier, Wholesale Boxes, on 4 April 2018 which was delivered on 8 April 2018. The Purchase Order Number was 7492. These boxes were purchased for £2.50 each.

Using the information above, complete the Stock Record Card opposite by filling in the shaded areas.

[9]

STOCK RECORD CARD**Stock Description: Boxes for Chicken Madras Curry Meals****Stock Ref No. BCMCM****Location: Area 4 Shelf 1**

Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
1 April					40

- (b) Explain why an authorised official of *Shed Catering Ltd* must sign a Stores Requisition. [2]

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- (c) Explain why it is important that the Stores Manager at *Shed Catering Ltd* is aware of the re-order level. [2]

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- (d) Using the information given for Question 2(a), value the closing stock of boxes for chicken madras curry meals on 30 April 2018 using the FIFO (First In First Out) method. Complete your valuations by completing the shaded areas in the table below. (You are advised to show all your workings.) [8]

Date	Receipts	Issues	Balance	Valuation
1 April 2018			40 @ £2.00	£80
4 April 2018		20		
8 April 2018	40			
15 April 2018		30		
25 April 2018		10		

- (e) *Shed Catering Ltd* operates the Just In Time method of ordering stock. Evaluate the usefulness of this method of ordering stock. [6]

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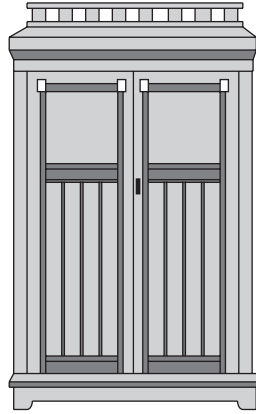
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3. Study the information below and then answer the questions that follow.

Dovetail is a joinery business that makes furniture and cabinets to order. It has eight employees and prides itself on the quality of its work.



- (a) It is important that *Dovetail* ensures that the quality of the furniture and cabinets it makes is consistent.

- (i) Quality is important to *Dovetail*. Describe how *Dovetail* can ensure that its products are of the best quality possible. [2]

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- (ii) Explain why you think this type of action is appropriate for *Dovetail* and its employees. [3]

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- (b) (i) What type of production method would best suit *Dovetail*?

[1]

Examiner
only

- (ii) Evaluate this method of production for *Dovetail*.

[6]

- (c) (i) Name **two** types of stakeholder that would be interested in the way *Dovetail* is run. [2]

Stakeholder 1:

Stakeholder 2:

- (ii) *Dovetail* is considering the purchase of a new building to expand the business to make furniture that is not to order. Evaluate the impact of this proposal on the two stakeholders you have identified. [4]

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- (d) (i) Which source of finance would you recommend *Dovetail* to use to fund the purchase of the new building? [1]

Source of finance:

- (ii) Evaluate the use of this source of finance for the purchase of the building. [6]

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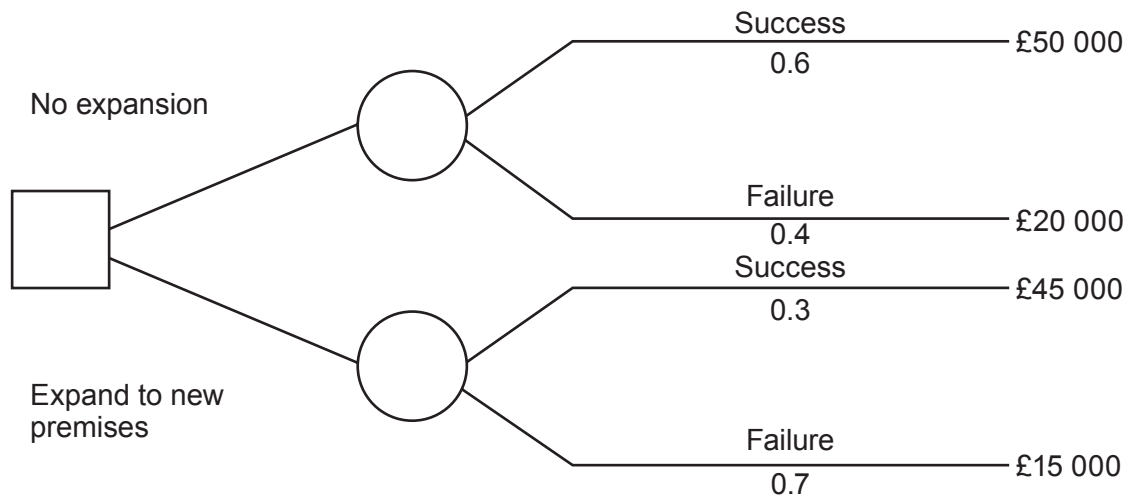
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- (e) *Dovetail* has been advised that a Decision Tree Diagram would help it assess the possible outcome of a decision to expand to new premises. The diagram shows the predicted profit or loss of each outcome and the probability of that outcome occurring.



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

I. The expected value of not expanding:

[3]

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II. The expected value of expanding to new premises:

[3]

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- (ii) What advice would you give *Dovetail* regarding its plans to expand to new premises? [1]

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- (iii) Explain why this would be your advice. [2]

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END OF PAPER

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