Surname	
Other Names	
Candidate Signature	

General Certificate of Secondary Education
June 2011

Applied Business (Double Award)

413007

Unit 7   Business Finance

Tuesday 14 June 2011   9.00 am to 10.00 am

> **You will need no other materials.**
> You may use a calculator.

Time allowed
- 1 hour

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- You are reminded of the need for good English and clear presentation in your answers. Quality of Written Communication will be assessed in Questions 1(d), 2(c) and 3(d).

Answer **all** questions in the spaces provided.

Total for this question: 21 marks

Read the **Background Information** before answering the questions that follow.

Background Information

In January 2010, Jaswinder and Kate started planning a business to organise prom nights (school leavers' parties). They agreed to call the business *Partytime* and would run the business at weekends and in the evenings. If the business proved a success, they would then consider giving up their jobs to run the business full time.

Jaswinder and Kate would each invest £1500 of their own money in the business. This money would be used towards the lease of a van and the purchase of a computer.

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1 Read **Item A** and then answer the questions that follow.

Item A

Partytime planned to organise prom nights. They would provide a theme for the night, a sound system, a disc jockey (DJ) and refreshments. Jaswinder and Kate had done some market research which showed that there was demand for 20 prom nights in the first year.

In their planning, Jaswinder and Kate calculated that in the first year the costs and revenue of *Partytime* would be:

- fixed costs of £10 000
- average variable costs of £1375 per prom night
- average selling price of £2000 per prom night.

Jaswinder and Kate have used the following formula to calculate that they would need to organise 16 prom nights to break even:

$$\text{Break-even} = \frac{\text{Fixed costs}}{\substack{\text{average selling price per prom night less} \\ \text{average variable costs per prom night}}}$$

Jaswinder and Kate were worried that their market research might be inaccurate or that costs such as petrol and DJ hire might rise.

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1 (a) Some of the costs for *Partytime* are listed in the table below.

Complete the table to identify whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

Cost	Fixed Cost	Variable Cost
Annual lease on van		
DJ hire per event		
Refreshments at prom nights		

(3 marks)

1 (b) Using **Item A**, explain why it is important to Jaswinder and Kate to identify whether costs are fixed or variable.

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(3 marks)

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Question 1 continues on the next page

1 (c) Using **Item A**, explain the effect on *Partytime*'s break-even if average variable costs increased to £1500 per prom night.

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(6 marks)

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1 (d) What actions could Jaswinder and Kate take if average variable costs increased? Explain why your actions would help them break-even.

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Turn over ▶

Total for this question: 19 marks

2 Read **Item B** and then answer the questions that follow.

Item B

Jaswinder and Kate started *Partytime* in March 2010 and decided to offer two types of event. As well as prom nights, they also decided to offer parties for younger children. They decided to set up a website which would be their main form of advertising.

They produced a cash-flow forecast to help identify potential cash-flow problems. They took into account that:

- they started the business with £3000
- start-up costs would include the cost of purchasing computer equipment and web design
- prom nights would only take place in June and July while parties for younger children would take place all through the year
- customers would pay for their event on the day of the event.

They are considering asking customers for a 50% deposit which would be paid when the event is booked. They are worried, however, that this might put customers off.

Their bank has told them that, as a new business, the maximum overdraft facility they could have is £2000.

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2 (a) Complete the cash-flow forecast for *Partytime* by inserting your answers in the shaded boxes below.

Partytime Cash-flow forecast for the four months ended 30 June 2010	March £	April £	May £	June £
Cash In				
Sales from prom nights				14 000
Sales from children's parties		600	900	900
Total inflow		600	900	14 900
Cash Out				
Cost of children's parties		300	450	450
Purchase of computing equipment	2 300			
Web design and set-up	2 000			
Other costs	1 390	490	480	670
Total outflow	5 690	790		1 120
Net Monthly Cash Flow	(5 690)	(190)	(30)	
Opening balance	3 000		(2 880)	(2 910)
Closing balance		(2 880)	(2 910)	10 870

(4 marks)

2 (b) Explain why preparing the cash-flow forecast in **2 (a)** could be useful to *Partytime*.

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Question 2 continues on the next page

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2 (c) *Partytime* is forecast to have a cash-flow problem during its first three months of trading.

Using **Item B** and your answer to **2(a)**, do you think that asking customers to pay a 50% deposit is the best way to solve *Partytime*'s cash-flow problem? Give reasons for your answer.

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Turn over for the next question

Total for this question: 20 marks

3   Read **Item C** and then answer the questions that follow.

Item C

Jaswinder and Kate have been running their business part-time for a year. They are considering entering into the profitable wedding reception market. If they expand, they estimate that *Partytime*'s net profit could rise to £60 000 per year but it would mean that they would need to run the business full time. They each earn £19 000 per year in their full-time jobs. Their bank has agreed a loan of £22 000 to help pay for the cost of expanding. This would be repaid at £5000 per year over five years.

Jaswinder has also calculated some financial ratios for *Partytime* shown in **Figure 1** below. He then compared these ratios with the average for other event-organising businesses.

Figure 1 – Financial Ratios for *Partytime*

Ratio	*Partytime*	Other event-organising businesses
Gross profit margin	30%	25%–35%
Net profit margin	9%	14%–18%

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3 (a)   Complete the Profit and Loss Account for *Partytime* for the year ended 28 February 2011 by filling in the **shaded** boxes in the table below.

Partytime **Profit and Loss Account** **for the year ended 28 February 2011**		
	£	£
Sales revenue		52 500
Cost of sales		36 750
Gross profit		
Expenses		
Start-up costs	4 300	
Other costs	6 725	
Total expenses		
Net profit		

(3 marks)

3 (b) Explain why the bank may have asked to see the Profit and Loss Account in **3(a)** before agreeing to the loan.

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3 (c) Jaswinder has calculated some financial ratios for *Partytime*.

Using **Figure 1**, explain what they show him.

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3 (d) Using **Item C** and your answer to **3(a)**, do you think that Jaswinder and Kate should give up their jobs and enter the wedding reception market? Justify your answer.

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(9 marks)

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END OF QUESTIONS