Centre Number			Candidate Number		
Surname					
Other Names					
Candidate Signature					



General Certificate of Secondary Education Specimen Paper

Business Subjects and 4130/07 Economics

For Examiner's Use Examiner's Initials Question Mark 1 2 3 TOTAL

Unit 7 Business Finance

Written Paper

For this paper you must have:

- · a calculator
- a ruler
- a pencil.

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 space provided. Answers written in margins or on blank pages will not be marked.
- 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. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in question 1 (d) (ii), 2 (b), 3 (b) and 3 (c).



Barcode

Answer all questions in the spaces provided.

Total for this question: 24 marks

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

Background Information

Dan is a sole trader. He owns *Dan's Diner*, an American themed restaurant. The restaurant is open for breakfast, lunch and dinner seven days a week.

The business has been successfully operating for five years, and has built up a reputation for the quality of its food. Dan is investigating ways to expand his business. These include:

- an outside catering service for functions, such as birthdays, anniversaries, office parties and other special occasions
- opening a new *Dan's Diner* restaurant in a nearby town.
- 1 Read Item A and then answer the questions that follow.

Item A

Dan has calculated that his planned outside catering service will have:

- fixed costs of £10 000 per year
- average variable costs of £250 per function
- an average selling price of £500 per function.

The market research that Dan has carried out suggests that he will be able to cater for 60 functions in the first year of running the outside catering service.



Barcode

1	(a)	Dan is not sure if some of the costs of h variable.	is outside catering	service are fixed or
		Complete the table below to identify for variable. Place one tick in the appropri		
		Costs	Fixed Costs	Variable Costs
		Insurance of delivery van		
		Buying ingredients for meals served		
		Road fund licence		
		Wages of hourly paid staff		
				(4 marks
1	(b)	Using Item A and the formula below, s cater at each year to break-even. Show	your calculations.	
		Break-even point = ${\text{(average selling)}}$	price per unit less	variable cost per unit
				(3 marks
		(Extra space)		



1 (c)	Explain the effect on the break-even point for Dan's outside catering service, if the fixed costs were to rise to £12 500 per year.
	(3 marks)



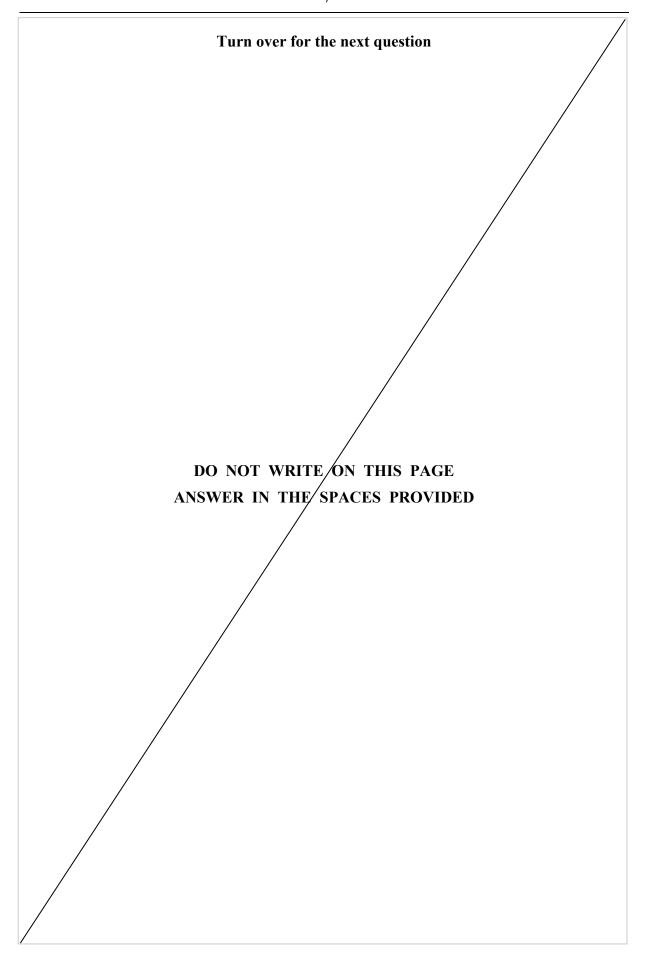
1	(d)	(i)	Identify two possible actions that Dan could take if the fixed costs for the outside catering service were to rise to £12 500. Explain the possible effect of each action.	S
			Action 1	
			Explanation	
				٠.
				٠
				٠.
			(4 marks	
			(Extra space)	٠
				٠-
			Action 2	
			Explanation	
			(Extra space)	;) :-



1	(d)	(ii)	Which of the actions that you identified in question 1 (d) (i) would you recommend Dan takes? Justify your recommendation.
			Recommendation
			Justification
			(6 marks)
			(Extra space)

24







Total for this question: 15 marks

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

Item B

Dan has decided to start an outside catering service and has prepared a cash-flow forecast for the first four months of operating.

The cash-flow forecast combines the cash-flow for *Dan's Diner* and the new outside catering service. Dan expects that it will take a few months for the new outside catering service to build up a customer base.

Dan's Diner Cash-flow forecast for the four months ended 30 September 2008						
	June	July	August	September		
	£	£	£	£		
Cash In						
Cash sales – restaurant sales	25 000	25 000	25 000	25 000		
Credit sales – outside catering	0	500	1 000	1 500		
Total inflow	25 000	25 500	26 000	26 500		
Cash Out	Cash Out					
Payments for ingredients	14 500	15 500	16 000	17 000		
Wages	2 200	2 600	2 600	3 500		
Purchase of van	13 000					
Replacement of kitchen furniture	15 000					
Other costs	3 000	2 200	2 200	2 200		
Total outflow	47 700	20 300	20 800	22 700		
Net monthly cash flow	(22 700)	5 200	5 200	3 800		
Opening Balance	8 000	(14 700)	(9 500)	(4 300)		
Closing Balance	(14 700)	(9 500)	(4 300)	(500)		



2	(a)	Identify and explain two actions that Dan could take to improve the cash-flow position of <i>Dan's Diner</i> .
		Action 1
		Explanation
		(5 marks) (Extra space)
		Action 2
		Explanation
		(5 marks)
		(Extra space)

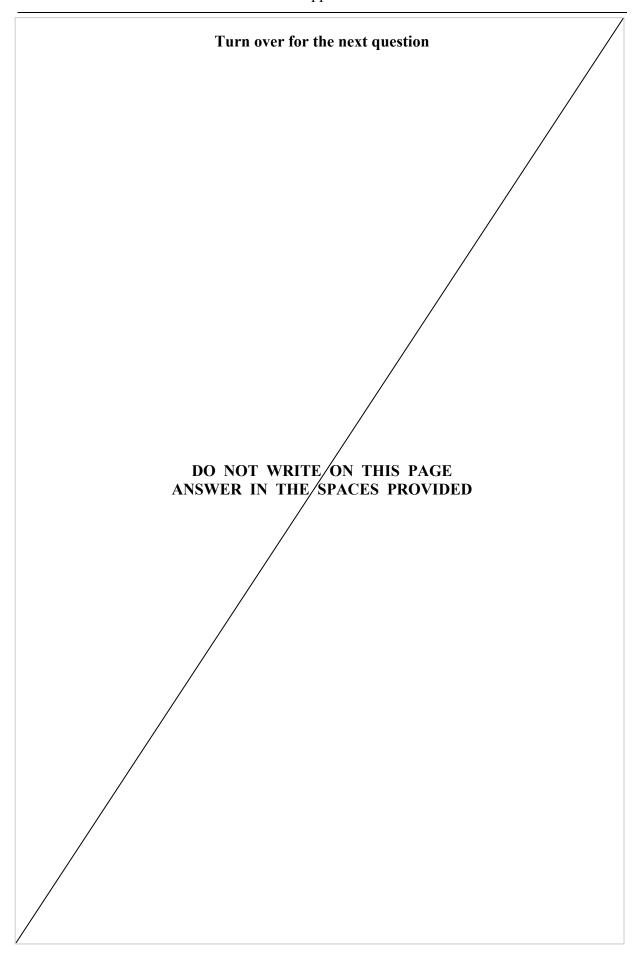


Turn over ▶

2	(b)	Which of the actions that you identified in question 2 (a) (i) would you recommend Dan takes? Justify your recommendation.
		Recommendation
		Justification
		(5 marks)
		(Extra space)

15







Total for this question: 21 marks

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

Item C

Dan has decided to further expand his business by buying a new restaurant in a nearby town. After carrying out market research Dan anticipates that the new restaurant will make similar profits to his existing restaurant.

Dan has calculated that it will cost him £220 000 to buy and equip the new restaurant and he will approach his bank for a loan, to be paid back over ten years. The annual amount to be repaid will be £26 000.

The bank has asked Dan to provide them with the following financial information to support his loan application:

- a profit and loss account for the year ended 31 May 2008
- a balance sheet at 31 May 2008
- accounting ratios.

Dan has produced a profit and loss account for the year ended 31 May 2008 and some accounting ratios.

Table 1

Dan's Diner Profit and Loss Account for the year ended 31 May 2008							
	£	£					
Sales revenue		300 000					
Cost of sales		220 000					
Gross Profit		80 000					
Expenses							
Wages	24 000						
Other costs	26 000						
Total Expenses		50 000					
Net Profit		30 000					

Table 2

Solvency Ratios

Current Ratio	2.43:1
Acid Test Ratio	1.14:1

Profitability Ratios

Gross Profit Margin	27%
Net Profit Margin	10%
Return on Capital Employed	20%



Barcode

3 (a) Complete the following Balance Sheet for *Dan's Diner* as at 31 May 2008 by filling in the **shaded** boxes below.

Dan's Diner Balance Sheet as at 31 May 2008			
	£	£	
Fixed assets			
Premises		140 000	
Equipment		30 000	
Current assets			
Stock	9 000		
Bank	8 000		
Total current assets	17 000		
Less current liabilities			
Creditors	7 000		
Net current assets			
Net total assets			
Financed by			
Capital		150 000	
Add net profit		30 000	
		180 000	

(3 marks)



3	(b)	Dan is considering changing <i>Dan's Diner</i> from a sole trader to a limited company. He would then issue shares to investors as an alternative to taking out a bank loan.
		Using Item C and your answers to question 3 (a) , which method of financing the expansion would be better for <i>Dan's Diner</i> , a loan from a bank, or issuing shares? Justify your answer.
		(9 marks) (Extra space)



3	(c)	Using Item C , and your answer to question 3 (a) , decide whether or not the bank would be likely to grant <i>Dan's Diner</i> a ten year loan for £220 000. Justify your answer.
		(9 marks)
		(Extra space)



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	${2}$
END OF QUESTIONS	

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