



# GENERAL CERTIFICATE OF SECONDARY EDUCATION

## APPLIED BUSINESS: DOUBLE AWARD

# Business Finance

**4865**

Candidates answer on the Question Paper

**OCR Supplied Materials:**  
None

**Other Materials Required:**

- Calculator

**Monday 7 June 2010**  
**Morning**

**Duration:** 1 hour 30 minutes



Candidate Forename	Candidate Surname
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Centre Number						Candidate Number				
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## INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your Candidate Number, Centre Number and question number(s).

## INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- This document consists of **24** pages. Any blank pages are indicated.



**A calculator may  
be used for this  
paper**

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**Introduction**

*Krank Gym* is a members only small gym which is operated as a partnership by Jimmy Plant and Robert Page. It is mostly used by men who want to 'pump iron', work out and build muscle. Jimmy is in charge of the organisation and administration of the business, whilst Robert deals with the customers' fitness needs.

The members pay an annual membership fee for unlimited use of the gym. Jimmy and Robert also sell drinks, protein supplements and shower and washing accessories from a vending machine.

The business is not as profitable as it used to be and Jimmy and Robert think that this is because they do not have an environment which attracts females as members. They feel that they may need to invest some capital to change the premises so that there is a separate female only gym.

## Text 1

Jimmy has posted this **Purchase Order Form** to one of *Krank Gym's* suppliers, Get Fit Supplies Ltd. The goods have been delivered and the details are waiting to be checked.

## PURCHASE ORDER FORM

Krank Gym  
Ventnor Gardens  
Brighton  
BR34 6YH

Get Fit Supplies Ltd  
56 Birtley Street  
Worthing  
WO12 0LK

**Account No:** KG4563  
**Order No:** 934

Quantity	Reference	Description	Colour	Unit Price	
				£	p
12	SR234	Skipping Ropes	Black	2	50
6	EB334	Exercise Balls	Pink	5	00
18	SP767	Spin Cycles	Black	99	50
12	YM225	Yoga Mats	Blue	5	00

Please deliver within one calendar month.

**AUTHORISED:** Jimmy Plant

**DATE:** 25 May 2010

**1 Refer to Text 1.**

**(a)** Check the Delivery Note below **which was received today** against the details on the Purchase Order Form (**Text 1**).

**(i)** **Circle** the **three** errors on the Delivery Note. **[3]**

**(ii)** In the space provided on the Delivery Note record any problems found with the delivery. **[1]**

**(iii)** Sign and date the Delivery Note with today's date. **[1]**

<h2 style="margin: 0;">DELIVERY NOTE</h2> <p style="margin: 0;">Get Fit Supplies Ltd 56 Birtley Street Worthing WO12 0LK</p>					
Krank Gym Ventnor Gardens Brighton BR34 6YH			<b>Order No:</b> 925 <b>Account No:</b> KG4563 <b>Date:</b> 07 June 2010		
Quantity	Reference	Description	Colour	Unit Price	
				£	p
12	SR234	Skipping Ropes	Black	2	50
6	EB335	Exercise Balls	Pink	5	00
16	SP767	Spin Cycles	Black	99	50
12	YM225	Yoga Mats	Blue	5	00
<b>CHECK THIS DELIVERY CAREFULLY AND RECORD ANY PROBLEMS OR ACTIONS TAKEN IN THE BOX BELOW.</b>					
<b>COMMENTS:</b>					
<b>SIGNED:</b> ..... <b>DATE:</b> .....					

- (b) The finance functional area of Get Fit Supplies Ltd has started to complete the invoice below for *Krank Gym*. Using the details from the Purchase Order Form (**Text 1**), complete the unshaded boxes on the Invoice below. [6]

## INVOICE

Get Fit Supplies Ltd  
56 Birtley Street  
Worthing  
WO12 0LK

Krank Gym  
Ventnor Gardens  
Brighton  
BR34 6YH

**Order No:** 934  
**Account No:** KG4563  
**Date:** 7 June 2010

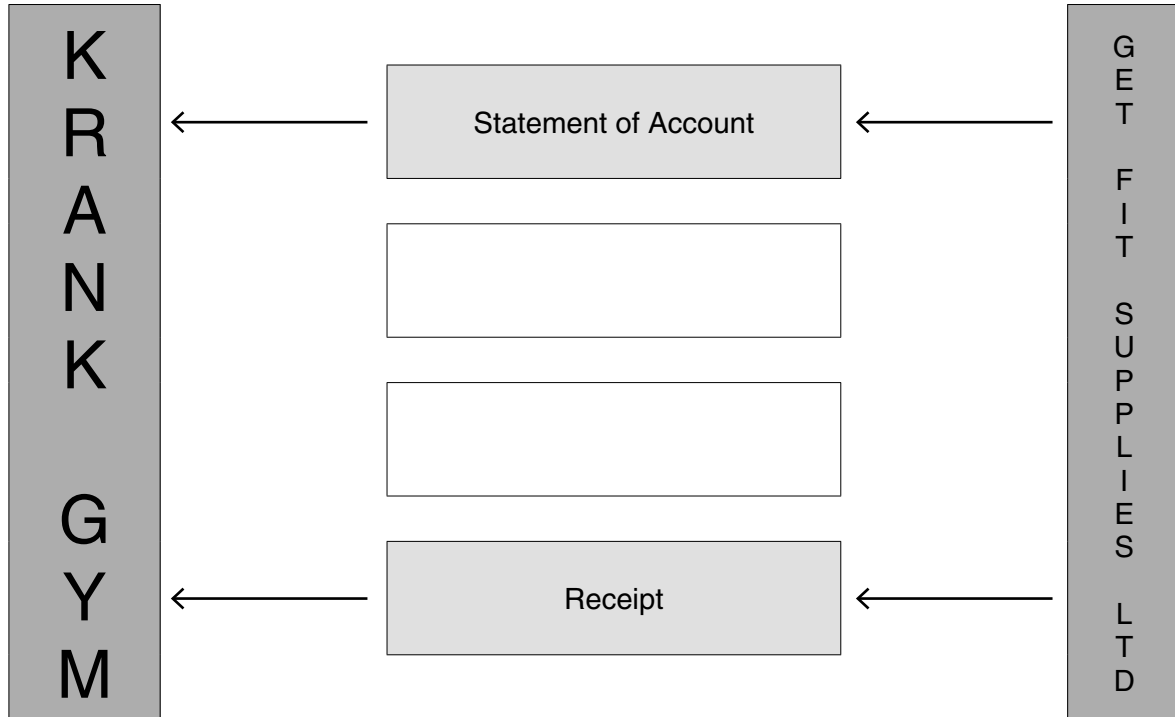
Quantity	Reference	Description	Unit Price		Total Price	
			£	p	£	p
12	SR234	Skipping Ropes	2	50	30	00
6	EB334	Exercise Balls	5	00		
18	SP767	Spin Cycles	99	50		
12	YM225	Yoga Mats	5	00		
			SUB-TOTAL			
			VAT @ 17.5%			
			TOTAL			

Terms: One calendar month

- (c) Complete the following diagram to identify **two** further documents which may flow between *Krank Gym* and *Get Fit Supplies Ltd* **after the Statement of Account** to complete the business transaction.

Complete the arrows to show the direction of flow of each document.

[4]



..... [4]

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**PLEASE TURN OVER FOR QUESTION 2**

**Text 2**

Eric Lennon is a new member of *Krank Gym*. He is going to pay his monthly membership fee by direct debit. Jimmy has asked him to complete a Direct Debit Mandate.

- Eric's bank details  
BradWest Bank plc  
34 Market Crescent  
Worthing  
WO4 8PL  
  
Account Number      45635494  
Sort Code            99-34-88
- Payment details  
Monthly  
1<sup>st</sup> of each month

**2 Refer to Text 2.**

- (a) Complete the following Direct Debit Mandate for the payment of Eric's gym membership. Use the above information and today's date. **[6]**

## INSTRUCTIONS TO YOUR BANK OR BUILDING SOCIETY TO PAY DIRECT DEBITS

Complete sections 2 to 7 below and return this instruction to GHD Bank plc, Lowe Street, Brighton, BQ56 7HJ.

## 1. Names of the Account Holder(s)

Krank Gym

## The GHD Bank plc Reference

6 5 7 1 9 8 W

## 2. Name and Address of your Bank

## 5. How often to be paid – tick as appropriate

Annually

Six monthly

Monthly


## 6. Payment date – tick as appropriate

1st of every month

28th of every month


## 3. Branch Sort Code

## 4. Bank Account Number

## 7. Instruction to the bank

Please pay GHD Bank plc direct debits from the account detailed in this instruction subject to the safeguards assured by the direct debit guarantee.

Signature: *Eric Lennon*

Date:

## Originator's Reference Number

6 7 8 2 4 5

- (b) Explain why *Krank Gym* prefers to receive monthly membership fees by direct debit rather than in cash.

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..... [4]

[Total: 10]

**Text 3**

If Jimmy and Robert decide to expand and include a separate female only gym, they are going to have some additional costs and revenues. The partners met with their business advisor, who has agreed to help them work out the likely additional costs and revenues for their business. Between them they have created the following list of expected costs and revenues for the separate female only gym.

- Wages of staff
- Percentage of takings from the vending machine
- Exercise equipment for the new female gym
- Public liability insurance
- Female only membership fees
- Heat and light
- Sales of gym clothing

**3 Refer to Text 3.**

- (a) Complete the table below to identify which of the **seven** items listed above would be a cost and which would be a revenue to *Krank Gym*. **[7]**

COST	REVENUE

- Recommend which would be the **most** suitable source of finance for the new equipment. Give reasons for your recommendation, explaining why you rejected the other sources of finance.

[6]

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**Text 4**

Jimmy and Robert frequently calculate the break-even point of the current gym. At the moment, its costs and revenues are:

- monthly fixed costs of £4 000;
- average monthly variable costs per member of £16;
- average monthly membership income per member of £32.

**4 Refer to Text 4.**

- (a) Using the information in **Text 4** and the following formula, calculate the monthly break-even number of members at the current *Krank Gym*. [4]

**MONTHLY BREAK-EVEN POINT OF *KRANK GYM***

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Cost}}$$

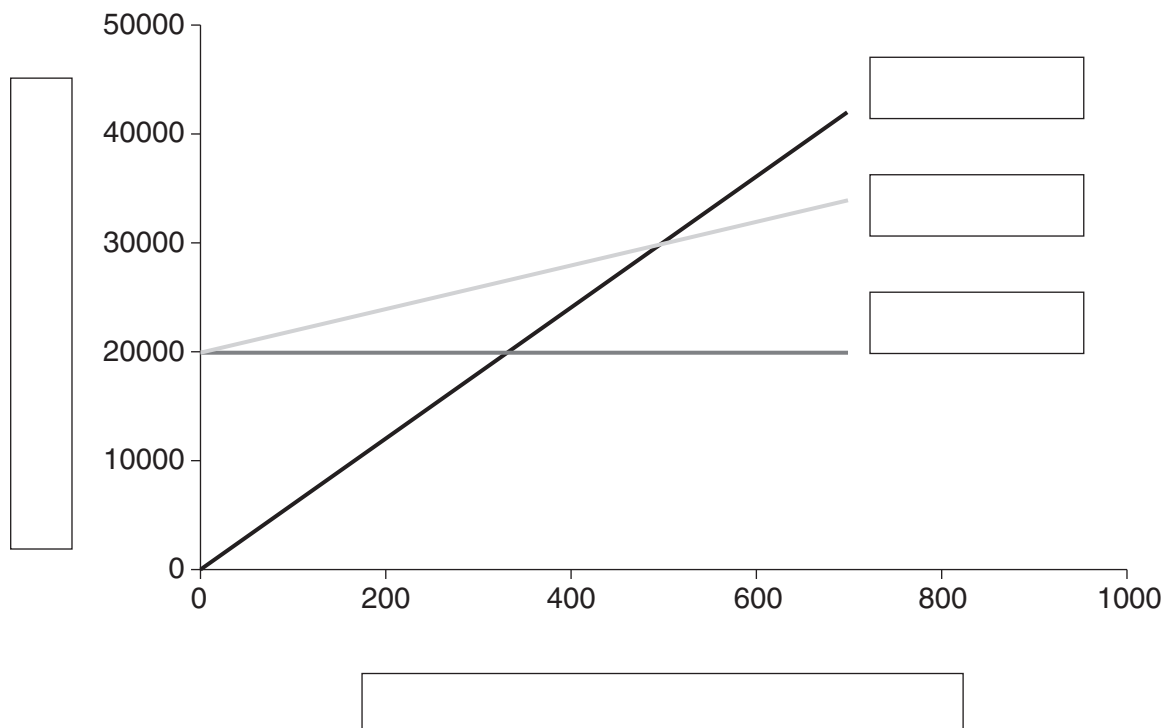
Show your working:

Monthly break-even point = ..... members.

- (b)** Explain whether or not the break-even point calculation would give an **accurate indication** of the future success of the current *Krank Gym*.

[4]

- (c) The break-even point can also be displayed on a chart such as the one shown below. Label the **five** boxes on the break-even chart below. [5]



**[Total: 13]**



**Text 5**

Jimmy already produces a Profit and Loss Statement every month for the current gym. He realises that it is important to monitor the financial position of the business. Jimmy has produced some estimated figures for the separate female only gym. These are based on attracting 300 female members by the sixth month of operation.

**5 Refer to Text 5.**

- (a) Using Jimmy's estimated figures below, complete the unshaded boxes in the Forecast Profit and Loss Statement for the first six months of the separate female only gym. [5]

	£
Cost of sales	0
Wages	9 000
Membership fees	35 200
Promotional materials	2 000
Energy	5 100
Insurance	6 000

Forecast Profit and Loss Statement <i>Krank Gym</i> for the separate female only gym for the six months to 31 December 2010		
Revenue		£
Cost of sales		£ 0
Gross profit		£
Expenses		
1.	£	
2.	£	
3.	£	
4.	£	£
Net profit/loss		£



- (c) Jimmy also knows that it is important to produce accurate budgets for the separate female only gym.

Explain **two** reasons why such budgets may need to be changed in the future.

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..... [4]

[Total: 15]

## Text 6

Jimmy and Robert are already in the gym business but they realise that they must analyse all the financial information at their disposal. Although their potential female customers appear to be keen for them to open a separate female only gym, this new development will need to make money for Jimmy and Robert. They decide to look into preparing a Forecast Balance Sheet for the separate female only gym and they make the following list of some of the items that it might contain.

- Stock for vending machine
- Overdraft
- Gym exercise machine
- Loan over 25 years

## 6 Refer to Text 6.

- (a) Classify the **four** balance sheet items listed above and insert them correctly in the table below. [4]

•	is an example of a <b>Fixed Asset</b>
•	is an example of a <b>Long Term Liability</b>
•	is an example of a <b>Current Asset</b>
•	is an example of a <b>Current Liability</b>

- (b) Jimmy realises that a Balance Sheet is a financial document which can be used for many purposes.

Explain **two** reasons why a Balance Sheet would be a useful document if the partners in *Krank Gym* need to approach a bank manager for a loan.

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..... [4]

- (c) Complete the **unshaded** boxes in the following Cash-flow Forecast for the first six months of the separate female only gym. [8]

Cash-flow Forecast for the separate female only gym						
	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
<b>Income</b>	£	£	£	£	£	£
<b>Number of members per month</b>	75	125	150	200	250	300
Income from membership	2 400	4 000	4 800	6 400	8 000	9 600
Total		4 000	4 800	6 400	8 000	
<b>Expenditure</b>						
Initial investment in equipment	10 000					
Wages	1 500	1 500	1 500	1 500	1 500	1 500
Promotion	1 000			1 000		
Energy	750	750	800	900	900	1 000
Insurance	1 000	1 000	1 000	1 000	1 000	1 000
Total	14 250	3 250	3 300	4 400	3 400	
<b>Opening Balance</b>	0		-11 100	-9 600	-7 600	
<b>Income - Expenditure</b>	-11 850	750	1 500	2 000	4 600	
<b>Closing Balance</b>		-11 100	-9 600	-7 600	-3 000	

- (d) Using the information from the Cash-flow Forecast, how much initial finance will Jimmy and Robert need to start opening the separate female only gym? Justify your answer.

Amount: .....

Justification: .....

.....

..... [2]

- (e)** Discuss the usefulness of the Cash-flow Forecast (**part (c)**) in showing whether or not the separate female only gym at *Krank Gym* will be a successful addition to the business.

[6]

**[Total: 24]**

- 7 Jimmy uses a manual system to produce the financial information for the separate female only gym.

Discuss how a spreadsheet rather than a manual system would benefit Jimmy when producing financial information such as a Forecast Profit and Loss Account, Cash-Flow Forecast, Balance Sheet and a break-even calculation.

..... [6]

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