A

Surname ______________________________

Other Names ______________________________

Centre Number ______________________

Candidate Number ______________________

Candidate Signature ______________________________

For Examiner's Use

Level 3 Certificate/Extended Certificate

APPLIED BUSINESS

ABS1

Unit 1 Financial planning and analysis

Wednesday 17 January 2018 Afternoon

Time allowed: 1 hour 30 minutes

For this paper you must have:
- **scientific calculator (non-programmable).**

At the top of the page, write your surname and other names, your centre number, your candidate number and add your signature.

[Turn over]

JAN18ABS101

INSTRUCTIONS

- **Use black ink or black ball-point pen.**
- **Answer ALL questions.**
- **You must answer the questions in the spaces provided. Do not write 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. There are 40 marks for SECTION A and 20 marks for SECTION B.
- There are TWO sections to this paper.
- Both sections should be attempted.
- You should spend approximately 60 minutes on SECTION A and 30 minutes on SECTION B.

ADVICE

- Please read each question carefully before starting.

DO NOT TURN OVER UNTIL TOLD TO DO SO

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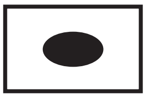
SECTION A

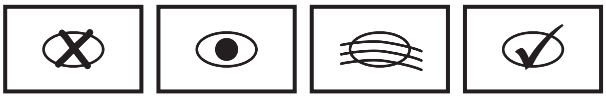
Answer ALL questions in this section.

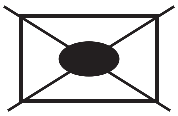
Total for this section: 40 marks

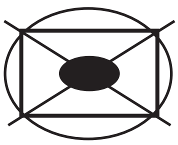
In the multiple choice questions, only ONE answer per question is allowed.

For each question completely fill in the circle alongside the appropriate answer.

CORRECT METHOD 

WRONG METHODS 

If you want to change your answer you must cross out your original answer as shown. 

If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown. 

[Turn over]

0 1 Which of the following legal structures would NOT provide protection from unlimited liability? [1 mark]

- A Community interest company.
- B Co-operative.
- C Public limited company.
- D Sole trader.

1

0 2 Which of the following actions would be the MOST likely to improve cash flow? [1 mark]

- A Buying fixed assets.
- B Collecting trade receivables (debtors) more quickly.
- C Increasing advertising expenditure.
- D Paying trade payables (creditors) more quickly.

1

0 3 **Which of the following ratios would measure the solvency of a business? [1 mark]**

- **A** Asset turnover.
- **B** Gearing.
- **C** Gross profit margin.
- **D** ROCE.

1

0 4 **Read the TWO statements below and decide whether each is true or false.**

STATEMENT 1: Shareholders will be interested in financial information that will help them assess the profitability of their company.

STATEMENT 2: Shareholders will be interested in financial information that will help them assess the liquidity of their company. [1 mark]

- **A** Both statements are true.
- **B** Both statements are false.
- **C** Statement 1 is true, statement 2 is false.
- **D** Statement 1 is false, statement 2 is true.

1

0 5

**Tim owns a business making curtains.
The following information for his business is available:**

	£
Rent and rates per year	3 500
Other fixed costs	1 500
Materials per set of curtains	20
Wages per set of curtains	15
Selling price per set of curtains	55

Calculate how many sets of curtains Tim will need to sell each year to break-even.

Show your calculations. [3 marks]

3

0 6 Asha has a manufacturing business.
The following information for her business is available:

	£
Fixed costs per year	12 000
Variable costs per unit	40
Selling price per unit	60

Calculate the profit Asha will make if she sells 1000 units in a year.

Show your calculations. [3 marks]

3

0 7 Berwick Sofas Ltd manufactures sofas which are sold to shops.

Berwick Sofas Ltd has a cash-flow problem. The company is considering offering a discount of 10% to shops if they pay for the sofas when they are delivered.

Berwick Sofas Ltd has an operating profit margin on sofas of 30%.

Using the information above, explain why Berwick Sofas Ltd might offer a discount of 10% for payment on delivery. [3 marks]

3

0 8 Neil owns a business and operates as a sole trader. He wants to expand the business and has invited his brother, Martyn, to join him as an owner. Even using all their savings, they do not have sufficient funds to finance the expansion.

Neil and Martyn want to keep the ownership and control of the business within their families.

Use the information above to analyse the advantages AND disadvantages of ONE appropriate legal structure that Neil and Martyn could use to operate their business. [9 marks]

9

0 9 Dave wants to start a kitchen fitting business. He has £10 000 to invest. He has conducted market research and has estimated costs. In addition, he has decided that he needs to pay himself £1200 per month to pay his living expenses.

Dave has forecast that his profit for the first year should be £15 000.

As it is a new business, Dave thinks it is likely that he will have to pay for supplies at the time of purchase.

Customers will pay a 10% deposit before the kitchen fitting starts and the remainder one month after the work is completed.

Dave has been advised that he should also produce a cash budget before starting the business. His cash budget for the first four months of trading is shown below.

	February	March	April	May
	£	£	£	£
Cash in	900	8 100	10 500	12 100
Cash out	15 950	7 450	7 950	9 450
Net monthly cash flow	(15 050)	650	2 550	2 650
Opening balance	10 000	(5 050)	(4 400)	(1 850)
Closing balance	(5 050)	(4 400)	(1 850)	800

Use the information above to analyse why Dave should produce BOTH a profit calculation AND a cash budget. [9 marks]

[Turn over]

9

10 Ian opened a convenience store business in July 2017. Before opening the store he prepared a budgeted income statement. At the end of the six month period he compared the budget with the actual results for the period.

Income statement for six months ended 31 December 2017 (extracts).

	BUDGETED	ACTUAL
	£	£
Revenue	210 000	190 000
Cost of sales	100 000	105 000
Expenses	80 000	69 000
Operating profit	30 000	16 000

Ian is concerned that he has an adverse operating profit variance for the first six months trading of his business.

Use the information above to analyse how Ian's interpretation of variances might help to improve future profits. [9 marks]

9

[Turn over]

SECTION B

Answer the question in this section.

Total for this section: 20 marks

Read ITEM A and then answer question 1 1.

ITEM A

HOME MADE TAKEAWAY LTD

Home Made Takeaway Ltd (HMT) is a successful company, making handmade frozen meals. It sells in its shops and online for ‘click and collect’ or delivery.

HMT’s belief is “look after people and they will look after you”. Employers, shareholders, customers and suppliers all benefit from this approach. The company also supports local charities and gives discounts to community groups.

HMT produces main meals, but recently started providing desserts and cakes, which it sees as a growth area. The company’s factory is operating at full capacity, but still cannot meet demand.

The directors are considering two options for expansion.

OPTION 1:

Build a new factory to replace the existing one. This will take two years to build and cost £10 million. The new factory would provide 30 new jobs. HMT has £3 million internal finance available. It could take out a £7 million loan for the balance, repaid over five years.

OPTION 2:

Take over Quality Desserts Ltd (QDL) and relocate to the new factory that QDL has in another part of the country. QDL currently supplies cakes and desserts to restaurants and owns several shops that sell to the general public. HMT could buy QDL for £12 million. This would be financed by:

- **HMT's internal finance of £3 million**
- **a £4.5 million loan repaid over five years**
- **the issue of new shares in HMT totalling £4.5 million.**

TABLE 1: Selected financial information

	HMT	QDL
Return on capital employed (%)	28.27	
Gearing (long term liabilities/ capital employed) (%)	34.03	
Current ratio	1.45:1	
Net assets (£millions)	8.984	9.936
Operating profit (£millions)	2.540	4.114

[Turn over]

1 1 **Considering the financial information and stakeholder perspectives described in ITEM A, evaluate whether HMT should select option 1 OR option 2. [20 marks]**

20

END OF QUESTIONS

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Examiner's Initials	
Question	Mark
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TOTAL	