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# Level 3 Certificate/Extended Certificate

## APPLIED BUSINESS

Unit 1 Financial planning and analysis

Thursday 7 June 2018

Afternoon

Time allowed: 1 hour 30 minutes

### Materials

For this paper you must have:

- a scientific calculator (non-programmable).

### Instructions

- Use black ink or black ball-point pen.
- Fill in the box 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.
- There are **two** sections to this paper.
- Both sections should be attempted.
- The maximum mark for this paper is 60. There are 40 marks for **Section A** and 20 marks for **Section B**.
- Candidates should spend approximately 60 minutes on **Section A** and 30 minutes on **Section B**.

For Examiner's Use	
Question	Mark
1	
2	
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11	
<b>TOTAL</b>	

### Advice

Please read each question carefully before starting.



J U N 1 8 A B S 1 0 1

IB/M/Jun18/E6

**ABS1**

**Section A**Answer **all** questions in this section.**Total for this section: 40 marks**For questions **01** to **04**, tick **one** box next to the correct answer.**0 1**

Which of the following business enterprises would be able to sell shares on the stock exchange?

**[1 mark]****A** Community interest company**B** Limited partnership**C** Private limited company**D** Public limited company

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1**0 2**Which of the following would be the **most** likely to improve the cash flow of a business?**[1 mark]****A** Delaying the collection of trade receivables (debtors).**B** Delaying the payment of trade payables (creditors).**C** Paying for fixed assets sooner than planned.**D** Paying increased dividends to shareholders.

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0 3

Which of the following ratios measures the activity of a business?

[1 mark]

A Asset turnover

B Gearing

C Current ratio

D ROCE

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1

0 4

Read the two statements below and decide whether each is true or false. Then choose the correct answer below.

**Statement 1:** Only businesses with profit targets need to budget for cash resources.**Statement 2:** Only businesses with profit targets need to meet running costs.

[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.

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1**Turn over for the next question****Turn over ►**

**0 5**

A business budgeted its total revenues as £150 000 and total costs at £90 000 for a period of trading. However, actual total revenue was £145 000 and actual total costs £98 000, reducing actual profit.

Calculate the difference between the actual profit figure and the budgeted profit figure.

Show your calculations.

**[3 marks]**


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**3****0 6**

The following information is available for a manufacturing business.

	£
Fixed costs per year	440 000
Variable costs per unit	5 500
Selling price per unit	3 500

Calculate how many units will need to be sold per year to break-even.

Show your calculations.

**[3 marks]**


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**3**

0 7

A business leases a delivery van for £300 per month. In addition, the van costs £0.50 per mile to use. In May, the business spent £500 on this delivery van.

What type of cost is the total spending on this delivery van in May?

Explain why it is this type of cost.

[3 marks]

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Turn over for the next question

Turn over ►



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Xin wants to start a hair and beauty salon as a sole trader. She has raised a total of £10 000 from her savings and from friends and family.

She knows she will need to meet the following costs during the first year of operation.

- Start-up costs – furniture and equipment £19 000
- Running costs (per month) £5000

Xin estimates that sales will rise from £4000 to £8000 per month as the business becomes better known.

Use the information above to analyse **one** suitable way to finance start-up costs and **one** suitable way to finance running costs Xin could use to operate her business.

**[9 marks]**

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**0 9**

Tanvir owns a business making component parts used in manufacturing vacuum cleaners. He produced a cash-flow forecast for the next four months.

	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Cash in	118 000	124 000	127 000	128 000
Cash out	110 000	121 000	125 000	124 000
Net monthly cash-flow	8 000	3 000	2 000	4 000
Opening balance	1 500	9 500	12 500	14 500
Closing balance	9 500	12 500	14 500	18 500

Tanvir has accepted a profitable contract from a vacuum cleaner manufacturer to supply parts for its vacuum cleaners.

The implications of the contract include:

- work will begin in July
- a new machine costing £50 000 to make these parts will be needed
- the business will not start to receive payments from the new contract until October.

Use the information above to analyse how this cash-flow forecast can help Tanvir plan for the contract with the vacuum cleaner manufacturer.

**[9 marks]**

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1 0

Luke opened a small gym a year ago. At the end of the year the following financial information was available.

**Statement of financial position (balance sheet) as at 31 May 2018**

	£	£
Non-current assets		
Property	300 000	
Equipment	35 000	335 000
Current assets		
Trade receivables	276	
Bank	3 000	
	3 276	
Less current liabilities		
Trade payables	1 456	1 820
		336 820
Financed by		
Owner's funds		298 420
Non-current liabilities		38 400
		336 820

Luke wants to compete with other gyms, so he needs to buy more up-to-date equipment. He thinks this will double his profits to £60 000 each year. This equipment will cost £100 000.

The bank has agreed to give him a loan. The loan will be repaid over 5 years at £25 000 per year.

Use the information above to analyse why the bank decided to give Luke the loan.

**[9 marks]**

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**Section B**

Answer the question in this section.

**Total for this section: 20 marks**

Read **Item A** and answer Question 

1	1
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**Item A**  
**Classic Carpets Ltd**

The market for carpets and floor coverings is growing.

- Between 2014 and 2019 it is anticipated that there will be 1 million more homes in the UK. Within 2 to 4 years of buying, homeowners are likely to buy new carpets or other floor coverings.
- Older customers spend the most money. They often look for quality products and services.
- Independent shops, which make up 42% of the market, tend to attract the highest spenders.
- Specialist multiple stores, like Carpetright, are gaining more of the market and are using sophisticated websites and enhanced services to attract customers.
- There is also competition from retailers such as John Lewis, B&Q and others.

Classic Carpets Ltd is an independent, family-owned business that sells carpets and floor coverings. Jack Wales took over the running of the business when his father retired in 2017.

Jack decided to increase the size of the business' showroom and to provide a better carpet fitting and advice service. He thought that this would appeal to his target market of older customers who like to see high quality products in a showroom rather than online.

**Table 1** Selected financial information for the first full year of trading since Jack took over compared to the last year that his father was in charge.

	<b>31/05/18</b>	<b>31/05/17</b>
Return on capital employed (%)	29.59	(5.24)
Gearing (long term liabilities/capital employed) (%)	24.21	23.14
Acid-test ratio	0.74:1	0.69:1
Bank balance (£000s)	2237.9	2105.5
Net assets (£000s)	2961.6	2678.0
Operating profit (£000s)	1088.4	(1728)

Jack wants to further expand the business by opening a showroom in another part of the country. He calculates that this would cost £2 million. This would need a large loan.

A specialist multiple chain store is impressed with Classic Carpets Ltd and the way Jack is running the business. The chain store has offered to buy Classic Carpets Ltd for £3 million and also offered Jack a well-paid job with the chain store.









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ANSWER IN THE SPACES PROVIDED**

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