



Rewarding Learning

ADVANCED
General Certificate of Education
January 2014

Centre Number

71

Candidate Number

GCE Applied Business

Assessment Unit A2 7

assessing
Finance

[A6B11]



FRIDAY 17 JANUARY, MORNING

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.
Write your answers in the spaces provided in this question paper.
Answer **all three** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed in questions **1(b)**, **2(b)** and **3(c)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.
If you do not have sufficient space to complete your answers, you may use the additional page at the back of the paper.

For Examiner's use only

Question Number	Marks
1	
2	
3	

Total Marks

- 1 (a) The following balances were extracted from the books of Ken's Kabin, which is owned by Ken Kenny.

Ken's Kabin		
Trial Balance as at 31 December 2013		
	DR (£)	CR (£)
Sales Revenue		345,000
Opening Inventories	20,000	
Capital		309,500
Bank Loan		70,000
Drawings	15,000	
Discount Allowed	1,250	
Cash	1,000	
Discount Received		5,000
Trade Receivables	100,000	
Wages	49,000	
Bank Account		6,000
Motor Expenses	8,500	
General Expenses	3,500	
Light & Heat	4,500	
Loan Interest	3,500	
Insurance	1,750	
Rent	7,500	
Trade Payables		120,000
Equipment	80,000	
Premises	210,000	
Purchases	250,000	
Motor Vehicles	100,000	
	855,500	855,500

Examiner Only

Marks	Remark
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Ken's Kabin		
Income Statement for the year ended 31 December 2013		
	(£)	(£)
Sales Revenue		345,000
Opening Inventories	20,000	
Purchases	250,000	
Less Closing Inventories	30,000	
Cost of Sales		
Gross Profit		
Discount Received		5,000
Less Expenses		
Loan Interest	3,500	
Motor Expenses	8,500	
Light & Heat	4,500	
General Expenses	3,500	
Rent	7,500	
Discount Allowed	1,250	
Insurance		
Wages		
Allowance for Trade Receivables	5,000	
Depreciation: Equipment	8,000	
Depreciation: Motor Vehicles	25,000	
Total Expenses		
Net		

Examiner Only

Marks	Remark

Use this space for your calculations.

Ken's Kabin			
Statement of Financial Position as at 31 December 2013			
Non-Current Assets	Cost (£)	Depreciation (£)	Written Down Value (£)
Premises	210,000	0	210,000
Motor Vehicles	100,000	25,000	75,000
Equipment	80,000	8,000	72,000
Total Non-Current Assets	390,000	33,000	
Current Assets			
Inventories			30,000
Trade Receivables		100,000	
Allowance for Trade Receivables		(5,000)	
Cash			1,000
Prepayment			
Total Current Assets			
Total Assets			
Equity			
Capital			309,500
Less Drawings			15,000
Total Equity			
Non-Current Liabilities			
Bank Loan			70,000
Current Liabilities			
Trade Payables			120,000
Bank			6,000
Accruals			1,000
Total Current Liabilities			127,000
Total Equity & Liabilities			

Examiner Only

Marks	Remark
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Use this space for your calculations.

(b) Ken is retiring and wishes to sell the business to Jenny. Evaluate the usefulness of the financial statements to Jenny, as she seeks to acquire the business.

Examiner Only	
Marks	Remark

- 2 (a) Flyzo plc is a locally based airline. The following information is available for the year ended 31 December 2013.

Flyzo plc	
Summarised Income Statement for the year ended 31 December 2013	
	£ Millions
Sales Revenue	300
Net Profit before Tax*	20
Corporation Tax	<u>(5)</u>
Profit After Tax	<u>15</u>

*Note:

Finance costs amounting to £5m have already been included in the calculation of the Net Profit before Tax.

Flyzo plc	
Summarised Statement of Financial Position as at 31 December 2013	
	£ Millions
Non-current Assets	250
Current Assets	<u>50</u>
Total Assets	<u>300</u>
Equity Capital and Reserves	230
Non-current Liabilities (Debt capital)	45
Current Liabilities	<u>25</u>
Total Liabilities	<u>70</u>
Total Equity and Liabilities	<u>300</u>

Flyzo plc Directors have also obtained comparative information about a competitor for the year ended 31 December 2013.

Sales Revenue	£90 million
Current Ratio	1:1
Return on Capital Employed (ROCE)	20%
Gearing Ratio	25%

Examiner Only

Marks Remark

Profitability and Performance Ratio		Examiner Only	
		Marks	Remark
Return on Capital Employed (R.O.C.E)	$\frac{\text{Profit before Tax} + \text{Finance Costs} + \text{Preference Dividends}}{\text{(Total Assets – Current Liabilities)}} \times 100\% = x\%$		
Liquidity Ratio			
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}} \times \text{Times or X:1}$		
Gearing Ratio			
Gearing Ratio	$\frac{\text{Non-current liabilities (Debt Capital)}}{\text{Equity Capital and Reserves and Debt Capital}} \times 100 = x\%$		

Calculate the following (you must express your answers to one decimal place), for the year ended 31 December 2013. Use the spaces below to show your calculations.

<p>(i) Return on Capital Employed (R.O.C.E.):</p> <p style="text-align: right;">Answer: _____</p>
<p>(ii) Current Ratio:</p> <p style="text-align: right;">Answer: _____</p>
<p>(iii) Gearing:</p> <p style="text-align: right;">Answer: _____</p>

[6]

(b) Evaluate Flyzo’s financial performance using the following accounting ratios:

(i) Return on Capital Employed:

(ii) Current Ratio:

Examiner Only	
Marks	Remark

(iii) Gearing Ratio:

[12]

Examiner Only	
Marks	Remark

- 3 (a) Sportz Limited currently produce and sell the following two product lines:
- Pairs of boxing gloves for teenagers; and
 - Punch-bags for adults;

Financial data related to Sportz Limited

Product	Boxing Gloves Pairs	Punch-Bags
Current Production/Sales Volumes (units)	5000	5000
Fixed Costs (per product line)	£100,000	£150,000
Contribution Per Unit	£25.00	£50.00

The management team are planning next year's sales strategy.

You are required to:

- (i) calculate the number of pairs of boxing gloves which must be produced/sold in order to breakeven.

_____ [3]

Use this space for your calculations.

Examiner Only	
Marks	Remark

(ii) calculate the number of punch-bags which must be produced/sold in order to breakeven.

[3]

Use this space for your calculations.

(iii) calculate the total additional contribution (£) that would arise, if the management team revise the current production plan, and decide to proceed with the production and sale of 3000 pairs of boxing gloves and 7000 punch-bags.

[6]

Use this space for your calculations.

Examiner Only

Marks	Remark

- (b) Each product manufactured by Sportz Limited is produced across a range of departments. Using the appropriate information, complete the following table showing clearly the overhead absorption rates for each department, per machine hour (you must show your answers to two decimal places). [3]

Overhead Absorption Rates – January

	Production Dept.	Assembly Dept.	Painting Dept.
Machine Hours	66 660	5555	556
Total overheads (£)	33,330	11,110	5560
Overhead Rate per Machine Hour (£)			

Use this space for your calculations.

Examiner Only	
Marks	Remark

(c) For each of the following items of expenditure, identify one source of debt finance and evaluate the extent to which each source of finance would be appropriate for Sportz Limited.

[12]

Expenditure	Source of Finance
Increased inventories:	

Examiner Only	
Marks	Remark

Expenditure	Source of Finance
New factory equipment:	

Examiner Only	
Marks	Remark

THIS IS THE END OF THE QUESTION PAPER

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