

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

Item A

Gill and Tim have recently completed a fashion course at college. They have set up their own business, *The Leading Edge Ltd*, buying a range of clothing and uniforms and selling them to other businesses. Their first product line is a fleece jacket with the customer's logo printed on it.

Gill wants to make sure that the correct flow of business documents is used when trading. These include:

- cheque;
- delivery note;
- invoice;
- purchase order;
- statement of account.

(a) Which document would be used in the following situations? Tick **one** box only for each answer.

| | Cheque | Delivery note | Invoice | Purchase order | Statement of account |
|---|---------------|----------------------|----------------|-----------------------|-----------------------------|
| <i>The Leading Edge Ltd</i> sends this document to a supplier when it wants to buy some goods. | | | | | |
| The supplier sends this document with the goods required by <i>The Leading Edge Ltd</i> . | | | | | |
| The supplier sends this document to <i>The Leading Edge Ltd</i> to request payment for the goods. | | | | | |
| The supplier sends this document to <i>The Leading Edge Ltd</i> at the end of the month to show how much is owed. | | | | | |
| <i>The Leading Edge Ltd</i> sends this document to the supplier to pay for the goods supplied. | | | | | |

(5 marks)

(b) Tim needs to complete the purchase order below. Fill in the missing figures in the **shaded** boxes.

| Purchase Order | | | | | |
|--|------------------------------|------------|-----------------------|---|---|
| | | | | The Leading Edge Ltd Unit 2 Leftfield Lane Guildtown Lancashire LP12 CD5 | |
| Purchase Order Number: 000001 | | | Date: 21 January 2003 | | |
| To: Firhill Traders 80 Maryhill Road Glasgow GL71 2JL | | | | | |
| Quantity | Description | Unit price | | Total amount | |
| | | £ | p | £ | p |
| 10 | Medium fleece jacket – red | 9 | 00 | | |
| 20 | Large fleece jacket – yellow | 9 | 00 | | |
| 25 | Large fleece jacket – black | 9 | 00 | | |
| | | | | Total | |

(4 marks)

QUESTION 1 CONTINUES ON THE NEXT PAGE

Turn over ►

- (c) Tim and Gill decide to buy a computer and software package for £1500 to help them with the financial record keeping of the business.

State and explain **two** advantages and **two** disadvantages that might result from this decision.

Advantage 1.....

Explanation.....

.....

.....

.....

.....

(3 marks)

Advantage 2.....

Explanation.....

.....

.....

.....

.....

(3 marks)

Disadvantage 1

Explanation.....

.....

.....

.....

.....

(3 marks)

Disadvantage 2

Explanation.....

.....

.....

.....

.....

(3 marks)

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

Item B

Gill and Tim have decided to rent a small premises on an industrial estate from which to run the business. They have bought an industrial sewing machine and employed a sewing machinist who is paid for each fleece jacket that he produces.

- (a) Some of the business costs, such as the design of the website, have to be paid only once, while others are paid at regular intervals.

Complete the table below to identify whether the costs listed are start-up costs or running costs. Place **one** tick in the appropriate column for each cost.

| Costs | Start-up costs | Running costs |
|---------------------------------|----------------|---------------|
| Wages of a sewing machinist | | |
| Cost of designing a website | | |
| Material for the fleece jackets | | |
| Buying a sewing machine | | |
| Insurance of the business | | |
| Paying rent for the premises | | |
| Cost of decorating the premises | | |

(7 marks)

- (b) Gill and Tim want to work out how many customers they will need in order to break even. To do this, they will need to decide whether their costs are fixed or variable.

Complete the table below to identify whether the costs are fixed costs or variable costs. Place **one** tick in the appropriate column for each cost.

| Costs | Fixed costs | Variable costs |
|---------------------------------|-------------|----------------|
| Wages of a sewing machinist | | |
| Cost of designing a website | | |
| Material for the fleece jackets | | |
| Buying a sewing machine | | |
| Insurance of the business | | |
| Paying rent for the premises | | |
| Cost of decorating the premises | | |

(7 marks)

QUESTION 2 CONTINUES ON THE NEXT PAGE

Turn over ►

- (c) Gill and Tim will need to pay £500 for insurance of the business. They do not want to pay this all at once.

State and briefly explain a suitable method of payment that could be used.

Method.....

Explanation.....

.....

.....

.....

.....

(3 marks)

- (d) Gill and Tim have decided that they will sell the fleece jackets for £20 each. The variable costs will be £12 per fleece jacket and the fixed costs will be £600 per month.

They expect to sell up to 150 fleece jackets in the first month of trading.

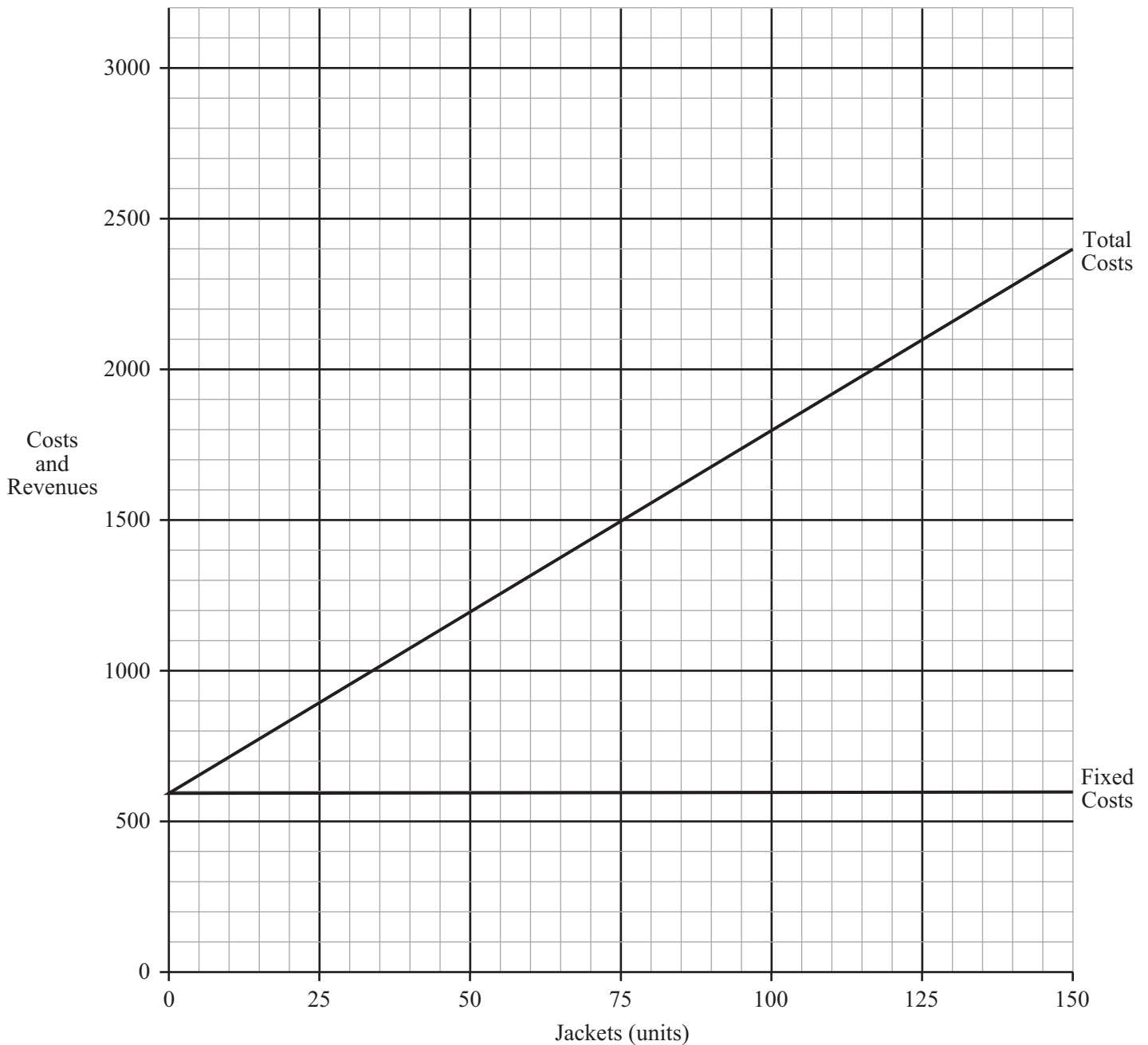
Use this information to complete the **shaded** boxes in the table below.

| | | | | |
|-------------------------------|-----|------|------|------|
| Number of fleece jackets sold | 0 | 50 | 100 | 150 |
| Fixed costs | 600 | | 600 | 600 |
| Total variable costs | 0 | 600 | 1200 | 1800 |
| Total costs | 600 | 1200 | | 2400 |
| Total sales revenue | 0 | 1000 | 2000 | |

(3 marks)

- (e) Using the completed table in question 2(d) opposite, complete the break-even chart below by:
- drawing the line for total sales revenue; (1 mark)
 - labelling the break-even point; (1 mark)
 - showing the number of fleece jackets they will need to sell in order to break even. (1 mark)

Break-even chart – The Leading Edge Ltd



QUESTION 2 CONTINUES ON THE NEXT PAGE

Turn over ►

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

Item C

At the end of their first year of running *The Leading Edge Ltd*, Gill and Tim decide to complete their Profit and Loss Statement for the year ended 31 December 2003.

The following information is available.

| Item | £ |
|--------------------|--------|
| Sales revenue | 48 000 |
| Cost of sales | 21 600 |
| Wages and salaries | 7 200 |
| Insurance | 500 |
| Rent | 4 800 |
| Electricity | 800 |
| Office expenses | 1 100 |

- (a) Use the information in **Item C** to complete the Profit and Loss Statement for the year ended 31 December 2003 by filling in the **shaded** boxes in the table below.

| The Leading Edge Ltd | | |
|--|--------|---|
| Profit and Loss Statement for the year ended 31 December 2003 | | |
| Sales revenue | | £ |
| Less: cost of sales | | £ |
| Gross profit | | £ |
| Less: expenses | | |
| Wages and salaries | £7 200 | |
| Insurance | £ 500 | |
| Rent | £ | |
| Electricity | £ 800 | |
| Office expenses | | |
| Total expenses | | £ |
| NET PROFIT | | £ |

(7 marks)

QUESTION 3 CONTINUES ON THE NEXT PAGE

Turn over ►

- (b) Use the following information to complete the Balance Sheet below as at 31 December 2003 for *The Leading Edge Ltd*.

| Item | £ |
|---------------------------|------|
| Bank | 3700 |
| Creditors | 1800 |
| Industrial sewing machine | 8000 |

Make your entries in the **shaded** sections and carry out any necessary calculations.

| The Leading Edge Ltd | | |
|---|------|------|
| Balance Sheet as at 31 December 2003 | | |
| | £ | £ |
| Fixed assets | | |
| Industrial sewing machine | | |
| Computer | | 1500 |
| Current assets | | |
| Debtors | 4000 | |
| Bank | | |
| Total current assets | | |
| Less current liabilities | | |
| Creditors | | |
| Net current assets | | |
| Net total assets | | |

(6 marks)

- (c) (i) Explain the difference between assets and liabilities.

.....

.....

.....

.....

(2 marks)

(ii) Explain the difference between current assets and fixed assets.

.....
.....
.....
.....

(2 marks)

(d) The **profit and loss statement** and **balance sheet** should provide information about a business.

Discuss why each stakeholder below might be interested in the information in the **profit and loss statement** and **balance sheet**.

Stakeholder 1: the owners, Gill and Tim.

.....
.....
.....
.....
.....
.....
.....

(3 marks)

Stakeholder 2: the bank with which *The Leading Edge Ltd* has an account.

.....
.....
.....
.....
.....
.....
.....

(3 marks)

4 Read **Item D** and then answer the questions that follow.**Item D**

Gill and Tim are pleased that *The Leading Edge Ltd* has made a profit in its first year of business. They anticipate that sales will improve next year.

They have talked to their existing customers who would be interested in buying an increased range of clothing from *The Leading Edge Ltd*.

The introduction of a wider product range will require the purchase of a new industrial sewing machine. As part of their financial planning for expansion, Gill and Tim decide to prepare a cash-flow forecast for the next four months ended 30 April 2004.

- (a) Complete *The Leading Edge Ltd* cash-flow forecast by inserting your answers in the **shaded** boxes below.

| The Leading Edge Ltd | | | | |
|---|---------|----------|-------|-------|
| Cash-flow forecast for the four months ended 30 April 2004 | | | | |
| | January | February | March | April |
| CASH IN | | | | |
| Credit sales | 3200 | 4400 | 4800 | 5200 |
| Total inflow | 3200 | 4400 | 4800 | 5200 |
| CASH OUT | | | | |
| Payments for stock | 2880 | 1880 | 1680 | 1480 |
| Wages and salaries | 660 | 660 | 660 | 660 |
| Insurance | 135 | | | 135 |
| Rent | 500 | 500 | 500 | 500 |
| Electricity | | | 210 | |
| Drawings | 3200 | | | |
| Office expenses | 100 | 100 | 100 | 100 |
| Total outflow | 7475 | 3140 | | 2875 |
| Net monthly cash-flow | (4275) | 1260 | 1650 | |
| Opening balance | 3700 | (575) | 685 | 2335 |
| Closing balance | (575) | 685 | 2335 | |

(3 marks)

(b) *The Leading Edge Ltd* is forecast to have a cash-flow problem in January 2004.

Suggest **two** actions that Gill and Tim could take to improve the cash-flow position of the business. Explain your answers.

Action 1

Explanation.....

.....
.....
.....
.....
.....
.....
.....
.....
.....

(5 marks)

Action 2

Explanation.....

.....
.....
.....
.....
.....
.....
.....
.....
.....

(5 marks)

QUESTION 4 CONTINUES ON THE NEXT PAGE

Turn over ►

(c) Gill and Tim decide that they need the new industrial sewing machine, but do not have the funds to buy the machine outright.

(i) Identify **two** sources of finance that could be used to buy the machine. Explain how each would work.

Source 1.....

Explanation

.....

.....

.....

.....

(3 marks)

Source 2.....

Explanation

.....

.....

.....

.....

(3 marks)

(ii) Recommend which source Gill and Tim should use. Give a reason for your answer.

Source.....

Reason

.....

.....

.....

.....

.....

.....

(4 marks)

END OF QUESTIONS