

Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	



General Certificate of Secondary Education
June 2012

Applied Business (Double Award)

413007

Unit 7 Business Finance

Wednesday 30 May 2012 9.00 am to 10.00 am

You will need no other materials.
You may use a calculator.

Time allowed

- 1 hour

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes 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.
- The maximum mark for this paper is 60.
- You are reminded of the need for good English and clear presentation in your answers. Quality of Written Communication will be assessed in Questions 1(d), 2(c) and 3(d).



J U N 1 2 4 1 3 0 0 7 0 1

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

Total for this question: 19 marks

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

Item A

Drivetime

Jayne planned to start a driving school called *Drivetime*. The business needed to be profitable because it would be her only source of income.

Jayne hoped to work 40 hours per week. She thought that it would take six months to reach this target while she built up her business, as the following table shows:

Figure 1 – Estimated number of hours worked per week

June	July	August	September	October	November
12	15	18	21	29	40

The local market for driving lessons was very competitive. Most driving instructors charged about £20 for a one-hour lesson. Jayne decided she would charge the same price, payable on the day of the lesson.

Jayne produced a cash-flow forecast for the first four months in which *Drivetime* would operate.

After drawing up her cash-flow forecast, Jayne considered two possibilities.

1. The annual insurance for the car is £2000. She could pay this in monthly instalments of £185 per month (£2220 per year), rather than in one lump sum.
2. Jayne thought that she could improve both profit and cash flow by offering a 10% discount to customers who paid for ten lessons in advance. She estimated that 50% of her customers would take up this offer. It might also attract additional customers.

1 (a) Explain why a business might draw up a cash-flow forecast.

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(2 marks)



- 1 (b) Complete the cash-flow forecast for *Drivetime* by inserting your answers in the shaded boxes below.

<i>Drivetime</i>				
Cash-flow forecast for the four months ended 30 September				
	June £	July £	August £	September £
Cash In				
Sales	1040	1300	1560	1820
Total inflow	1040	1300	1560	1820
Cash Out				
Lease of car	312	312	312	312
Advertising	400	30	30	30
Insurance	2000			
Petrol and road tax	260	165	195	230
Total outflow	2972	507	537	
Net Monthly Cash Flow	(1932)	793		1248
Opening balance	500		(639)	384
Closing balance		(639)	384	1632

(4 marks)

Question 1 continues on the next page

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1 (c) Using **Item A** and your answer to **question 1 (b)**, explain the possible effects on *Drivetime's* cash flow if Jayne decides to pay the car insurance in monthly instalments.

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1 (d) Jayne considered offering a 10% discount to customers who pay for ten lessons in advance.

Do you think that this offer will improve *Drivetime's* profit **and** cash flow? Use **Item A** and your answer to **question 1 (b)** to justify your answer.

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Total for this question: 21 marks

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

Item B

Advanced Driving Lessons

Having reached her target of working 40 hours per week, Jayne realised that her car could provide an additional income even if she was not driving it. She estimated that her car could be used to provide an extra 30 hours of driving lessons per week.

Jayne considered offering advanced driving lessons. Jayne would pay another driving instructor to provide these lessons using her car. Jayne would also pay for the insurance and petrol.

Jayne calculated the costs and revenue of providing advanced driving lessons would be:

- Price per lesson of £20 per hour
- Variable costs of £10 per hour
- Fixed costs of £160 per week.

Jayne used the following formula to calculate that she needed to provide 16 lessons per week for this new service to break even.

Break-even point = $\frac{\text{Fixed costs per week}}{\text{(price of lesson per hour less variable costs per hour)}}$

Jayne was concerned that fixed costs might rise to £180 per week. She could increase her price to £25 per hour. However, market research showed that at £25 per hour, Jayne could sell only 15 lessons per week.

2 (a) Using **Item B**, identify **one** type of fixed cost and **one** type of variable cost to *Drivetime* of offering advanced driving lessons.

Fixed cost

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Variable cost

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(2 marks)



2 (b) (i) Using **Item B**, explain how an increase in fixed costs to £180 per week might affect *Drivetime*. Show your calculations.

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2 (b) (ii) Identify **two** suitable actions that Jayne could take if fixed costs increase to £180 per week. In each case, explain why your choice of action would be suitable for *Drivetime*.

Action 1
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Action 2
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(6 marks)

2 (c) A taxi business has asked *Drivetime* to provide ten one-hour advanced driving lessons per week for eight weeks. The taxi business is prepared to pay £18 per hour.

Do you think that *Drivetime* should accept the taxi business's offer? Use **Item B** to justify your answer.

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Total for this question: 20 marks**3** Read **Item C** and then answer the questions that follow.**Item C****Financing Expansion**

Jayne has been successful and now employs a number of driving instructors. In order to expand even further, Jayne will need more cars and more driving instructors. She will also need to increase the amount she spends on advertising as well as having more money available for cash flow. She estimates that she will need £70 000 to finance the expansion.

Jayne could get a loan from her bank for £70 000, repayable at £26 000 per year for three years. The bank has asked to see *Drivetime*'s latest Profit and Loss Account.

As an alternative source of finance, Jayne is considering turning *Drivetime* into a limited company and selling 40% of the shares to Devindra for £70 000. Devindra is an experienced driving instructor and used to run his own driving school.

Jayne has enjoyed owning and running *Drivetime* on her own but she is worried that the business might become more difficult to manage if it expands. As a result, Jayne thinks that she might need some help to run *Drivetime*. However, she is also worried that she might lose some control of the business if she sells shares to Devindra.

Jayne's only source of income is the profit made by *Drivetime*. She therefore wants the business to make a profit of at least £35 000 per year.



3 (a) Complete the Profit and Loss Account for *Drivetime* for the year ended 30 April 2012 by filling in the **shaded** boxes in the table below.

<i>Drivetime</i> Profit and Loss Account for the year ended 30 April 2012		
	£	£
Sales revenue		160 000
Cost of sales		20 000
Gross profit		
<i>Expenses</i>		
Lease of cars	15 000	
Salaries	60 500	
Other costs	8 500	
<i>Total expenses</i>		
Net profit		

(3 marks)

3 (b) Using **Item C** and your answer to **question 3(a)**, explain why the bank has asked to see *Drivetime's* Profit and Loss Account for the year ended 30 April 2012.

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3 (c) Using **Item C**, explain the financial benefits to Jayne of selling shares to Devindra.

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3 (d) Do you think that Jayne should finance the expansion of *Drivetime* by taking out the bank loan or by selling shares to Devindra? Use **Item C** to justify your answer.

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20

END OF QUESTIONS



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