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<h1>Business/Enterprise and Entrepreneurship</h1> <h2>Unit 3: Personal and Business Finance</h2>									
Friday 25 May 2018 – Afternoon						Paper Reference			
Time: 2 hours						31463H			
You must have: Calculator								Total Marks	

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and learner registration number.
- Answer **all** questions.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Show your working when requested.

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- There are two sections: Section A Personal Finance and Section B Business Finance.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your calculations and the steps you have used.
- Check your answers if you have time at the end.

Turn over ►

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Pearson

SECTION A – Personal Finance

Answer ALL questions. Write your answers in the spaces provided.

You are advised to spend 40–45 minutes on this section.

1 Give **two** different types of financial institution.

1

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2

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(Total for Question 1 = 2 marks)

2 State **two** ways the Financial Conduct Authority (FCA) can protect consumers in relation to personal finance.

1

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(Total for Question 2 = 2 marks)

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3 (a) Give **two** advantages to the consumer of paying monthly bills by direct debit.

(2)

1

2

(b) Give **two** disadvantages to the consumer of paying monthly bills by direct debit.

(2)

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(Total for Question 3 = 4 marks)

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Personal attitudes towards the role of money will differ according to the individual's life stage.

4 Discuss the personal attitudes of people in old age towards **borrowing** and **saving**.

(6)

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(Total for Question 4 = 6 marks)



Morna has a full-time job. She has a standard bank account, a small amount of savings, a mortgage and a basic workplace pension. She does not have any life insurance. Morna believes she will benefit from reviewing the financial products she currently has and is considering taking financial advice from an Independent Financial Advisor.

5 Assess whether Morna should use an Independent Financial Advisor as a source of financial advice.

(10)

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QUESTION 6 BEGINS ON THE NEXT PAGE.



Liam has a partner and two children and works full time. The family takes two holidays a year, usually in Europe or in the UK. He and his partner have each recently purchased the latest iPhone without insurance. Liam is regularly overdrawn on his bank account by around £300. He is about to open a packaged current account.

This table gives some information about products from different financial organisations.

Financial organisation	Annual cost	Travel insurance	Mobile phone insurance	Interest-free overdraft limit
Product				
Westshire Bank Flexplus	£120	Europe family	Up to £1 000 for account holder only	£100
Ashridge Bank Ultimate Rewards	£160	Worldwide family	Replacement phone for account holder only	£300
Shirevale Bank Travel Plus Pack	£186	Europe family + winter sports	Cover for account holder and partner only	£200
The Royal Bank Select Platinum	£192	Worldwide family + winter sports	Up to £2 000 for the family	£250

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6 Evaluate which packaged current account would be the most suitable for Liam.

(12)

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(Total for Question 6 = 12 marks)

TOTAL FOR SECTION A = 36 MARKS



SECTION B – Business Finance

Answer ALL questions. Write your answers in the spaces provided.

Tomasz has a pet grooming business for small animals called *Pet Boutique*.
Tomasz previously rented a space in a local pet parlour but is about to move into his own premises as his client list has increased significantly and he is struggling to keep up with demand. He has used all his savings and borrowed some money from family to purchase his equipment and a small van.

7 Give **one** reason for recording financial transactions.

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(Total for Question 7 = 1 mark)

8 Identify **two** variable costs that a business such as *Pet Boutique* could have.

1

2

(Total for Question 8 = 2 marks)

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Tomasz has given you the following financial information:

**Extract from the Statement of Comprehensive Income for *Pet Boutique*
for the year ended 31 December 2017**

	£	£
Sales		31 200
Opening inventory	1 200	
Purchases	9 984	
Closing inventory	2 496	
Cost of goods sold		<u>8 688</u>
Gross profit		22 512
Expenses		
Total expenses	17 600	
Profit for the year		4 912

Figure 1



**Extract from the Statement of Financial Position for *Pet Boutique*
at 31 December 2017**

	Cost (£)	Depreciation (£)	Net book value (£)
Non-current assets			
Vehicle	6 000	1 500	4 500
Fixtures and fittings	4 000	400	3 600
Equipment	8 500		8 500
			16 600
Current assets			
Inventory	2 496		
Trade receivables	2 100		
Bank	3 000		
Cash	200		
		7 796	
Current liabilities			
Trade payables		5 824	
Net current assets/liabilities			1 972
Non-current liabilities		2 000	
Net assets			16 572

Figure 2

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9 Using the Financial Information given by Tomasz in **Figure 1** and **Figure 2** complete Questions 9a, 9b, 9c(i), 9c(ii), 9c(iii) and 9d.

(a) Calculate the gross profit margin.

(2)

Show your workings

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(b) Calculate the liquid capital ratio.

(2)

Show your workings

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Tomasz realises that he has made some errors in the financial information given in **Figure 1** and **Figure 2**.

Error 1

He forgot to depreciate his equipment. This is to be depreciated by 15% using the straight line method.

- (c) (i) Calculate the new net book value for his equipment.

(2)

Show your workings

Error 2

He has incorrectly included his overdraft of £800 in his bank figure.

- (ii) Calculate his new Net Current Assets/Liabilities figure taking into account this error.

(3)

Show your workings

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(iii) Calculate the new Net Asset figure taking into account Errors 1 and 2.

(2)

Show your workings

Error 3

He forgot to include his accrued quarterly payment of £1 280 for utilities in his Financial Statements given in Figure 1 and Figure 2.

(d) Calculate the new Net Profit figure to account for Errors 1, 2 and 3.

(2)

Show your workings

(Total for Question 9 = 13 marks)



Tomasz has produced a cash flow forecast but it is incomplete.

10 (a) Complete the outlined boxes labelled (i) to (viii) in the cash flow forecast for *Pet Boutique*.

	January	February	March	April	
	£	£	£	£	
Income					
Sales	2 700	950	3 650	2 940	
Other income	200	(iii)	0	0	(1)
(i)	2 900	1 150	3 650	2 940	(1)
Expenses					
Stock	1 102	1 102	815	(vi)	(1)
Marketing	80	520	80	80	
Utilities	1 280	0	0	1 280	
Other	1 020	840	1 200	1 450	
Total expenditure	3 482	(iv)	2 095	3 937	(1)
Net cash flow	-582	(v)	1 555	(vii)	(1) (1)
Opening balance	(ii)	1 558	246	1 801	(1)
Closing balance	1 558	246	1 801	(viii)	(1)

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Tomasz is considering offering a pet-sitting service in his shop.
He wants to know if he will at least break even if he offers this service.
He estimates his costs and revenue for this service as:

- fixed costs £5 640
- total variable costs £11 640
- total revenue £17 460

He expects to have 970 customers.

(b) Calculate the break-even point for this service at *Pet Boutique*.

(4)

Show your workings

(Total for Question 10 = 12 marks)



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(Total for Question 11 = 6 marks)



Tomasz needs to replace the vehicle for his business. He is unsure how he can finance this and is considering leasing the vehicle.

12 Analyse the advantages and disadvantages to a small business such as *Pet Boutique* of leasing a vehicle.

(8)

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(Total for Question 12 = 8 marks)



Tomasz often experiences cash flow problems, which causes his business account to become overdrawn.

His customers usually pay for his services in full within 30 days of receiving the service. He is considering introducing annual payment plans for his customers where they will pay a fixed amount each month. To do this he will calculate his customer's total spend for the previous year and divide it into 12 equal monthly payments. He believes this will help customers since they will know how much they will be paying every month. No other groomer in the area offers this facility.

13 Assess whether introducing annual payment plans would help improve Tomasz's cash flow.

(10)

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QUESTION 14 BEGINS ON THE NEXT PAGE.



After moving to his new premises, Tomasz has realised that he has a lot of space that he is not utilising. He would like to increase his overall profit and has researched two options that could make use of the space and increase his profit.

Options	Costs and revenues
<p>1 – Allow another dog groomer to have space in his shop in return for rent and an additional fee each month. Initial contract would be for six months.</p> <p>The additional dog groomer would be responsible for his/her own purchases and some equipment but the rent payment would include the use of all utilities. The additional groomer has the potential to match Tomasz’s forecast sales for the year.</p>	<p>Rent £600 per month + an additional fee of 14% of the groomer’s takings each month, which is paid to Tomasz.</p> <p>10% increase in overhead costs that Tomasz has to pay.</p> <p>15% increase in depreciation of fixtures and fittings.</p>
<p>2 – Start to sell pet food and accessories. This would need a large display area and storage space.</p> <p>His research shows there will be demand for this option. He has based his inventory turnover forecast on information from a similar business.</p>	<p>£3 500 average stock, which would be purchased and then maintained. Mark-up is 100%.</p> <p>Inventory turnover forecast is 92 days (or 4 times a year).</p> <p>5% increase in overhead costs.</p> <p>£2 000 initial cost of purchasing display equipment.</p>

Forecast financial information for the coming year before options are applied

Item	£
Sales	34 574
Cost of sales	11 616
Net profit before tax	5 808
Overhead costs	17 150
Fixtures and fittings	9 140



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14 Evaluate which option would be the most profitable for *Pet Boutique*.

(12)

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(Total for Question 14 = 12 marks)

TOTAL FOR SECTION B = 64 MARKS
TOTAL FOR PAPER = 100 MARKS





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