

Write your name here

Surname					Other names			
Centre Number					Candidate Number			
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**Edexcel GCSE**

**Applied Business (Double Award)**  
**Unit 4: Financial Planning and Forecasting**

Tuesday 15 June 2010 – Morning <b>Time: 1 hour</b>	Paper Reference <b>5AB04/01</b>
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**You do not need any other materials.**

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 candidate number.
- Answer **all** the questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

### Information

- The total mark for this paper is 60.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (\*) are ones where the quality of your written communication will be assessed  
– *you should take particular care with your spelling, punctuation and grammar, as well as the clarity of expression on these questions.*
- A calculator may be used.

### Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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## SCENARIO

The questions in this paper are based on the following scenario.

You should read this scenario carefully before you start to answer the questions.

### *Café Bodega*

**Café Bodega** is a new daytime café bar that also operates as a successful cocktail bar and club by night. It sells a selection of Spanish tapas (snacks), meals and drinks. It has been set up by Lewis Tudor, a young entrepreneur.



**Café Bodega** trades in a city centre alongside other businesses. It is enjoyed by the locals and is building up a good reputation in the area. At weekends **Café Bodega** does very well but it is less busy during the week.

Although Lewis is pleased with the success of his business he is considering ways to attract even more people. He wants to offer a better selection of food, new forms of entertainment such as DJs, live music and dance classes. He is also considering private room hire for parties or business events. To do this Lewis realises that he will have to invest money and employ more staff.

Knowing that you are studying a business course, Lewis sometimes asks for your help and advice.



**Question 1(a) – 1(e) must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross in a box ☒.**

- 1 (a) *Café Bodega* has a trade credit agreement with its drinks suppliers. This means that:

(1)

- A** it has less capital expenditure to make as a result
- B** it pays for all goods at the time they are received
- C** it is allowed to pay for the goods when it can afford to do so
- D** there is a delay between receiving goods and paying for them.

*Café Bodega* will need to finance its long-term expansion plans.

- (b) Which of the following is an example of a short-term source of finance for *Café Bodega*?

(1)

- A** Government grant.
- B** Loan.
- C** Overdraft.
- D** Retained profit.

- (c) Lewis uses a cash-flow forecast at *Café Bodega*. This will forecast:

(1)

- A** the money coming in and going out of the business
- B** the amount of profit to be made by the business
- C** the size of the loss that the business will make
- D** the point at which the business will break even.



(d) Lewis can work out the margin of safety for *Café Bodega* using a:

(1)

- A** cash-flow forecast
- B** break-even chart
- C** profit and loss account
- D** labour budget.

(e) If *Café Bodega's* cash outflows are greater than its inflows, this will show as:

(1)

- A** a profit
- B** a deficit
- C** a loss
- D** an overpayment.

**(Total for Question 1 = 5 marks)**

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2 Lewis knows that it is very important to prepare business budgets for *Café Bodega*.

(a) Outline why preparing a labour budget might be helpful if Lewis wants to expand his business.

(2)

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(b) What would be the role of a purchases budget at *Café Bodega*?

(2)

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Lewis is planning to introduce dance classes to attract more customers. He would charge £10 per session. He will have to hire a dance tutor which would add to his costs.

Lewis has produced the following sales budget:

	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>
<b>Number of customers</b>	40	80	100
<b>Sales price (£)</b>	10	10	10
<b>Estimated sales (£)</b>	400	800	1 000

(c) Using this information advise Lewis whether the dance classes would be a good idea for *Café Bodega*.

(5)

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Lewis has sent you the following email.

Hi

These are our sales figures for June for *Café Bodega*.

We sold 310 meals during the day at £5 each; 465 evening meals at £10 each; and 1 550 drinks at £5 each.

I think that we did really well, but could you take a look at how we did against our sales budget for June and let me know?

**Lewis**

(d) Using the information given in the email, complete the table below.

(6)

***Café Bodega Sales Budget for June***

	<b>June Budget (£)</b>	<b>June Actual (£)</b>	<b>June Variance (£)</b>	<b>Favourable/Adverse</b>
Day time meals	1 000	1 550		
Evening meals	5 270	4 650		
Drinks	6 000	7 750		

**(Total for Question 2 = 15 marks)**



- 3 Lewis intends to carry out some improvements at *Café Bodega*. He has given you the following information for the three months July – September 2010 – Forecasted.

Month	Receipts (£)	Payments (£)
July	5 600	5 600
August	6 000	5 750
September	7 400	5 900

- (a) Using the information above, complete the Cash-flow Forecast for *Café Bodega* for July – September 2010.

(3)

**Cash-flow Forecast for *Café Bodega* for July – September 2010**

2010	July (£)	August (£)	September (£)
Total Receipts	5 600	6 000	7 400
Total Payments	5 600	5 750	5 900
Net Inflow/Outflow	0		1 500
Opening Balance	(750)		(500)
Closing Balance	(750)	(500)	





(b) Comment on the forecasted cash-flow position of *Café Bodega*.

(4)

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Lewis is thinking about asking his bank for a loan to finance the improvements.

(c) Why would his bank be interested in what is shown in the cash-flow forecast?

(3)

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**Total for Question 3 = 10 marks**



4 Lewis wants to see how profitable *Café Bodega* will be if he charges entrance for live music. He has calculated the following expected costs and revenues:

- Fixed costs £360 a week
- Variable costs £2.50 per unit
- Entrance ticket price of £10.

Lewis has given you the following formula to calculate the break-even point:

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{variable cost per unit}}$$

(a) Calculate the number of tickets that *Café Bodega* must sell each week in order to break even.

(2)

**Space for your workings**

After carrying out some research, Lewis decides that he should charge £8.50 per ticket rather than £10.

(b) State the effect this reduction in price would have on the break-even number of ticket sales per week.

(2)

**Space for your workings**



Lewis is thinking about offering an 'early diner special' on weekday evenings. He wants you to check the break-even point before he makes a final decision and has given you the following information:

- Total fixed costs per week £300
- Average variable costs of £10 per 'early diner special'
- Selling price of £20 per 'early diner special'.

Lewis believes that he could sell up to 50 'early diner specials' a week.

(c) Using the data given to you by Lewis, draw a **fully labelled break-even** chart on the graph supplied.

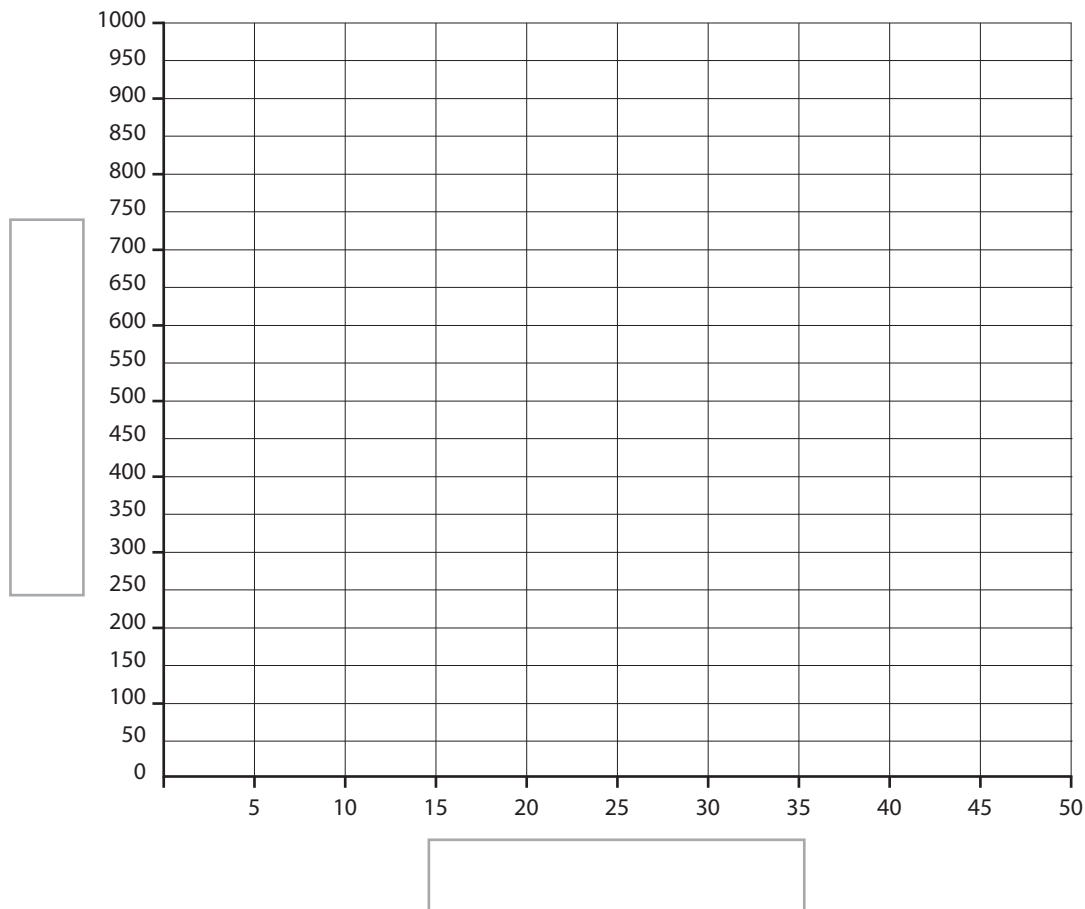
*You may find it helpful to complete the activity table before you complete the chart.*

(6)

**Activity Table**

Early diner specials	0	25	50
Sales			
Variable Costs			
Fixed Costs			
Total Costs			

Heading .....



**Total for Question 4 = 10 marks**



5 Lewis can use ICT to assist with his break-even analysis.

(a) Explain **one** advantage to Lewis of using a spreadsheet for this purpose.

(3)

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(b) Outline **one** disadvantage Lewis might face when carrying out break-even analysis on the 'early diner specials'.

(2)

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(c) Outline **two** reasons why Lewis should prepare a forecast profit and loss account.

(4)

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**Total For Question 5 = 9 marks**



6 Lewis has been told that he could be eligible for a government grant to help develop his business.

(a) What is meant by the term **'government grant'**?

(1)

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The improvements that Lewis is considering will cost £15 000.

If Lewis cannot find a grant for this he will need to look at other ways of raising the finance for these improvements. Two possible options are shown below:

**Option 1**

*Café Bodega* could apply to its bank for a loan. The loan would be for 10 years.

**Option 2**

All the improvements could be paid for out of the future profits.

\*(b) Choose **one** of these options for *Café Bodega*. Justify your choice.

Option chosen (tick **one** box only)  Use bank loan

Use future profits

(10)

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Handwriting practice area with 25 horizontal dotted lines.

**(Total for Question 6 = 11 marks)**

**TOTAL FOR PAPER = 60 MARKS**



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