

Write your name here

Surname

Other names

Centre Number

Candidate Number

Edexcel GCSE

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

Friday 7 June 2013 – Afternoon

Time: 1 hour

Paper Reference

5AB04/01

**You do not need any other materials.
A calculator may be used.**

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** 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 on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*

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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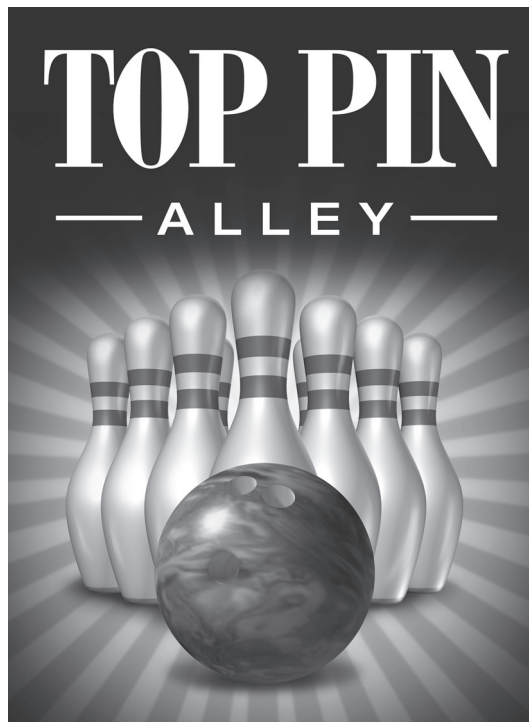
SCENARIO

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

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

Top Pin Bowling

Top Pin Bowling Ltd (TPB Ltd) is an independent tenpin bowling centre. It has 24 lanes, a licensed bar and a café.



TPB Ltd operates in a retail park alongside other businesses. *TPB Ltd* is busy each night and at the weekend but it is quieter in the day during the week.

The business is looking at how to attract more customers. It plans to offer daytime and family deals and weekend late night bowling after 10pm. It is also considering opening a karaoke studio with an hourly hire rate for parties of up to 10 people. To do this *TPB Ltd* realises that it will need to invest money and employ more staff.

You have just started your work experience at *TPB Ltd*.



Questions 1(a) to 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) *TPB Ltd* uses a cash-flow forecast. This will forecast the: (1)

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

(b) If *TPB Ltd's* cash inflows are greater than its outflows, this will show as a cash: (1)

- A** loss
- B** deficit
- C** surplus
- D** overpayment

(c) *TPB Ltd* has a trade credit agreement with its food suppliers. This means that it: (1)

- A** can delay paying for goods for an agreed period of time
- B** has to make less capital expenditure as a result
- C** pays for all goods at the time they are received
- D** is allowed to pay for the goods when it can afford to do so

TPB Ltd will need to finance its expansion plans for the karaoke studio.

(d) Which of the following is an example of a short-term source of finance for *TPB Ltd*? (1)

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



(e) *TPB Ltd* can work out its margin of safety using a:

(1)

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

TPB Ltd understands that it is very important to prepare business budgets.

(f) Explain how preparing a labour budget would help *TPB Ltd*.

(3)

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(Total for Question 1 = 8 marks)



You have received the following information about *TPB Ltd's* sales.

Sales budget figures for March for *Top Pin Bowling Ltd*

Adult games: 2 800 at £4.75 each

Junior games: 248 at £3.75 each

2 (a) Using the information given complete the table below.

(6)

***Top Pin Bowling Ltd*
Sales Budget for March**

	Actual (£)	Budget (£)	Variance (£)	Favourable/Adverse
Adult games	11 000			
Junior games	900			

(b) Using the above information show whether March was a successful month for *TPB Ltd*.

(2)

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(Total for Question 2 = 8 marks)



To help plan for the karaoke studio *TPB Ltd* has created a cash-flow forecast for the three months July to September 2013.

Top Pin Bowling Ltd
Cash-Flow Forecast for the Karaoke Studio

	July (£)	August (£)	September (£)
Total Receipts	18 436	19 298	18 576
Total Payments	17 500	20 950	16 820
Net Inflow/Outflow	936	-1 652	1 756
Opening Balance	528	1 464	-188
Closing Balance	1 464	-188	1 568

3 (a) In which month(s) will *TPB Ltd* expect to experience cash-flow problems? (1)

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(b) State **one** possible cause of these problems. (1)

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(c) Suggest **two** possible actions *TPB Ltd* could take to help resolve the cash-flow problems.

(2)

Action 1

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Action 2

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(Total for Question 3 = 4 marks)



TPB Ltd believes that late night bowling sessions at the weekend could attract more customers. On Fridays and Saturdays after 10pm it would charge £10.00 per person for two games of bowling and two drinks from the bar. This would mean TPB Ltd would need to hire extra members of staff which would add to the costs.

TPB Ltd has forecasted the following additional sales budget for the weekend late night sessions.

Top Pin Bowling Ltd
Sales Budget for weekend late night bowling sessions

	July	Aug	Sept
Number of customers	360	400	300
Selling price (£)	10	10	10
Estimated sales (£)	<u>3 600</u>	<u>4 000</u>	<u>3 000</u>

- 4 (a) Using this information, advise TPB Ltd whether the weekend late night bowling sessions would be a good idea for the business.

(5)

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TPB Ltd should have a number of financial planning documents in place before starting to equip the new karaoke studio.

- (b) (i) Outline why the company should prepare a forecast Profit and Loss Account before starting on this new venture. (2)

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- (ii) Explain why potential investors would want to see this forecast Profit and Loss Account. (3)

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- (c) Outline why preparing a capital expenditure budget might be helpful to *TPB Ltd* if it wants to equip the karaoke studio. (2)

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(Total for Question 4 = 12 marks)



TPB Ltd wants to see how profitable it could be if it opens the karaoke studio. It has calculated the following expected costs and revenues:

- Fixed Costs £147 a week
- Variable Costs £1
- Entry price of £4 per person.

You have been given the following formula to calculate the break-even point:

$$\text{Break-even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per Unit} - \text{Variable Cost per Unit}}$$

- 5 (a) Calculate the number of people who must use the karaoke studio each week in order for TPB Ltd to break even. **Show your workings.**

(2)

Space for your workings

Break-even point =



After carrying out some research, *TPB Ltd* decides to increase the entry price to £4.50 per person.

(b) State what effect this price increase would have on the break-even number of people per week.

(2)

Space for your workings

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TPB Ltd is also thinking about offering a Family Deal. This would include a game of bowling plus a choice of snack for a family of four. You have been asked to check the break-even point before a final decision is made. You have been given the following information:

- Fixed Costs £180 per week
- Variable Costs £6 per family
- Family Deal £15 per family.

TPB Ltd believes that it could sell up to 60 Family Deals a week.

- (c) Using the above data, draw a **fully labelled break-even chart** on the graph supplied.

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

(6)

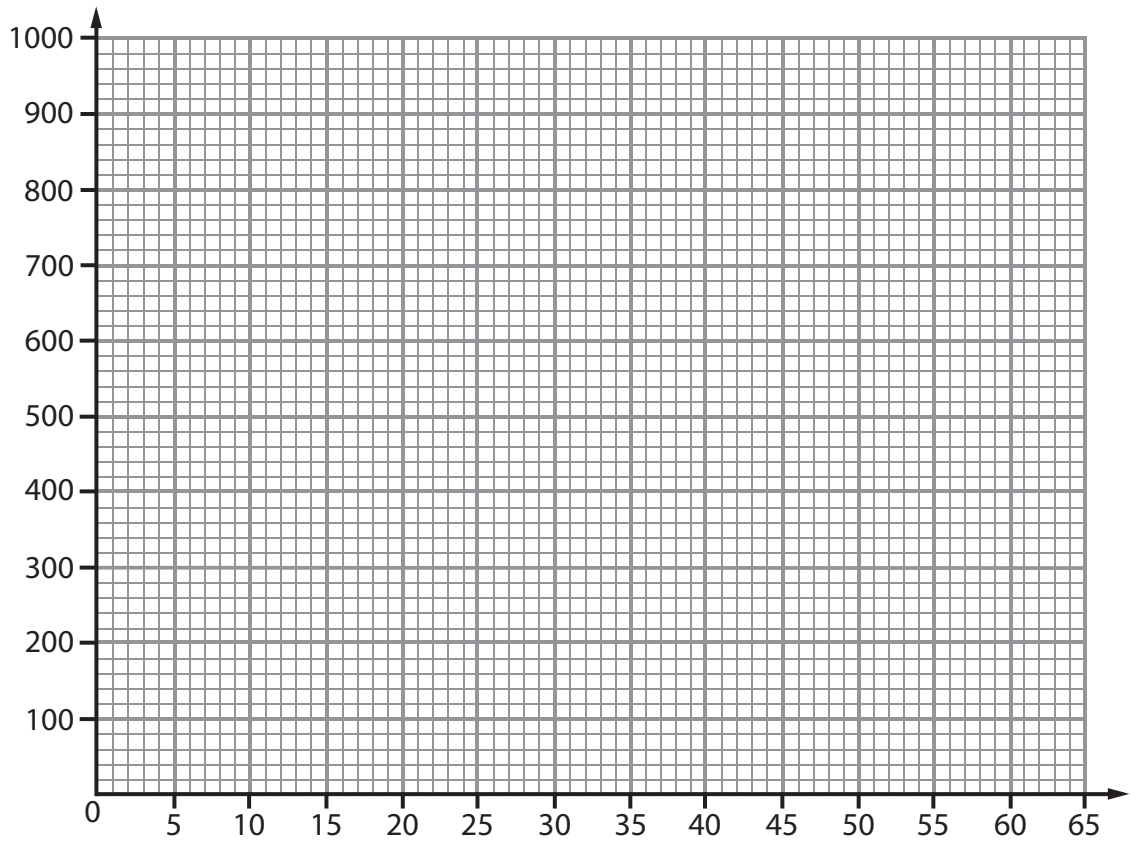
Activity Table

Family Deals	0	30	60
Sales			
Variable Costs			
Fixed Costs			
Total Costs			



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P 4 2 1 4 3 A 0 1 3 1 6

TPB Ltd is considering using ICT to assist with future break-even analysis.

(d) Explain **one** advantage and **one** disadvantage to *TPB Ltd* of using a spreadsheet for this purpose.

(8)

Advantage

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Disadvantage

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(Total for Question 5 = 18 marks)



When studying its various budgets and actual income and expenditure, *TPB Ltd* has noticed that there are a number of variances.

***6** Assess the possible reasons for these variances.

Dotted lines for writing the answer.

(Total for Question 6 = 10 marks)

(TOTAL FOR PAPER = 60 MARKS)



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