



**Answer ALL questions**

You run a small UK investment bank which has recently become part publicly owned. Each year you have funds to invest in business projects, either through loans or purchase of equity (shares). Your task is to choose between Business A (in the sources) and Business B (below), as each is seeking £100 000 funding from you. You will need to assess the risks and the rate of return from each business.

**Business B**

This is a long-established business selling a wide variety of goods in many different markets, at home and abroad.

**Trading and Profit & Loss for year**

	<b>2009</b>	<b>2008</b>
<b>Sales</b>	30 000 000	30 000 000
<b>Cost of Sales</b>	<u>25 000 000</u>	<u>25 500 000</u>
<b>Gross Profit</b>	5 000 000	4 500 000
<b>Overheads</b>	3 000 000	2 450 000
<b>Depreciation</b>	<u>1 000 000</u>	<u>1 000 000</u>
<b>Net Profit</b>	1 000 000	1 050 000

**Balance Sheet as at 31 December 2009**

<b>Fixed Assets</b>	50 000 000
<b>Stock</b>	5 000 000
<b>Debtors</b>	1 000 000
<b>Cash</b>	<u>1 000 000</u>
	57 000 000
<b>Current Liabilities</b>	<u>1 000 000</u>
<b>Assets Employed</b>	56 000 000
<b>Shareholder Funds</b>	52 000 000
<b>Loans</b>	4 000 000

At the end of this examination paper, there are various sources of information. You should use the information together with your own knowledge and understanding of Commerce, to prepare a report. This has been divided into a series of tasks on the following pages.



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1. My task is to advise the investment bank about ...

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(2)

(Total 2 marks)

Q1



2. (a) Using an example in each case, discuss **two** services that banks provide for businesses.

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(6)

(b) What is meant by ‘part publicly owned’?

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(2)



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(c) Examine **one** possible business risk that an investment bank should consider when lending money.

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(2)

(d) What is meant by 'rate of return'?

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(2)

**(Total 12 marks)**

Q2











**Source A**

**Business A**

This is a relatively new firm, just four years old. It sells fashion clothing in a small, specialist market.

**Trading and Profit & Loss for year**

	<b>2009</b>	<b>2008</b>
<b>Sales</b>	4 000 000	3 000 000
<b>Cost of Sales</b>	<u>2 800 000</u>	<u>2 000 000</u>
<b>Gross Profit</b>	1 200 000	1 000 000
<b>Overheads</b>	400 000	400 000
<b>Depreciation</b>	<u>200 000</u>	<u>200 000</u>
<b>Net Profit</b>	600 000	400 000

**Balance Sheet as at 31 December 2009**

<b>Fixed Assets</b>	2 000 000
<b>Stock</b>	500 000
<b>Debtors</b>	200 000
<b>Cash</b>	<u>50 000</u>
	2 750 000
<b>Current Liabilities</b>	<u>750 000</u>
<b>Assets Employed</b>	2 000 000
<b>Loans</b>	1 000 000
<b>Capital Owned</b>	<u>1 000 000</u>
<b>Capital Employed</b>	2 000 000

**Source B**

Investment banks provide finance for private sector businesses. They aim to secure a high rate of return on their investments. This can be done in many ways, two of which are:

- charging interest on the loans made
- buying equity (shares) which is later sold at a profit when the business is successful.

**Source C**

From mid-2008 to late-2009, the British economy was in a recession that was triggered by a worldwide financial crisis. This occurred because several big banks took large risks with their loans and investments in the pursuit of even bigger profits. The British Government had to step in to avoid a meltdown of the banking system. It ended up owning more than 40% of two big banks, Halifax Bank of Scotland (HBOS) and Royal Bank of Scotland (RBS), which became part publicly owned.



**Source D****Financial Tests**

When the trading results of a business are analysed, accountants use several financial tests, including the following:

- Gross Profit % =  $\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$
- Net Profit % =  $\frac{\text{Net Profit}}{\text{Sales}} \times 100\%$
- Return on Capital Employed =  $\frac{\text{Net Profit}}{\text{Capital Employed}}$
- Liquidity Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- The Acid Test =  $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$

From the calculations, the profitability and viability of a business can be assessed and compared with other businesses.



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