



**Surname** \_\_\_\_\_

**Other Names** \_\_\_\_\_

**Centre Number** \_\_\_\_\_

**Candidate Number** \_\_\_\_\_

**Candidate Signature** \_\_\_\_\_

**I declare this is my own work.**

## **Level 3 Certificate/Extended Certificate**

### **APPLIED BUSINESS**

#### **Unit 1 Financial Planning and Analysis**

#### **ABS1**

**Time allowed: 1 hour 30 minutes**

**At the top of the page, write your surname  
and other names, your centre number,  
your candidate number and add your  
signature.**

**[Turn over]**



**For this paper you must have:**

- **a scientific calculator (non-programmable).**

## **INSTRUCTIONS**

- **Use black ink or black ball-point pen.**
- **Answer ALL questions.**
- **You must answer the questions in the spaces provided. Do not write on blank pages.**
- **If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).**
- **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.**
- **There are TWO sections to this paper.**
- **Both sections should be attempted.**
- **The maximum mark for this paper is 60. There are 40 marks for SECTION A and 20 marks for SECTION B.**

## **ADVICE**

- **Please read each question carefully before starting.**
- **You should spend approximately 60 minutes on SECTION A and 30 minutes on SECTION B.**

**DO NOT TURN OVER UNTIL TOLD TO DO SO**



## **SECTION A**

**Answer ALL questions in this section.**

**Total for this section: 40 marks**

**Tick (✓) the box next to the correct answer for questions 01 to 04.**



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**Which of the following LEGAL STRUCTURES OF BUSINESS would NOT provide protection for the personal possessions of an owner? [1 mark]**

☐

**A Community interest company**

☐

**B Cooperative**

☐

**C Limited liability partnership**

☐

**D Sole trader**

**[Turn over]**

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0	2
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**Which of the following is an EXTERNAL SOURCE OF FINANCE? [1 mark]**

☐

**A Bank overdraft**

☐

**B Retained profits**

☐

**C Sale of fixed assets**

☐

**D Working capital**

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1

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**Read the two statements, on the opposite page, and decide whether each is true or false.**



**STATEMENT 1: A cash-flow budget could provide POTENTIAL FUNDERS with information about the ability of a business to pay back a loan.**

**STATEMENT 2: A statement of financial position could provide SHAREHOLDERS with information about the value of a business.**

**[1 mark]**

☐

**A Both statements are true.**

☐

**B Both statements are false.**

☐

**C Statement 1 is true, statement 2 is false.**

☐

**D Statement 1 is false, statement 2 is true.**

**[Turn over]**

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**Read the two statements below and decide whether each is true or false.**

**STATEMENT 1: A business has a FAVOURABLE VARIANCE if its actual cost of sales is higher than the budgeted figure.**

**STATEMENT 2: A business has an ADVERSE VARIANCE if its actual running costs are lower than the budgeted figure.**

**[1 mark]**

☐

**A Both statements are true.**

☐

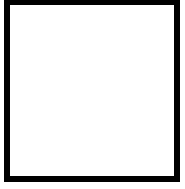
**B Both statements are false.**

☐

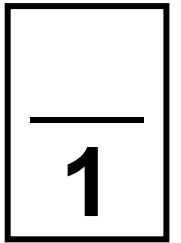
**C Statement 1 is true, statement 2 is false.**







**D Statement 1 is false, statement 2 is true.**



**[Turn over]**



05

Huan owns a manufacturing business.  
The following information is available.

	£
Fixed costs per year	50 000
Variable costs per unit	30
Selling price per unit	50

Calculate the PROFIT Huan will make if  
he sells 3000 units in a year.

Show your calculations.  
[3 marks]

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[Turn over]

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**3**



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**Aisha is considering opening a hairdressing salon in a small town. There are two other hairdressing salons in the town.**

**Explain how BREAK-EVEN analysis could help Aisha to set prices for her hairdressing salon. [3 marks]**

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**Sean has bought a building. He is going to operate a computer repair business from the building. His business will have both revenue expenditure and capital expenditure.**

**Explain the difference between REVENUE EXPENDITURE and CAPITAL EXPENDITURE for Sean's computer repair business. [3 marks]**

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**[Turn over]**



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**Zara plans to open her own coffee bar. Her new business will trade as a private limited company. She has savings of £20 000.**

**The company will have:**

- **start-up costs of £38 000 to buy equipment for the business**
- **running costs of £2100 per month.**

**Zara estimates that sales will average £4000 per month for the first few months of business. She expects sales to rise in the future.**

**Zara will need to make enough profit to pay her living costs of £1200 per month.**

**Use the information above to analyse:**

- **ONE suitable way of FINANCING THE START-UP COSTS for this business**



- **ONE suitable way of MEETING THE RUNNING COSTS for this business.**

**[9 marks]**

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9

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**Specialist Timber Provisions (STP) buys wood and sells the wood to builders.**

**STP is allowed to pay for the products it buys within 30 days by its suppliers.**

**Customers are allowed 45 days to pay for the wood that STP sells. The customers expect that STP will always have the wood required when the customers need it.**

**A new hospital is being built nearby so STP needs to buy more inventory (stock) to meet possible increased demand from the hospital builders.**



## Cash-flow forecast for the period February to May 2022 (£000)

	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>
<b>Cash in</b>	<b>200</b>	<b>200</b>	<b>350</b>	<b>440</b>
<b>Cash out</b>				
<b>Purchase of inventory (stock)</b>	<b>280</b>	<b>230</b>	<b>220</b>	<b>190</b>
<b>Other costs</b>	<b>40</b>	<b>39</b>	<b>39</b>	<b>38</b>
<b>Cash outflow</b>	<b>320</b>	<b>269</b>	<b>259</b>	<b>228</b>
<b>Net Monthly Cash Flow</b>	<b>(120)</b>	<b>(69)</b>	<b>91</b>	<b>212</b>
<b>Opening Balance</b>	<b>50</b>	<b>(70)</b>	<b>(139)</b>	<b>(48)</b>
<b>Closing Balance</b>	<b>(70)</b>	<b>(139)</b>	<b>(48)</b>	<b>164</b>

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**Use the information, on pages 20 and 21, to analyse TWO ways in which STP could manage its CASH-FLOW. [9 marks]**

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**[Turn over]**



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**Damian wants to expand his business and has asked his bank for a loan of £50 000.**

**Repayments and interest on the loan would be £6000 each year for 10 years.**

**Damian has provided the bank with the income statements for the business for the last two years.**



## Income statements for the two years ended 31 December (extracts)

	2021	2020
	£	£
<b>Revenue</b>	<b>180 000</b>	<b>125 000</b>
<b>Cost of sales</b>	<b>124 000</b>	<b>102 000</b>
<b>Gross profit</b>	<b>56 000</b>	<b>23 000</b>
<b>Expenses</b>	<b>40 000</b>	<b>21 000</b>
<b>Operating profit</b>	<b>16 000</b>	<b>2 000</b>

**[Turn over]**



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**Use the information, on pages 28 and 29, to analyse ONE advantage and ONE disadvantage to the bank of using these INCOME STATEMENTS when considering the FINANCIAL PERFORMANCE of Damian's business.**  
**[9 marks]**

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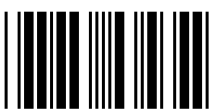
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## SECTION B

**Answer the question in this section.**

**Total for this section: 20 marks**

**Read ITEM A and answer question 

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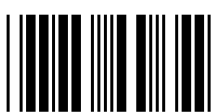
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### ITEM A

#### **The Pet Centre plc**

**The Pet Centre plc (TPC) is a successful pet care business with 30 superstores. It offers a wide range of products. TPC offers services such as pet grooming in each superstore.**

**At the end of 2020 TPC decided to expand its services by introducing in-store vet surgeries. It aimed to have 50% of turnover from services by 2023. These services are more difficult for competitors like Amazon to provide. In**



the short term this increased expenses and profits were reduced. Shareholders were disappointed at receiving low dividends.

## Financial information for The Pet Centre plc

	31/12/21	31/12/20
<b>Turnover (£ million)</b>	<b>641</b>	<b>599</b>
<b>Return on Capital Employed (%)</b>	<b>5.88</b>	<b>9.26</b>
<b>Gearing (long term liabilities/capital employed) (%)</b>	<b>24.43</b>	<b>27.14</b>
<b>Operating profit margin (%)</b>	<b>5.53</b>	<b>9.33</b>
<b>Operating profit (£ million)</b>	<b>35.43</b>	<b>55.91</b>
<b>Net assets (£ million)</b>	<b>602</b>	<b>604</b>

**[Turn over]**



## **UK market information for pet care:**

- **the market for pet care is worth £9 billion per year and growing**
- **there are estimated to be 9 million dogs and 8 million cats**
- **dogs are popular with the 20–40 age group who usually have jobs and good incomes**
- **demand for dog care services like dog walking, boarding and sitting is growing quickly.**

**TPC believes expanding its dog care services could help to increase its turnover from services.**

**Happy Tails Ltd (HTL) developed an app that helps dog owners find trusted, local and insured dog care services. HTL makes its profit by taking 20% of the fees received by dog carers. HTL has grown quickly and has had an operating profit**



**margin of over 15% in each of the last three years. Operating profit was £350 000 in 2020. HTL has net assets of £3 million.**

**TPC wants to buy HTL for its app, database of dog carers and customers. TPC would be able to buy HTL for £6 million. TPC would need to borrow this amount or use its retained profit. Shareholders are concerned that buying HTL would mean lower dividends and that the purchase price is high.**

**[Turn over]**



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**Using the FINANCIAL and MARKET INFORMATION described in ITEM A, on pages 36 to 39, evaluate whether The Pet Centre plc should buy Happy Tails Ltd. [20 marks]**

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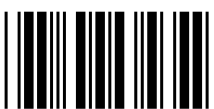
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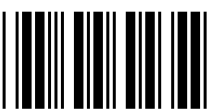
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**[Turn over]**



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**[Turn over]**



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**Additional page, if required.**  
**Write the question numbers in the left-hand margin.**


**Additional page, if required.  
Write the question numbers in the  
left-hand margin.**

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For Examiner's Use	
Question	Mark
01	
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TOTAL	

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