CIE AS Business Studies

Sample Questions: Paper 2, Section 3 (Analyse)

Unit 5: Finance and Accounting

Paddy Corry

Table of Contents

Chapter 26: Business Finance 3
S14_QP_22: Sources of Finance 3
W13_QP_21: Sources of Finance 4
S12_QP_21: Sources of Finance 5
W09_QP_22: Sources of Finance 6
S09_QP_2: Sources of Finance 7
S09_QP_2: Sources of Finance 8
Chapter 27: Forecasting Cash Flows 9
S12_QP_13: Cash Flow Problems 9
Chapter 28: Costs 10
Chapter 29: Accounting Fundamentals 11
S14_QP_21: Accounting Ratios 11
W13_QP_23: Usefulness of Financial Accounts 12
S12_QP_22: Use of Ratios 13

Chapter 26: Business Finance

S14_QP_22: Sources of Finance

Great Gifts (GG)

GG is a co-operative owned by its workers. GG manufactures souvenirs for tourists. The products are handmade using job production. Products are sold to retail outlets in shops popular with tourists. GG uses personal selling to promote its products to retail outlets. The souvenir market is highly competitive and fashions often change.

Following 5 years of rapid growth in sales and profits, GG is planning to open its own shop. GG believes it will be successful as the number of tourists visiting the country is predicted to grow. GG will need $50 000 to open the shop. Extracts from GG's accounts for 2013 are shown in Table 2.

Table 2: Extracts from GG's accounts 2013 ($)

Profit (before tax) for the year	15 000
End of year current assets	3 000
End of year current liabilities	2 000
End of year non-current liabilities	0
End of year cash available	500
Non-current assets	20 000

With reference to Table 2, analyse possible sources of finance suitable for opening the new shop. [8]

W13_QP_21: Sources of Finance

Clare's Clothes (CC)

Clare is a sole trader who has been selling women's clothing in her local area for the last 10 years. She has built up a reputation for selling quality clothes at competitive prices. Her shop has clothes from well known fashion designers. Now her main business objective is to increase profit over the next 3 years.

To achieve this objective Clare is thinking of opening a second shop in another location.

Clare knows she needs at least $15 000 to set up the new shop. Clare has made an appointment with her accountant to talk about whether she should take the risk and expand the business.

Analyse the factors that Clare will need to consider when deciding on a source of finance to raise the $15 000 to expand her business. [8]

S12_QP_21: Sources of Finance

Eagle Golf Club (EGC)

EGC owns and operates Newtown's golf course. Falling revenues mean that EGC needs to change its marketing focus. EGC targets the niche market of wealthy business people. In an attempt to create a unique selling point (USP) the club promotes itself as 'small and friendly'. There is also a restaurant used by members and guests. The club secretary has produced the information shown in Table 2.

EGC plans to improve the golf course so that it will be suitable for holding the famous national golf competition. This competition attracts golfers from around the world.

Two possible sources of income have been identified to pay for this expansion:

- increasing members' fees
- selling some unused land for office building.

Analyse the advantages and disadvantages of each of the sources of income suggested. [8]

W09_QP_22: Sources of Finance

Pedro's Fish (PF)

Pedro and his wife Mariam have formed a private limited company, PF, that owns and operates a fishing boat. Pedro does the fishing and he loves his work while Mariam manages all other aspects of the business.

Low market prices for fish are making it harder for PF to survive. Last year PF's retained profits had fallen to their lowest level ever and Pedro and Mariam's income was not really enough to live on.

Mariam has suggested that Pedro could use his boat for taking foreign tourists out during the tourist season. Mariam had completed some market research and found that the idea would produce a good income. However, Pedro would not be able to catch fish while he had tourists on board.

PF would have to spend $5000 in converting the boat to make it suitable for tourists by improving comfort and safety. PF would also have to employ an assistant on the boat because Pedro could not operate the boat as well as providing services for the tourists.

Briefly examine sources of finance that might be useful to PF. [6]

S09_QP_2: Sources of Finance

Jane's Book

Jane lost a leg in a land mine accident. With great determination she is becoming a leading athlete with the help of an artificial leg. She has written a book about her experiences. Her business objective is to make a profit, but she also aims to inspire other people.

All of the major publishers have rejected the book so she has decided to publish it herself, using the services of a local printing firm.

Jane comes from a poor family with little savings. She estimates that she will need an extra $10 000 to finance the whole project to cover set up costs. Many athletes eventually earn high incomes through race fees, sponsorship, endorsements and support from the Government, but Jane has not yet achieved any of these.

Briefly analyse possible sources of finance that Jane might use. [6]

S09_QP_2: Sources of Finance

Bob's Band

Bob and his friends at college have formed a music band called FB. The band have performed at college events. The band now want to follow a career in music. At the moment their unusual style of music has a small number of fans but is growing in popularity.

The band are planning to hire the college hall for their first public concert. The college has agreed and will charge $750 to be paid in advance before the concert. There will be additional costs of $250 for new equipment and printing tickets. These costs are to be paid after the concert. Bob estimates that there will be further additional costs of $1 per ticket sold on the night of the concert.

Briefly analyse why FB may have difficulty getting finance for the concert. [6]

Chapter 27: Forecasting Cash Flows

S12_QP_13: Cash Flow Problems

Turboprop (TP)

TP manufactures large industrial electricity generators. TP has good relationships with its customers. Marketing of existing products is done at trade exhibitions and through contacts made by sales staff.

The Research and Development team at TP have developed a small generator, known as Ecogen, suitable for use in houses. Ecogens will generate electricity from wind power for use in houses. The generators have to be:

- small
- simple to install
- cheap and easy to operate
- attractive to look at.

Table 1: Forecast financial impact of Ecogen ($m)

Current Assets			Current Liabilities		
	Before Ecogen	After Ecogen		Before Ecogen	After Ecogen
Inventories	20	50	Overdraft	0	50
Accounts receivable	30	50	Accounts payable	20	20
Cash	10	0	Other	10	5

Analyse the impact on TP's liquidity if Ecogen is introduced. Use the information in Tables 1 and 2 and appropriate accounting ratios in your answer. [8]

Chapter 28: Costs

Chapter 29: Accounting Fundamentals

S14_QP_21: Accounting Ratios

Super View (SV)

Jill, the Finance Director, has identified a liquidity problem at SV. She has produced the following extract from SV's accounts.

Table 2: Extract from SV's accounts ($m)

	2012	2013
Inventories	50	60
Cash	5	0
Trade receivables	25	10
Trade payables	50	60
Overdraft	0	10

Using Table 2 and appropriate accounting ratios, analyse the change in SV's liquidity between 2012 and 2013. [8]

W13_QP_23: Usefulness of Financial Accounts

Charlie's Chocolates (CC)

CC is a large public limited company that manufactures a wide range of chocolate bars. Production takes place in low wage countries so that costs can be kept low. CC has suffered recently from poor publicity due to the high levels of sugar used in the production of its chocolate. A national newspaper has recently published an article about how CC exploits employees in low wage countries. The Marketing Director, Alan, is aware of recent trends showing that consumers are becoming more ethical in their buying decisions. He thinks this might explain why sales decreased by 10% last year.

Analyse the usefulness of the financial accounts to **two** of CC's stakeholders. [8]

S12_QP_22: Use of Ratios

Bright Air Conditioning (BAC)

BAC manufactures air conditioning units. These units are fixed in place in new buildings when they are built. BAC has many competitors in this market. BAC's main customers are building firms. Marketing is directed at building firms through trade magazines and personal selling.

The Research and Development team at BAC has developed an air conditioning unit that can be operated by power from the sun's energy. This new unit, branded Ecocon, will not be fixed in place – it will be easy to move around.

Table 1: Forecast impact on BAC's annual accounts of introducing Ecocon units

	Without Ecocon	With Ecocon
Revenue ($m)	50	75
Net profit before tax ($m)	5	15
Net profit margin	10%	20%
Current assets ($m)	15	22
Current liabilities ($m)	10	11
Inventories ($m)	5	11
Current ratio	1.5	to be calculated
Acid test ratio	1	to be calculated

Analyse the impact on BAC's profitability and liquidity ratios if the new Ecocon units are introduced. Use the information in Table 1 and appropriate accounting ratios in your answer. [8]