1(a)

Text 2

Café Freshly Made (CFM)

Anne and Martin opened Café Freshly Made (CFM) as a partnership two years ago. It sells sandwiches and fruit juice cocktails direct to the public as well as providing a delivery service.

CFM is now at the end of its second year of trading. Table 1 shows its gross and net profit margins.

	Year 1 £	Year 2 £
Gross Profit Margin	60%	70%
Net Profit Margin	20%	25%

Table 1 – CFM's Gross and Net Profit margins

Martin wants to open another café but Anne is concerned about CFM's cash flow (see Table 2). She knows they will need to buy a new property and the fixtures and fittings to go in it, as well as pay for staff training. Anne has suggested to Martin that they could finance the purchase of the new shop by either using CFM's retained profit or by becoming a private limited company and issuing shares.

	£
Cash inflow:	
Revenue	23 000
Total inflow	23 000
Cash outflow:	
Total outflow	25 000
Net cash flow	?
Opening balance	–3500
Closing balance	–5500

Table 2 – Extract from CFM's cash flow forecast for next month

i. Explain what is meant by the gross profit margin.

---

[2]

ii. In year 2, CFM made £200 000 total revenue. Calculate CFM's net profit for year 2.

Show your workings.

Answer: £ ....

[2]

iii. Analyse one change in CFM's profitability. Refer to Table 1 in your answer.

[3]

(b)

i. Analyse **one** benefit to CFM of using retained profit to finance the new café.

[3]

ii. Analyse **one** benefit to CFM of using a share issue to finance the new café.

[3]

iii. Recommend whether Martin and Anne should use retained profit or a share issue to finance the opening of the new café.

[3]

(c)

i. Calculate the net cash flow in Table 2.

[3]

ii. Identify **two** cash outflows from CFM if Anne and Martin open a new café.

Outflow 1

Outflow 2

[2]

iii. State **one** way Anne and Martin could use the cash flow forecast in Table 2.

[1]

2 **Text 3**

Virgin Atlantic

Virgin Atlantic is a multinational company which flies customers to many destinations around the world. Since its launch in 1984 Virgin Atlantic has pursued objectives of growth and to develop an international brand.

In 2016, Virgin Atlantic carried 6 million passengers and made £23 million in profit, its highest profit in five years. The company can calculate the number of customers it needs for each of its flights to break-even.

Part of Virgin Atlantic's aim is '*to grow a profitable airline, where people love to fly and people love to work.*' The business has always been keen to provide excellent customer service, competitive prices and a fantastic choice of food and drink on its planes. Additionally, the business takes its ethical and environmental responsibilities very seriously too.

State **one** use of break-even to Virgin Atlantic.

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[1]

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3 Which functional area is responsible for providing information about a firm's revenue?

A Finance

B Logistics

C Marketing

D Production

Your answer ☐ **[1]**

4 A company has made a net profit of £16 000.

Which of the following statements **must** be true?

A The company has at least £16 000 in its bank account

B The company will have no difficulty paying its bills

C The company's cash outflows were £16 000 more than its cash inflows

D The company's revenue exceeded its costs

Your answer ☐ **[1]**

5 A business has decided to update all of its computers and printers.

This decision will:

A increase selling prices

B reduce fixed costs

C require financial resources

D temporarily increase cash inflows

Your answer ☐ **[1]**

6 Andrea specialises in painting portraits. She estimates that:

- variable costs for labour are £52 per portrait
- variable costs for materials are £23 per portrait
- fixed costs are £1000 per month

If Andrea paints and sells 50 portraits **a year**, total costs are estimated to be:

A £1075 per year

B £4750 per year

C £12 075 per year

D £15 750 per year

Your answer [1]

7 Which of the following is an appropriate source of finance for a newly established company?

A Overdraft

B Retained profit

C Sale of assets

D Taking a partner

Your answer [1]

8 At break-even a firm's total revenue equals its:

A fixed costs

B gross profit

C net profit

D total costs

Your answer [1]

9 Which one of the following is an example of how the finance function can support business activity?

A Analysing primary market research results

B Predicting revenues and costs

C Reviewing the quality of the products made by the firm

D Selecting staff for a business expansion

Your answer ☐ **[1]**

10 Seiji, a sole trader, has some important decisions to make about his business. He has produced a table showing the costs of running his business over the last four years.

	2015	2016	2017	2018
Labour costs	£44 000	£66 000	£65 000	£62 000
Raw material costs	£36 000	£35 000	£34 000	£33 000
Other costs	£18 000	£25 000	£32 000	£39 000

This data is useful to Seiji when making business decisions because it shows that:

A labour costs are increasing every year

B profit levels are falling

C the business is producing less than it used to

D total costs are increasing

Your answer ☐ **[1]**

11 A tractor manufacturer wishes to upgrade its robotics at a total cost of £4 million. The cash inflow for each of the next five years is forecasted to be £1 million.

Assuming the forecasted figures are correct, the average rate of return for upgrading the robotics will be:

A 5%

B 20%

C 25%

D 125%

Your answer ☐ **[1]**

12(a)

Text 2

MD Sports Clinic

Martina Doyle currently works for the National Health Service (NHS). She has total savings of just over £5000 in her bank account. Martina is planning to leave the NHS and start up a private sports injury clinic. She intends to call her new business 'MD Sports Clinic'.

Martina wishes to rent a property for her new business and expects to pay rent each month. She wants to take a monthly income from the business. She also wants to employ a part time receptionist.

Martina needs to buy some equipment to set up MD Sports Clinic. She has estimated the following figures for MD Sports Clinic's first month of trading:

- fixed costs of £6000
- variable costs of £5 per session
- revenue of £30 per session.

Explain, giving an example, what is meant by 'fixed costs'.

[2]

(b) Calculate the number of sessions MD Sports Clinic would need to break-even in its first month of trading.

Show your workings.

Answer: .... sessions

[4]

(c) Calculate the profit that MD Sports Clinic would make in its first month of trading if Martina sold all 320 sessions.

Show your workings.

Answer: £ ………..

[4]

(d) Martina is worried that she may not have enough money to start up her new business. She has found out that the equipment she needs will cost £5000 and she does not know how she should pay for it.

i. State **one disadvantage** to a business owner of using:

their own capital to buy equipment

a bank loan to buy equipment

[2]

ii. Evaluate whether Martina should use her own savings or a bank loan to buy the equipment for MD Sports Clinic.

[7]

13 A market stall sells bread for £1 a loaf and cookies for 60p each. Yesterday 1000 loaves of bread and 2000 cookies were sold.

What was the market stall's revenue?

A £200

B £1000

C £1200

D £2200

Your answer [1]

14 A cash flow forecast for Millican Garage is shown below.

	July	August	September
	£	£	£
Cash inflow:			
Revenue	13 055	12 200	12 945
Total inflow	13 055	12 200	12 945
Cash outflow:			
Car parts	4 200	4 240	3 900
Wages	3 100	3 250	4 450
Overheads	5 500	5 500	5 500
Total outflow	12 800	12 990	13 850
Net cash flow	255	-790	-905
Opening balance	1 760	2 015	1 225
Closing balance	2 015	1 225	

What is Millican Garage's closing balance for September?

A -£2 130

B £320

C £2 130

D £12 040

Your answer ☐ **[1]**

15 Gross profit margin is:

A a computerised method of production

B a financial ratio

C a pricing method

D a variable cost

Your answer [1]

16 A sole trader is short of cash to pay a supplier this month.

She should:

A buy higher quality products

B improve customer service

C get an overdraft

D repay her loan

Your answer [1]

17 A business has a net profit margin of 8%.

Which one of the following must be true for this business?

A The business cannot pay its short term debts

B The business has made a loss

C The business has revenues that are greater than its costs

D The business is operating below its break even level

Your answer [1]

18 The production costs for Jimco plc were £21.3 million in 2015 and £22.9 million in 2016.

What is the approximate increase between 2015 and 2016 in Jimco plc's production costs?

A 0.9%

B 1.6%

C 7.0%

D 7.5%

Your answer [1]

END OF QUESTION PAPER