

Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	



General Certificate of Education
Advanced Level Examination
June 2015

Applied Business

BS15

Unit 15 Financial Accounting for Managers

Monday 22 June 2015 9.00 am to 10.30 am

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- 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.
- The maximum mark for this paper is 80.
- Questions 1(c), 2(c) and 3(b) should be answered in continuous prose. In these questions you will be marked on your ability to:
 - use good English
 - organise relevant information clearly
 - use specialist vocabulary where appropriate.



J U N 1 5 B S 1 5 0 1

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BS15

Answer **all** questions in the spaces provided.

- 1 Read **Item A** and then answer the questions that follow.

Item A

Trial and error

Sustawrap Ltd manufactures environmentally-friendly packaging for businesses in the food and catering industry. It has a factory in London and manufactures packaging that can be recycled and turned into compost. It sells distinctive products at competitive prices to just 110 businesses. Sam Voges, the company's founder and managing director, has ambitious plans. She hopes to finance a major expansion in the near future using loans and/or shares.

Despite these plans, the company's financial performance has become a source of concern for Sam. Profitability has declined over recent years. The company has to pay back a major bank loan (for £2.75 million) which was used to buy the latest production-line technology. There have also been unnecessary delays in paying some suppliers, which have led to extra charges, as the company believed it had less cash than it actually had.

Sam is also worried by the company's failure to produce accurate accounting information, despite drawing up trial balances during the latest financial year. At a management meeting, the company's accountants revealed that the first draft of the 2014 final accounts was incorrect; this could have led to inaccurate financial statements. The finance department had not recorded a payment of £37 500 received from a customer and a data input error resulted in a purchase invoice for £6 700 being entered as £67 000.

Sam believes that the most important reason for preparing accurate financial statements is to show her and other interested stakeholders the company's profits. However, the finance director thinks that accurate financial statements are essential to show suppliers and creditors that Sustawrap Ltd has enough cash to repay its debts promptly.



1 (a) Sustawrap Ltd has received a cheque in payment from one of its customers.

1 (a) (i) State the book of original entry where this transaction will be recorded.

[1 mark]

Book of original entry

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1 (a) (ii) Name the two ledger accounts that will be involved in recording this transaction.

[2 marks]

Ledger account 1

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Ledger account 2

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1 (b) Using **Item A**, explain why the trial balance did not identify the accounting errors in the first draft of the 2014 final accounts.

[7 marks]

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2

Read **Item B** and then answer the questions that follow.**Item B****The price of being environmentally friendly**

Sustawrap Ltd's accountants have now produced accurate financial statements for 2014. Sam continues to be worried about the declining profitability of Sustawrap Ltd, especially in view of her expansion plans. She has put together some key data from the financial statements from the last 2 financial years to help her to analyse the cause of the problems. This is shown in **Figure 1**.

Figure 1: Selected financial data for Sustawrap Ltd, 2014 and 2013

	2014	2013
Sales revenue	£23.41 m	£21.00 m
Cost of sales	£15.64 m	£13.65 m
Net profit	£2.19 m	£2.13 m
Gross profit margin		35.00%
Net profit margin		10.14%

Sustawrap Ltd has invested heavily in the latest production-line technology with the aim of improving its efficiency. The company's figures for depreciation were £2.20 million in 2014 and £2.13 million in 2013. The company has always used the straight line method to depreciate its fixed assets over a period of 5 years. The finance director considers this to be consistent and prudent. Sam has argued that this may not be the best approach as some of the company's equipment is still in use after 10 years. She believes the decision to depreciate over 5 years has implications for the company's profits and the value of its assets. This may affect its ability to raise loan or share capital for expansion.

To improve the company's profitability, Sam persuaded the other directors to increase Sustawrap Ltd's prices by 10% from 1 July 2015. There was some opposition to this despite the company's distinctive products and increases in the cost of many of the company's raw materials. One director noted that a much larger competitor is considering introducing a line of environmentally-friendly packaging whilst another commented that many of the company's 110 customers were experiencing financial difficulties.



2 (a) Calculate Sustawrap Ltd's gross and net profit margins for the 2014 financial year.

2 (a) (i) Gross profit margin 2014

Calculations

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[3 marks]

2 (a) (ii) Net profit margin 2014

Calculations

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[2 marks]

2 (b) Using **Item B**, analyse why it is important for Sustawrap Ltd to depreciate its fixed assets consistently and prudently.

[10 marks]

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Do you think that Sam's decision to increase prices by 10% to improve Sustawrap Ltd's profitability is a good idea? Use **Item B** to justify your view.

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3

Read **Item C** and then answer the questions that follow.**Item C****A good package?**

Sam has presented her expansion plan to Sustawrap Ltd's board of directors. She has negotiated a contract with a UK supermarket to supply all of its packaging for 3 years from January 2016. The supermarket has 125 stores and a relatively wealthy customer base who would be willing to pay slightly more for products supplied in environmentally-friendly packaging. The supermarket's return on capital employed has risen steadily since 2010 and is forecast to continue to do so. The supermarket intends to open five stores per year until 2020. The forecast sales revenue of the supermarket contract will be £5.1 million in 2016, £8.0 million in 2017 and £11.9 million in 2018. The total net profit for this 3 year contract is estimated to be £4.8 million.

The expansion plan would require Sustawrap Ltd to invest £3.25 million in expanding its factory, buying new production-line equipment and hiring and training 12 new employees during the 2015 financial year. Sam would prefer that the investment is financed by issuing shares rather than by arranging further loans with the company's bank. She is concerned about the company's gearing figure (which rose to 44.67% in 2014), believing that the company should not borrow any more money. However, she believes the expansion plan should go ahead whichever method of funding is chosen. Sam owns 60% of the company's share capital of £4.83 million.

Figure 2: Selected accounting data for Sustawrap Ltd, 2014 and 2013

	2014 £m	2013 £m
Sales revenue	23.41	21.00
Net profit	2.19	2.13
Long-term liabilities	3.90	3.80
Capital employed	8.73	8.63

Financial Ratio Formulae

$$\text{Return on capital employed (ROCE) \%} = \frac{\text{net profit}}{\text{capital employed}} \times 100$$

$$\text{Gearing} = \frac{\text{long-term liabilities}}{\text{capital employed}} \times 100$$



Using **Item C** and **Figure 2**, analyse the possible effects on Sustawrap Ltd of a decision to use loans to raise the £3.25 million needed for its expansion plan. You should use relevant calculations to support your answer.

This image shows a full page of handwriting practice paper. It features multiple sets of three horizontal dashed lines, each set providing a guide for letter height and placement. The lines are evenly spaced across the entire page, leaving ample room for practicing various letters and words. There is no text or other markings on the page.

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3 (b)

Do you think that Sustawrap Ltd's board of directors should support Sam's expansion plan to supply the supermarket? Use **Item C** to justify your answer. You should use relevant calculations to support your answer.

[15 marks]

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END OF QUESTIONS



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