

Unit 5

Finance

Categorised Past Papers



- 4 Trucker is a public limited company that makes products such as tractors and construction vehicles. Table 1 gives selected information from its Balance Sheet for the last two years.

Table 1: Trucker's Balance Sheet as at 30 June

	\$m	
	2009	2010
Fixed Assets	200	225
Current Assets	150	180
Current Liabilities	90	100
Net Assets	260	305
Financed by:		
Long term Liabilities	200	220
Shareholders' Funds	60	85
Capital Employed	260	305

- (a) What is meant by the term 'shareholders' funds'?

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..... [2]

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- (b) Identify **two** examples of Trucker's current assets.

Example 1:

Example 2: [2]

- (c) Identify and explain **two** reasons why a business might have creditors.

Reason 1:

Explanation:

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Reason 2:

Explanation:

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(d) Identify and explain **three** possible reasons why Trucker’s net assets increased in 2010.

For
Examiner's
Use

Reason 1:

Explanation:

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Reason 2:

Explanation:

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Reason 3:

Explanation:

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(e) Can the success of Trucker’s business be assessed just by analysing its Balance Sheet?
Justify your answer.

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- 2 Telefax is a business that manufactures a range of electronic products. Table 1 shows selected information from its latest Balance Sheet.

Table 1: Balance Sheet Telefax as at 30 June

	\$m	
	2009	2010
Fixed Assets	30	40
Current Assets	16	24
Current Liabilities	16	20
Net Assets	30	44
Financed by:		
Long term Liabilities	10	20
Shareholders' Funds	20	24
Capital Employed	30	44

- (a) What is meant by the term 'fixed assets'?

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- (b) Identify **two** examples of Telefax's current liabilities.

Example 1:

Example 2: [2]

- (c) Identify and explain **two** reasons why most businesses have debtors.

Reason 1:

Explanation:

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Reason 2:

Explanation:

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- (d) Identify and explain **three** reasons why Telefax’s bank manager might want to see the accounts of the business.

For
Examiner's
Use

Reason 1:

Explanation:

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Reason 2:

Explanation:

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Reason 3:

Explanation:

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- (e) Do you think that the financial position of Telefax has improved in 2010? Justify your answer.

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- 3 Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

For
Examiner's
Use

Table 1: Celtic Springs Profit/Loss Account 2011 (\$m)

Sales revenue	?
Cost of sales	150
Gross profit	?
Overheads/expenses	70
Net profit	10

The accounts of the business also show that the capital employed by Celtic Springs was \$650m.

- (a) Calculate gross profit and sales revenue in 2011.

Gross profit:

Sales revenue: [2]

- (b) Identify **two** functions of an Annual General Meeting.

Function 1:

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Function 2:

..... [2]

- (c) Identify and explain **two** ways Celtic Springs could reduce its cost of sales.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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(d) Identify and explain **three** reasons why profit is important to a company such as Celtic Springs.

For
Examiner's
Use

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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Reason 3:

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Explanation:

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(e) Do you think that the shareholders of Celtic Springs are right to be unhappy with the company's performance? Justify your answer using the data provided.

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1 Durban Dragons is a big football club. Recently fewer people have been watching its matches and ticket revenue is falling. Some people say that ticket prices for matches are too high and should be reduced. The club has high fixed costs and needs to improve its cash flow. The club directors have been trying to gain sponsorship and a number of businesses are very interested.

(a) What is meant by 'cash flow'?

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(b) Give **two** examples of fixed costs that a business like a football club would incur.

Example 1:

Example 2: [2]

(c) Identify and explain **two** ways the cash flow of Durban Dragons could be improved.

Way 1:

Explanation:
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Way 2:

Explanation:
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..... [4]

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(d) Identify and explain **two** reasons why businesses might want to sponsor football clubs like Durban Dragons.

*For
Examiner's
Use*

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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(e) Do you think if Durban Dragons reduce ticket prices for matches this will increase revenue? Justify your answer.

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3 Table 1 shows the Balance Sheet for company D at the end of 2010 and 2011.

Table 1: Company D Balance Sheet [\$m]

	2010	2011
Fixed Assets	500	600
Current Assets	600	650
Current Liabilities	450	550
Net Assets	650	700
Long-term Liabilities	350	350
Shareholders' Funds	300	350
Capital Employed	650	700

The accounts also showed that the net profit of company D was \$80m in 2010 and \$120m in 2011.

(a) What is meant by 'capital employed'?

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 [2]

(b) Calculate company D's current ratio in 2011.

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 [2]

(c) The directors are planning further expansion of the company. Identify and explain **two** benefits to company D of raising finance by selling more shares.

Benefit 1:

 Explanation:

 Benefit 2:

 Explanation:
 [4]

- (d) Identify and explain a reason why the following stakeholders would be interested in using company D's accounts.

For
Examiner's
Use

Creditors' reason:

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Explanation:

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Employees' reason:

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Explanation:

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Shareholders' reason:

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Explanation:

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- (e) Do you think the performance of company D in 2011 has improved? Justify your conclusion using the data provided.

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- 3 HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

- (a) What is meant by ‘public limited company’?

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- (b) Calculate the Return on Capital Employed for 2012.

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 [2]

- (c) Identify and explain **two** reasons why shareholders might be interested in the accounts of HTB.

Reason 1:

 Explanation:

 Reason 2:

 Explanation:
 [4]

(d) Identify and explain **three** factors that HTB should consider before issuing more shares.

For
Examiner's
Use

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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Factor 3:

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Explanation:

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(e) Do you think that the product is the most important element of the marketing mix for HTB? Justify your answer.

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- 3 HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

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	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

- (a) What is meant by ‘public limited company’?

.....

 [2]

- (b) Calculate the Return on Capital Employed for 2012.

.....
 [2]

- (c) Identify and explain **two** reasons why shareholders might be interested in the accounts of HTB.

Reason 1:

 Explanation:

 Reason 2:

 Explanation:
 [4]

(d) Identify and explain **three** factors that HTB should consider before issuing more shares.

For
Examiner's
Use

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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Factor 3:

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Explanation:

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(e) Do you think that the product is the most important element of the marketing mix for HTB? Justify your answer.

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- 4 Rapid Call is a private limited company. It manufactures a range of cell (mobile) phones. The demand for these is increasing. Its products have several special features that are not available from other phone manufacturers. It sells its products directly to retail shops. Rapid Call uses competitive pricing for all products. The Finance Director has been looking at the accounts. A summary is shown in Table 2. In 2011 the gross profit margin was 40%.

Table 2: Profit/Loss Account for Rapid Call for year ending 30 April 2012 (\$000s)

Sales	450
Cost of Sales	300
Gross Profit	150
Overheads	95
Net Profit	55

- (a) What is meant by 'private limited company'?

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 [2]

- (b) Calculate the gross profit margin for the year ending 30 April 2012.

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 [2]

- (c) Identify and explain **two** ways in which Rapid Call's Finance Director could use the information in Table 2.

Way 1:

Explanation:

Way 2:

Explanation: [4]

- (d) The Marketing Director is thinking about changing the channel of distribution. Identify and explain **three** factors that Rapid Call should consider when choosing a suitable channel of distribution.

For
Examiner's
Use

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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Factor 3:

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Explanation:

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- (e) How important is increased competition in influencing the marketing strategy of Rapid Call? Justify your answer.

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- 4 Bolton Hotel is a family-owned hotel. Most of its revenue is made in January and February. An extract of the hotel's accounts is shown in Table 1. The Managing Director said: 'I need to find ways to improve liquidity'. He is also concerned about the high level of staff turnover. He thinks that poor motivation might be the reason for many staff leaving their jobs.

Table 1: Extract from Bolton Hotel's balance sheet (\$000s)

	2011	2012
Fixed assets	300	350
Current assets:	40	30
Stock	20	20
Debtors	10	8
Cash	10	2
Current liabilities	40	50

- (a) What is meant by a 'balance sheet'?

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 [2]

- (b) Calculate the acid test ratio for 2012.

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 [2]

- (c) Identify and explain **two** problems for a business caused by many of its staff leaving.

Problem 1:

 Explanation:

 Problem 2:

 Explanation:
 [4]

(d) Identify and explain **three** suitable ways to improve motivation of staff at Bolton Hotel.

For
Examiner's
Use

Way 1:

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Explanation:

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Way 2:

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Explanation:

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Way 3:

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Explanation:

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(e) Explain **two** ways to improve the liquidity of the hotel. Recommend which way the Managing Director should use. Justify your answer.

Way 1:

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Way 2:

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Recommendation:

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- 4 Belshire Books owns a number of shops. The Finance manager is worried about the financial position of the company. An extract of the accounts is shown in Table 1. Belshire Books is facing increased competition from online booksellers selling through the Internet.

Table 1: Extract from Belshire Books accounts (\$000s)

	2011	2012
Net profit	50	30
Current assets	50	60
Current liabilities	50	50
Capital Employed	500	500

- (a) What is meant by 'net profit'?

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 [2]

- (b) Calculate the current ratio in 2012.

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 [2]

- (c) Identify and explain **two** ways in which Belshire Books could improve profitability.

Way 1:

 [4]

- (d) Identify and explain **two** problems that competition from online (Internet) booksellers could cause for Belshire Books.

For
Examiner's
Use

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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- (e) Do you think that the Finance manager is right to be worried about the financial position of the business? Justify your answer.

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- 4 Luxury Destinations owns three hotels in country X. The business spends a lot of money on staff training. The Finance Director is pleased with the financial position of the business. 'However, the appreciation of our country's currency and the Government's plan to increase taxes might cause problems to our business in the future' he said.

Table 1: Luxury Destinations financial information (\$000s)

	2011	2012
Gross profit	195	220
Net profit	30	60
Fixed assets	300	350
Current assets	60	50
Current liabilities	60	75

- (a) What is meant by 'appreciation of our country's currency'?

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 [2]

- (b) Calculate the current ratio in 2012.

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 [2]

- (c) Identify and explain **two** problems that an increase in taxes could cause for Luxury Destinations.

Problem 1:

Explanation:

Problem 2:

Explanation:

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(d) Identify and explain **three** benefits for Luxury Destinations of training its employees.

For
Examiner's
Use

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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Benefit 3:

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Explanation:

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(e) Do you think the Finance Director is right to be pleased with the financial position of the business? Justify your answer.

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- 2 Sarah is the owner of a small business making children's toys. She sells her toys to retailers on 3 months' credit. She receives 1 month's credit from her suppliers. Her cash flow forecast for the start of 2015 is given below.

Table 1 (\$000)

	January	February	March
Cash inflow	15	20	19
Cash outflows:			
Purchases of stock	12	10	14
Wages	X	7	6
Other payments	4	4	4
Total cash outflows	22	Y	24
Net cash flow	(7)	(1)	(5)
Opening balance	10	3	2
Closing balance	3	2	(3)

Note: numbers in brackets are negative.

- (a) Calculate the following:

Wages in January (X):

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Total cash outflows in February (Y):

.....[2]

- (b) Identify **two** examples of Sarah's 'other payments'.

Example 1:

Example 2:[2]

- (c) Identify and explain **two** reasons why the business has a negative closing balance in March.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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(d) Identify and explain **two** advantages to Sarah’s business of producing a cash flow forecast.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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(e) Sarah’s accountant told her that a positive cash flow is more important to the business than profits. Do you agree? Justify your answer.

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- 2 Karl owns a fabric (cloth) wholesale business. He supplies a large range of fabrics to many small businesses in country G. Karl employs unskilled workers in his warehouse. He offers 2 months credit to all customers. Despite being a profitable business, Karl is worried about his cash flow for the next 3 months.

Table 1: Cash flow forecast (\$000's)

	Month 1	Month 2	Month 3
Opening balance	0	X	0
Cash inflows:			
Cash sales	10	40	10
Cash from debtors	38	48	58
Total cash inflow	48	88	68
Cash outflows:			
Wages	10	10	10
Payment for stock	38	48	60
Fixed costs	15	15	15
Total cash outflow	63	73	Y
Net cash flow	(15)	15	(17)
Closing balance	(15)	0	(17)

Note: numbers in brackets are negative.

- (a) What is meant by 'net cash flow?'

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 [2]

- (b) Calculate the following.

Month 2 opening balance (X):

 Month 3 total cash outflow (Y):
 [2]

- (c) Identify and explain **two** possible advantages to Karl of employing unskilled workers.

Advantage 1:

 Explanation:

 Advantage 2:

 Explanation:
 [4]

- (d) Identify and explain **two** possible advantages to small business customers of buying from a wholesale business such as Karl's.

For
Examiner's
Use

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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- (e) Explain **two** ways that Karl could use to improve his cash flow. Recommend which one he should use. Justify your answer.

Way 1:

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Way 2:

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Recommendation:

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- 5 Anyshade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anyshade's paints are well known for quality.

Table 1: Cash flow forecast (\$000's)

	July	August	September
Opening balance	(9 000)	6 000	Y
Cash inflows:			
Cash sales	90 000	30 000	50 000
Cash from debtors	50 000	80 000	70 000
Total cash inflows	140 000	110 000	120 000
Cash outflows:			
Fixed costs	70 000	70 000	70 000
Wages	20 000	18 000	19 000
Raw materials	35 000	30 000	30 000
Total cash outflows	125 000	118 000	119 000
Net cash flow	X	(8 000)	1 000
Closing balance	6 000	(2 000)	(1 000)

Note: numbers in brackets are negative.

- (a) What is meant by an 'overdraft'?

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[2]

- (b) Calculate the following.

July net cash flow (X):

 September opening balance (Y):
[2]

- (c) Identify and explain **two** advantages to Anyshade of using flow production.

Advantage 1:

 Explanation:

 Advantage 2:

 Explanation:
[4]

(d) Identify and explain **two** stages in the **recruitment process** of the manager's job for the manufacturing business.

Stage 1:

Explanation:

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Stage 2:

Explanation:

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(e) Do you think Rachel should expand Keypeople? Justify your answer.

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- 3 HPT makes frozen food products. The Finance Director wants to improve HPT’s cash flow position. Table 1 is an incomplete cash flow forecast for the next 3 months. The Finance Director thinks HPT should not use expensive packaging. He is also worried that new Government health & safety laws will not benefit the company and will only add to its costs.

Table 1: Cash flow forecast (\$000’s)

	Month 1	Month 2	Month 3
Opening balance	(50 000)	(30 000)	(40 000)
Cash inflows	200 000	180 000	200 000
Cash outflows:			
Wages	60 000	60 000	60 000
Packaging	20 000	20 000	20 000
Raw materials	45 000	55 000	45 000
Fixed costs	55 000	55 000	55 000
Total cash	X	190 000	180 000
outflows			
Net cash flow	20 000	Y	20 000
Closing balance	(30 000)	(40 000)	(20 000)

Note: numbers in brackets are negative.

- (a) Identify **two** fixed costs that HPT might have.

Fixed cost 1:

Fixed cost 2: [2]

- (b) Calculate the following.

Month 1 total cash outflows (X):

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Month 2 net cash flow (Y):

..... [2]

- (c) Identify and explain **two** benefits to HPT of having a cash flow forecast. You should refer to Table 1 in your answer.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

..... [4]

(d) Identify and explain **two** reasons why packaging might be important for HPT.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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(e) The Finance Director is worried that new Government health & safety laws will not benefit the company and will only add to its costs. Do you agree? Justify your answer.

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- 3 QF Group manufactures a range of electrical products such as computers and televisions. All QF managers have a wide span of control so delegation is important. The main objective of QF Group is growth. The Finance Director has been looking at the accounting data in Table 2. She is pleased about the performance of the business.

Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	600	600
(Net) profit (\$m)	72	90
Capital employed (\$m)	720	750
Gross profit margin	50%	45%
(Net) profit margin	12%	?
Return on Capital Employed	10%	?

- (a) What is meant by ‘span of control’?

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- (b) What is meant by ‘delegation’?

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- (c) Identify and explain **two** reasons why delegation might be important to businesses like QF Group.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

..... [4]

- (d) Identify **two** stakeholder groups. Explain **why** each of these stakeholder groups might support QF Group’s objective of growth.

Stakeholder group 1:

Explanation:

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Stakeholder group 2:

Explanation:

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- (e) Do you think the Finance Director is right to be pleased about the performance of QF Group? Justify your answer using the data in Table 2 and appropriate ratios.

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