TIME ALLOWED: 40 MINUTES

Question 1

1 FBW manufactures watches using job production. It employs 5 full-time production employees. Each worker is offered regular training. Last year FBW sold 600 watches. The Managing Director plans to use break-even analysis to help decide whether to increase the price of its products. FBW's current break-even chart is shown in Fig. 1.1.

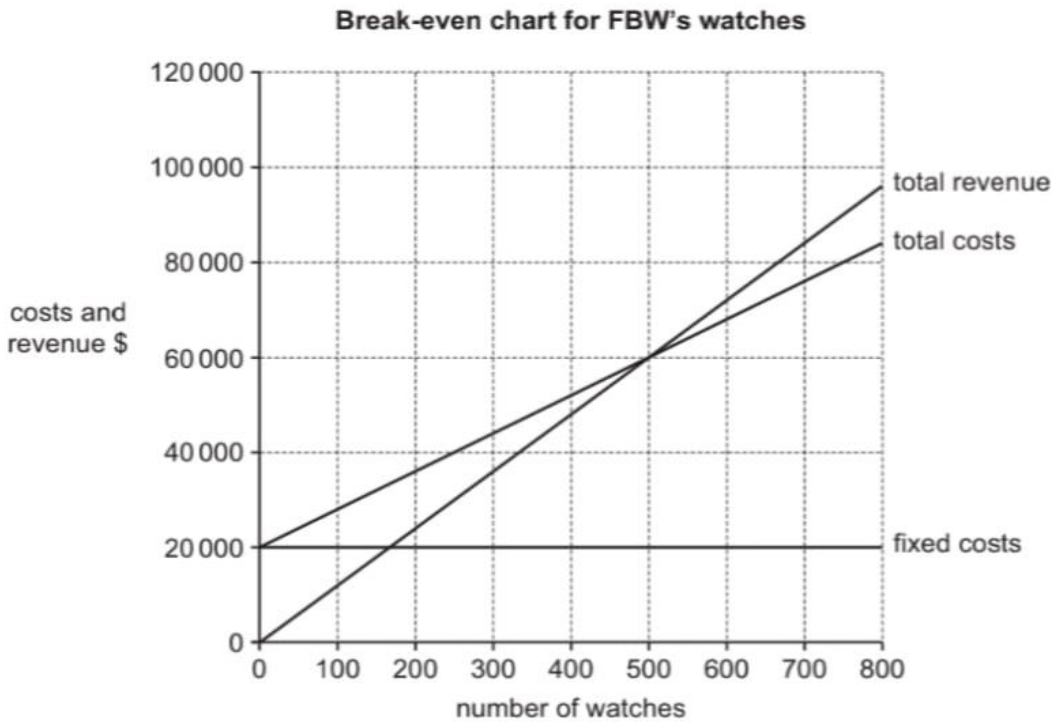

Fig. 1.1

(a) Identify **two** reasons why a business might offer training to its employees.

Reason 1: ....

....

Reason 2: ....

.... [2]

(b) Calculate the following values using Fig. 1.1:

Break-even output: ....

Break-even revenue: .... [2]

(c) Outline **two** possible effects on FBW's break-even chart if the prices of its products are increased.

Effect 1: ....

....

....

....

Effect 2: ....

....

....

.... [4]

Question 2

2 LMA is a family-owned restaurant. The business was started 20 years ago and has remained small. LMA is a partnership. The partners are considering whether LMA should become a private limited company. The Finance Manager is analysing LMA's cash-flow forecast. An extract is shown in Table 2.1.

Table 2.1

Extract from LMA's cash-flow forecast 2023 ($000)			
	July	**August**	**September**
Cash inflow	420	300	330
Cash outflow	410	320	360
Net cash flow	**X**	(20)	(30)
Opening balance	60	70	50
Closing balance	70	50	**Y**

(a) Identify **two** reasons why a business might have cash-flow problems.

Reason 1: ....

....

Reason 2: ....

.... [2]

(b) Calculate **X** and **Y**.

X: ....

Y: .... [2]

(c) Identify **four** examples of a cash inflow.

Example 1: ....

....

Example 2: ....

....

Example 3: ....

....

Example 4: ....

Question 3

3 IDT manufactures clothes for the mass market. It is a multinational company with factories in 4 countries. IDT has short-term and long-term financial needs. The Finance Director is analysing IDT's statement of financial position. An extract is shown in Table 3.1. He has been asked to calculate working capital and to explain how an increase in non-current liabilities might affect IDT.

Table 3.1

Extract from IDT's statement of financial position ($ million)		
	2022	**2023**
Current assets	380	420
Current liabilities	250	280
Non-current liabilities	300	400

(a) Define 'mass market'.

....

....

....

.... [2]

(b) Calculate IDT's working capital in 2023.

Working: ....

....

....

Final answer: .... [2]

(c) Outline **one** reason why IDT might need the following types of finance:

Short-term finance: ....

....

....

....

Long-term finance: ....

....

....

.... [4]

(d) Explain **two** ways an increase in non-current liabilities might affect IDT.

Way 1: ....

....

Explanation: ....

....

....

....

Way 2: ....

....

Explanation: ....

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.... [6]

(e) Explain **two** ways a cash-flow forecast could be used by a business. Which is likely to be the most important way? Justify your answer.

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.... [6]