BUS.FI5 Financial statements: the income statement and statement of financial position

AQA 8132 · Calculator allowed · about 60 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for every calculation: method marks are available even if your final answer is wrong. Willowmere Garden Centre, used throughout this pack, is a fictional business.

1 Which financial statement shows a business's revenue, costs and profit over a period of time, such as a year?

- ☐ A) The statement of financial position
- ☐ B) The statement of comprehensive income (income statement)
- ☐ C) A cash-flow forecast
- ☐ D) A break-even chart

(Total for Question 1 is 1 mark)

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2 Which financial statement shows what a business owns and owes at a single point in time?

- ☐ A) The statement of financial position (balance sheet)
- ☐ B) The statement of comprehensive income
- ☐ C) A cash-flow forecast
- ☐ D) A break-even chart

(Total for Question 2 is 1 mark)

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3 State two groups of people (stakeholders) who might want to look at a business's financial statements.

(Total for Question 3 is 2 marks)

4 Under UK law, why must a private limited company file a set of annual accounts?

- [ ] A) It is a legal requirement, so that Companies House, HMRC and shareholders are kept informed
- [ ] B) It is only required if the business makes a loss
- [ ] C) It is entirely optional for all business types
- [ ] D) It is only required for public limited companies

(Total for Question 4 is 1 mark)

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5 State two reasons why a bank might want to see a business's financial statements before agreeing to lend it money.

(Total for Question 5 is 2 marks)

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6 Willowmere Garden Centre, a fictional garden centre, had the following results for the year: revenue 180,000 pounds; cost of sales 95,000 pounds; expenses (rent, wages, utilities and marketing) 52,000 pounds.

(a) Calculate Willowmere Garden Centre's gross profit for the year. Show your working. **(2)**

....

(b) Using your answer to part a, calculate Willowmere Garden Centre's net profit for the year. Show your working. **(2)**

....

(c) State the correct order in which revenue, cost of sales and expenses are used to arrive at net profit. **(2)**

(Total for Question 6 is 6 marks)

7 State two examples of items that would typically be included in 'cost of sales' for a garden centre like Willowmere.

(Total for Question 7 is 2 marks)

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8 State two examples of 'expenses' (overheads) for Willowmere Garden Centre that would NOT be included in cost of sales.

(Total for Question 8 is 2 marks)

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9 Calculate Willowmere Garden Centre's gross profit margin for the year, as a percentage of revenue. Give your answer to 1 decimal place. Show your working.

(Total for Question 9 is 3 marks)

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10 Calculate Willowmere Garden Centre's net profit margin for the year, as a percentage of revenue. Give your answer to 1 decimal place. Show your working.

(Total for Question 10 is 3 marks)

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11 Which one of the following best describes 'non-current assets'?

- ☐ A) Items a business expects to use for more than one year, e.g. premises and vehicles
- ☐ B) Cash held in the bank
- ☐ C) Money owed to a business by its customers
- ☐ D) Money a business owes to suppliers within one year

(Total for Question 11 is 1 mark)

12 Which one of the following best describes 'current liabilities'?

- ☐ A) Assets expected to be used for more than one year
- ☐ B) Debts a business must repay within one year, e.g. trade payables and an overdraft
- ☐ C) The total value of a business's non-current assets
- ☐ D) Profit retained in the business

(Total for Question 12 is 1 mark)

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13 At the end of the year Willowmere Garden Centre's statement of financial position shows: non-current assets 120,000 pounds; current assets 28,000 pounds; current liabilities 18,000 pounds; non-current liabilities (a long-term bank loan) 60,000 pounds.

(a) Calculate Willowmere Garden Centre's working capital (current assets minus current liabilities). Show your working. **(2)**

....

(b) Calculate Willowmere Garden Centre's net assets (non-current assets plus working capital, minus non-current liabilities). Show your working. **(2)**

....

(c) A business's net assets figure should equal its total equity (the owners' stake in the business). If Willowmere Garden Centre's owner's capital is 40,000 pounds, calculate the value of retained profit (reserves) included in total equity, using your answer to part b. Show your working. **(2)**

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(Total for Question 13 is 6 marks)

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14 State two reasons why Willowmere Garden Centre's owner might want to compare this year's net profit margin (question 10) with previous years' figures, rather than looking at just one year in isolation.

(Total for Question 14 is 2 marks)

15 Willowmere Garden Centre's financial statements show a net profit margin of 18.3% (question 10) and net assets of 70,000 pounds, including 30,000 pounds of retained profit built up over several years (question 13c). The owner is deciding whether to use most of this 30,000 pounds of retained profit to fund a 25,000 pound expansion (a new plant nursery building), rather than applying for another bank loan.

Recommend whether Willowmere Garden Centre should use its retained profit to fund the expansion. Justify your answer using the figures given in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.FI5 Financial statements: the income statement and statement of financial position

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** A cao
- **Answer: A**

Question 3

- **B1** banks/lenders, e.g. to decide whether to lend money
- **B1** HMRC (tax authorities), shareholders/owners, or suppliers (any one)
- **Answer: Any two, e.g. banks/lenders; HMRC; shareholders/owners; suppliers.**

Question 4

- **B1** A cao
- **Answer: A**

Question 5

- **B1** to assess whether the business is profitable enough to afford loan repayments
- **B1** to assess the value of the business's assets, e.g. as security for the loan
- **Answer: Any two, e.g. to assess profitability/ability to repay; to assess the value of assets as security.**

Question 6

- (a) **M1** 180,000 - 95,000 seen
- (a) **A1** 85,000 pounds cao
- **(a) Answer: 85,000 pounds.**
- (b) **M1** 85,000 - 52,000 seen (ft from part a)
- (b) **A1** 33,000 pounds cao
- **(b) Answer: 33,000 pounds.**
- (c) **B1** revenue minus cost of sales gives gross profit
- (c) **B1** gross profit minus expenses gives net profit
- **(c) Answer: Revenue minus cost of sales = gross profit; gross profit minus expenses = net profit.**

Question 7

- **B1** the wholesale cost of plants/stock bought in to sell
- **B1** delivery costs of bringing that stock to the garden centre (direct costs of the goods sold)
- **Answer: Any two, e.g. wholesale cost of plants/stock; delivery costs of that stock.**

Question 8

- **B1** staff wages (not directly tied to a specific sale)
- **B1** rent, utility bills, or marketing/advertising costs (any one)
- **Answer: Any two, e.g. staff wages; rent; utility bills; marketing costs.**

Question 9

- **M1** gross profit = 85,000 seen (ft from question 6a)
- **M1** 85,000 / 180,000 x 100 seen
- **A1** 47.2% cao (awrt 47.2%)
- **Answer: 47.2% (gross profit margin).**

Question 10

- **M1** net profit = 33,000 seen (ft from question 6b)
- **M1** 33,000 / 180,000 x 100 seen
- **A1** 18.3% cao (awrt 18.3%)
- **Answer: 18.3% (net profit margin).**

Question 11

- **B1** A cao
- **Answer: A**

Question 12

- **B1** B cao
- **Answer: B**

Question 13

- (a) **M1** 28,000 - 18,000 seen
- (a) **A1** 10,000 pounds cao
- **(a) Answer: 10,000 pounds.**
- (b) **M1** 120,000 + 10,000 - 60,000 seen (ft from part a)
- (b) **A1** 70,000 pounds cao
- **(b) Answer: 70,000 pounds.**
- (c) **M1** 70,000 - 40,000 seen (ft from part b)
- (c) **A1** 30,000 pounds cao
- **(c) Answer: 30,000 pounds.**

Question 14

- **B1** to see whether the business's performance/profitability is improving or declining over time
- **B1** one year's figures alone do not show a trend, and unusual one-off events could distort a single year's results
- **Answer: Any two, e.g. to spot a trend over time; a single year can be distorted by one-off events.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the expansion, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against using retained profit, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against using retained profit, using the profit-margin, working-capital and reserve figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - The business already holds 30,000 pounds of retained profit (question 13c), comfortably more than the 25,000 pounds needed, and using it avoids paying any loan interest, unlike Willowmere Garden Centre's existing 60,000 pounds of non-current liabilities (loan, question 13).
  - The business's healthy 18.3% net profit margin (question 10) and positive working capital of 10,000 pounds (question 13a) suggest it is in a strong enough financial position to fund growth without over-relying on debt.
  - Against using retained profit: spending 25,000 of the 30,000 pounds of retained profit would leave the business with very little of that reserve as a cash buffer for unexpected costs or a difficult trading period, especially since Willowmere Garden Centre already carries 60,000 pounds of long-term loan debt (question 13).
  - A bank loan would preserve the retained-profit cushion, spreading the cost of the expansion over time instead of depleting reserves in one go.
  - Judgement: given the healthy margin and working capital, using most of the 30,000 pounds of retained profit for the expansion is a reasonable and low-cost choice, but the owner should consider keeping some retained profit in reserve, e.g. topping up the remaining amount with a small loan, rather than spending the full 25,000 pounds of reserves in one go, to avoid leaving the business without a cash buffer.