OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE UNIT **2875**

BUSINESS STUDIES

Further Accounting and Finance

THURSDAY 21 JUNE 2007 Afternoon

Time: 1 hour 30 minutes

Additional materials: Answer Booklet (8 pages)

Candidates may use calculators in this examination

CUP/T24660

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre Number and Candidate number in the spaces provided on the answer booklet.
- Answer **all** questions.
- If you use extra sheets of paper, fasten these sheets to the answer booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is 60.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.

This insert consists of **4** printed pages.

Cartwright Enterprises plc (CEP)

"What a fantastic year 2006 was," said David Cartwright, Chief Executive of Cartwright Enterprises plc (CEP). "Turnover up by 20%, dividends up by 30% and profits up by 5%."

"Long term debts up by 50% as well," remarked CEP's accountant. David ignored this comment and enthused about his plans for future growth.

"I intend to press ahead and set a sales target of 40% growth on 2006. I'm sure that the bank will want to continue to support such a success story."

CEP was set up to develop a chain of "sophisticated and elegant" restaurants. Its mission was simple: "high quality food, high levels of customer satisfaction, and an eating experience to be savoured". It had started on a modest scale with just one restaurant in Islington, London. Now it had 30, all based in affluent areas throughout the country. Usually, David looked to buy out an existing restaurant which he felt had potential to meet his specifications. CEP owns the leases on the premises and the equipment. The restaurants are run autonomously by their management, although following the formula upon which the Cartwright brand rests. Table 1 shows extracts from CEP's recent financial accounts.

Despite the profitability of CEP, its bankers were becoming increasingly concerned. They noted with dismay the growing debts of the business and had reservations regarding the methods of finance being used. "Cash flow forecasts need to be produced with accuracy and precision if financial disasters are to be avoided," said one, who added that he favoured "a more steady growth strategy". Although profits had grown in 2006 there were signs that the concept behind the restaurants was running out of steam. In 2005 profits were £900,000 on a turnover of £5m. This level of profit represented a 20% return on net assets employed. However, in 2006 return on assets had fallen even though sales turnover had risen and profits were up by 5%. Indeed, the business had set itself a target of 25% return on net assets in 2006 and this had not been reached. The financial signs were not as rosy as they used to be according to another of its bankers. All this was at a time when consumer spending on eating out has risen to record levels, a fact reported by one of CEP's competitors.

David was undaunted by this. He was by nature an optimist and had a true entrepreneurial spirit. He dismissed criticism of his growth policies for CEP as the product of negative thinking. "There is no alternative to growth", he said, "interest in quality food has never been higher. If we become conservative in our thinking, the company will decline and all our stakeholders won't thank me for that. I don't think my shareholders were displeased with last year's results either. They told me to carry on producing the same!"

Table 1

Financial data summary (£000's)

	2006	2005
Fixed Assets		
Leasehold Properties	9,000	6,000
Equipment	2,400	880
Vehicles	100	100
Goodwill	1,000	600
	12,500	7,580
Current Assets		
Stock	600	400
Debtors	200	150
Cash	–	170
	800	720
Current Liabilities		
Creditors	400	100
Overdraft	1,400	–
	1,800	100
Total Assets less Current Liabilities	11,500	8,200
Long Term Liabilities	5,500	3,700
Net Assets	6,000	4,500
Issued Share Capital	5,500	3,800
Reserves	500	700
Shareholders' Funds	6,000	4,500

Answer **all** the questions.

1 **(a)** Calculate CEP's return on net assets employed in 2006. [4]

(b) Analyse the implications for the business of CEP's:

(i) policy of high dividend payments to shareholders; [6]

(ii) change in the value of goodwill in the accounts. [6]

(c) Using ratio analysis and other quantitative data, evaluate the financial position and performance of CEP in 2006. [16]

2 **(a)** Assess the usefulness of cash flow forecasts as an aid to management decision making in CEP. [10]

(b) Evaluate CEP's growth strategy from the point of view of different stakeholders. [16]