OCR
RECOGNISING ACHIEVEMENT

ADVANCED GCE

BUSINESS STUDIES

Accounting

F294/RB

RESOURCE BOOKLET

To be given to candidates at the start of the examination

Friday 10 June 2011
Morning

Duration: 2 hours

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INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–6 is contained within this resource booklet.
- Do not hand this resource booklet in at the end of the examination. It is not needed by the Examiner.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER / INVIGILATOR

- Do not send this resource booklet for marking; it should be retained in the centre or destroyed.

Capitol Cinemas Ltd

Capitol Cinemas Ltd (CCL) owns four cinemas in the southwest of England. Established in 1989, CCL originally owned just one cinema in one of the largest towns in Cornwall.

Since that time, CCL has acquired a further three cinemas, all in towns with high numbers of visitors. These cinemas are:

- The Plaza (3 screens)
- The Regal (3 screens)
- The Metropole (2 screens)
- The Empire (1 screen)

The most recent acquisition, The Empire, was purchased last year. Simon Brookes, CCL's Financial Director, was given the job of identifying the risks involved in acquiring The Empire. Before CCL even approached the owners of The Empire about buying it, Simon obtained the company's latest published Annual Report from Companies House. When studying the whole Annual Report, Simon decided to focus his initial attention on the information contained in The Empire Ltd's (TEL) Balance Sheet (see Table 1).

Table 1
Extract from TEL's Balance Sheet as at 30 September 2009

	£	£
Fixed Assets		
Land and Buildings		285,000
Fixtures and Fittings		15,980
Current Assets		
Stock	2,400	
Debtors	705	
Cash	11,256	
Current Liabilities		
Creditors	23,768	
Net Current Assets		(9,407)
Less: Long Term Loan		48,500
Net Assets		**243,073**
Financed by		
Share Capital		35,000
Reserves		208,073
Capital Employed		**243,073**

Simon was concerned by certain aspects of the balance sheet and knew he would have to study the Annual Report in more detail before coming to any conclusions.

Despite Simon's initial concerns, CCL decided to continue with its plans to buy TEL. TEL was purchased mainly due to CCL's view that cinema audience numbers will continue to grow and, despite his concerns, Simon believed that TEL was undervalued and represented a good investment. TEL is located in a town where property prices are continuing to rise at a fast rate and the cinema is located on a prime site for re-development.

The Empire is still managed by Gwen Bestwetherick who has worked at the cinema for over 20 years in a variety of roles. She was appointed as manager a year before CCL acquired the business. The Empire operates a manual accounting system and Gwen is responsible for keeping records of income and expenditure.

Simon prepares quarterly accounts based on the financial records provided by all the cinemas, including The Empire. Simon has quickly learnt that Gwen's records are often presented in a poor state.

Simon's priority is to introduce Gwen to CCL's computerised accounting package. However, Gwen continues to resist this change arguing that she simply has not got the time to run a computerised accounting package. In addition to this change, Simon is also considering setting up each cinema as a profit centre. He knows that he is likely to face resistance from some of the cinema managers.

Based on the last quarter's accounts, Simon has constructed individual profit and loss accounts for each cinema. He has decided to apportion group overheads, such as head office salaries and group marketing, on an equal basis between the four cinemas.

An extract from Simon's quarterly profit and loss accounts is shown in Table 2 and operational information is shown in Table 3. CCL cinemas offer discounted prices to senior citizens, to local residents in the winter months and also take part in cinema promotions operated by other organisations such as national newspapers and mobile phone companies.

Table 2
Extract from the Profit and Loss Accounts for CCL's four cinemas
January – March 2011

	The Plaza £	The Regal £	The Metropole £	The Empire £	Total £
Sales Revenue	240,439	291,432	116,243	33,825	**681,939**
Operating Profit	98,939	113,932	44,723	11,075	**268,669**
Group Overheads	30,000	30,000	30,000	30,000	**120,000**
Net Profit	68,939	83,932	14,723	(18,925)	**148,669**

Table 3
Cinema Operational Information
January – March 2011

	The Plaza	The Regal	The Metropole	The Empire
Total number of seats	310	350	280	180
Number of full-time equivalent employees	14	16	10	5
Capacity utilisation	52%	56%	44%	35%
Number of screenings per day	3	3	2	2
Number of days open per week	7	7	7	4

Simon wondered how the cinema managers would react to the information in Tables 2 and 3, especially how he had decided to apportion group overheads.

At the same time, Simon asked Gwen to prepare a forecast cash-flow statement for The Empire for the next four quarters. Gwen's data is provided in Table 4.

Table 4
Forecast cash-flow statement for The Empire for the next four accounting quarters

	Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**
	Jul–Sep £	**Oct–Dec £**	**Jan–Mar £**	**Apr–Jun £**
Sales receipts	55000	38900	33000	45000
Total Cash Inflow	55000	38900	33000	45000
Wages	20600	15300	15300	20600
VAT payable	3800	4700	3500	2600
Other expenses	15800	18700	15500	13900
Total Cash Outflow	40200	38700	34300	37100
Net Cash Flow	14800	200	–1300	7900
Opening Balance	12400	27200	27400	26100
Closing Balance	27200	27400	26100	34000

CCL is continuing to look to increase its number of cinemas and has identified a new market opportunity. A major tourist resort has not had a cinema since the last one closed in the early 1980s. With the number of young people aged 16–24 visiting this town ever increasing, CCL believes a new cinema would attract significant business. Latest cinema industry market research indicates that 16–24 year olds make up the majority of cinema audiences. The new cinema, if built, would have four screens.

News that CCL is looking to build a new cinema has become public knowledge and has raised considerable local interest. CCL has pledged to use local businesses to construct the cinema and, once opened, the new cinema would employ 20 full-time equivalent staff. The local tourist board, chamber of commerce and council are excited by the prospect of a new attraction for tourists and local residents.

From an accounting perspective, Simon can see the value of this growth strategy. There are certainly economies of scale to be gained, and there are European Union and local government grants available to finance the majority of the development. In addition to these funds, CCL would have to invest £555,000, with most of the money borrowed as a secured loan at a variable rate of interest.

The board of directors has asked Simon to prepare an investment appraisal based on available figures and previous investment data. Simon has advised the board of directors that a payback period of four years or less and a 10% discount factor should be applied to the project (see Table 5).

Table 5
Investment Appraisal data prepared by Simon

Five year forecast for net cash flows

Year 0	(£555,000)
Year 1	£130,000
Year 2	£135,000
Year 3	£145,000
Year 4	£145,000
Year 5	£145,000

Discount Factors at 10 %

Year	Discount Factor
1	0.9091
2	0.8264
3	0.7513
4	0.6830
5	0.6209

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