



**ADVANCED GCE**  
**BUSINESS STUDIES**  
 Accounting

**F294**

Candidates answer on the Question Paper

**OCR Supplied Materials:**  
None

**Other Materials Required:**  
None

**SPECIMEN 2010**

**Duration: 2 hours**



Candidate Forename		Candidate Surname	
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Centre Number										Candidate Number				
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**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided; however additional paper may be used if necessary.
- It is recommended that you spend 10–15 minutes reading and annotating the material in the Case Study. You will be expected to refer to this material in your answers.

**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**.
- **The quality of your written communication will be assessed in questions that are indicated accordingly (\*). Marks will be awarded for spelling, punctuation and grammar, use of appropriate form and style of writing, and for organising work clearly and coherently.**
- This document consists of **12** pages. Any blank pages are indicated.



## JJ's plc.

JJ's plc is a fast growing multi-product cosmetic business founded by Jenny Jerome. It is a relatively new company with a dynamic management. The Chairman's statement outlined the financial objectives of the company:

- To achieve a return on equity of 20%
- To maintain consistently high dividends for shareholders

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To help achieve these aims the company devised a strategy based on high gearing and speculative ventures. Jenny maintained that a high profile was needed to succeed in this highly competitive market.

The company had been very successful. All of its sales were in the U.K. and its market share, although still small, had grown significantly. However, financial analysts are now beginning to doubt the financial soundness of the company. The press is full of articles suggesting that all may not be well. There are rumours of liquidity problems and an imminent cash crisis.

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In response, Jenny asked her financial advisors to look at the company's policies and to carry out a comparison of its performance against two of their major competitors [firm X and firm Y]. Table 1 shows some key financial results of the study. Table 2 shows the pattern of share ownership at each of the companies.

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**Table 1**  
**Inter Company Key Financial Data 2006 (£m)**

	JJ's	X	Y
Sales turnover	600	700	650
Gross profit	200	240	210
Profit before interest and tax	120	170	150
Profit after tax	50	140	100
<b>Current assets</b>			
Stock	200	130	110
Debtors	170	120	100
Cash	10	60	70
<b>Current liabilities</b>			
Creditors	150	100	100
Other current liabilities	290	200	50
<b>Share capital</b>			
Reserves	100	350	300
Long term liabilities	20	100	75
Capital employed	280	50	175
	400	500	550



**Table 2**  
**Shareholding Data**

Number of Shares	Number of shareholders		
	JJ's	X	Y
1–500	300,000	40,000	100,000
501–1000	100,000	350,000	400,000
1001–10,000	50,000	150,000	50,000
10,000+	1,000	90,000	70,000
Shareholders' financial returns			
Earnings per share (pence)	6	10	8
Dividend per share (pence)	5	2	3

Another issue facing the management of JJ's is the profitability of its current product portfolio. Jenny had been personally involved in the launch of a new range of hair care products. She was sure that this would prove a worthwhile addition to the products on offer. It would also use up some of spare capacity. She was looking forward to this being confirmed when the next financial figures became available. However, the accountant told her that this may not be the case. Capacity utilisation had certainly increased but accounting profits were little changed. Table 3 gives provisional figures for the six months trading for the new product range.

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**Table 3**  
**Provisional Financial Data for Six Months (Nov 2006–April 2007)**  
**New Range of Hair Products (£m)**

Sales Revenue	65
Cost of Sales	46
Allocated overheads	20
Profit	(1)

The figures came as a disappointment to Jenny as she really thought that this product complemented the existing product range. She was certain that the present range needed to be enhanced. Cosmetics is a fast moving market.

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Undeterred Jenny held a meeting with her fellow directors. She outlined her plans for the long term future of the company. She told them that her medium term objective was to accelerate the growth of the company. They had to be daring and innovative. She was considering two strategies. The first is a joint venture with another company, or companies. The second is a franchise arrangement. she has sketched out some projected cashflows, see Table 4.

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**Table 4**  
**Projected cashflows**

Year	Joint venture	Franchise
0	(100)	(50)
1	120	40
2	160	60
3	180	60
4	120	60







4\* With reference to Table 1, assess the current performance of JJ's.

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5\* With reference to Table 3, and other information, discuss whether JJ's should only produce products that generate accounting profits.

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