

Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	



General Certificate of Education  
Advanced Level Examination  
January 2012

# Applied Business

# BS15

## Unit 15 Financial Accounting for Managers

Monday 30 January 2012 9.00 am to 10.30 am

**For this paper you must have:**

- a calculator.

### Time allowed

- 1 hour 30 minutes

### Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

### Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(d), 2(c) and 3(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.



J A N 1 2 B S 1 5 0 1

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

**Item A**

**Great Embley Hotel**

*Great Embley Hotel* is a successful business. Over the past five years, it has concentrated on the tour operator market. As a result, bookings from tour operators have increased whilst bookings from private guests have decreased.

The hotel has a policy of asking for a purchase order from tour operators when they make a booking, which is often a year before the guests stay. The hotel also requires tour operators to pay a 20% deposit at the time of booking.

Tour operators expect to pay lower prices than private guests, with most asking for discounts of 25%. In addition, they want the flexibility to cancel room bookings, without any financial penalties, if they fail to fully book a tour.

The hotel's Managing Director, Mike Bell, is discussing with the Finance Manager, Justine Woodfield, whether they should continue to concentrate on the tour operator market during 2012. Justine produced the financial information, shown in **Figure 1**, to help them to decide.

**Figure 1: Extract from Great Embley Hotel's records for the year ending 31 December 2011**

	<b>Tour operator bookings</b>	<b>Private guest bookings</b>
Turnover	£980 000	£159 000
Change in turnover since 2010	+15%	-25%
Profit margin	10%	30%
Average time to pay the bill	10 days <b>after</b> their departure date	24 days <b>before</b> their arrival date

Mike wants the hotel to continue to concentrate on the tour operator market because tour operators come back to the hotel regularly, often using it for five or more tours per year. They also book for large groups of 20–50 people at a time.

Justine thinks that, as more people are taking short breaks in the UK and booking their own accommodation rather than using tour operators, the hotel should try to increase the number of private guest bookings. She believes that the decline in turnover from private guest bookings is largely due to the hotel's lack of facilities. If only Mike would agree to some improvements in the hotel's facilities, Justine is sure that private guest bookings would increase.



**1 (a)** Explain the purpose of a purchase order.

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**1 (b)** Using **Item A**, explain **one** reason why Mike believes that *Great Embley Hotel* should concentrate on tour operator bookings.

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2 Read **Item B** and then answer the questions that follow.

### Item B

#### New facilities for Great Embley Hotel

Mike has agreed that Justine should look into investing in new facilities at the hotel to increase its private guest bookings. After carrying out market research, Justine recommends building two-bedroom lodges for families with small children, and has developed plans to build eight of these in the hotel grounds by June 2013.

Justine has estimated that:

- the new lodges will cost £630 000
- fixtures and fittings for the lodges will cost £200 000 which Justine has decided to write off in full over 10 years
- the hotel would need a bank loan of £500 000 to fund the investment, this would be repaid over eight years and interest would be charged at 6% per annum
- the hotel would need to increase its overdraft from £50 000 to £150 000 for the first two years.

Justine has researched financial information, shown in **Figure 2**, forecasting how the business might perform if it invests in the lodges.

**Figure 2: Hotel's forecasted financial performance (investment in lodges)**

	2012	2013	2014
Turnover	£1 200 000	£1 000 000	£1 600 000
Net profit	£120 000	£60 000	£180 000
Current ratio	1.25:1	0.41:1	0.94:1
Gearing ratio	0.26:1	0.63:1	0.45:1
Net profit margin	10.0%	6.0%	11.3%

Mike is concerned about the amount of borrowing needed to fund the investment in the lodges. He also agrees with Justine's forecast that the building work might put off tour operators from making bookings. However, he is not convinced that these tour operators will return in 2014 and questions the accuracy of Justine's forecast.

Mike also notes that, in her forecast figures, Justine has written off the fixtures and fittings over 10 years. However, the hotel's policy is to write them off over five years.





**2 (a) (i)** Explain how a business decides over how many years it depreciates an asset.

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(2 marks)

**2 (a) (ii)** Explain how Justine’s decision to depreciate the fixtures and fittings for the lodges over 10 years, rather than 5 years, affects her forecasted profits.

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3 Read **Item C** and then answer the questions that follow.

**Item C**

**Lower Hill Camping Ltd**

*Lower Hill Camping Ltd* is a campsite in West Suffolk with space for 80 tents. It is run by Sonia West, who has just inherited £40 000. She is keen to invest this money to develop the business and is considering the following two options.

**Option A: Build facilities for an extra 20 tents**

Sonia's accountant is concerned that her forecast, shown in **Figure 3** below, assumes that the extra 20 tents would all be used every day during the main 12 week summer season.

**Figure 3: Forecast of the financial impact of building facilities for 20 extra tents**

	£
Cost of facilities	40 000
Additional annual income	23 000
Additional annual running costs	12 000

**Option B: Fit solar panels to the shower block**

The campsite's shower block is ideal for installing solar panels as it has a large south facing roof. It also has a mains electricity connection which would enable Sonia to sell excess electricity to the national grid. Her figures are shown in **Figure 4** below.

**Figure 4: Forecast of the financial impact of fitting solar panels**

	£
Cost of fitting solar panels	40 000
Annual income from sale of excess electricity to the national grid for 25 years	4 000
Annual maintenance costs	300
Annual electricity saving for the campsite	800

Sonia has included £200 for the electricity that the solar panels would provide for her own house each year as a cost saving made by the business. Her accountant has told her that this is not correct because of the accounting concept of business entity, and that instead she should record it as a sale. Sonia cannot understand why she needs to sell the electricity to herself.



**3 (a)** Explain why Sonia’s accountant wanted her to record the use of electricity in her own house as a sale from *Lower Hill Camping Ltd.*

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**3 (b)** Use **Item C** to calculate the annual return on each investment option. Show your calculations.

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Option B.....  
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**END OF QUESTIONS**



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