



Oxford Cambridge and RSA

Wednesday 22 June 2016 – Afternoon

A2 GCE BUSINESS STUDIES

F294/01/RB Accounting

RESOURCE BOOKLET

To be given to candidates at the start of the examination

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–6 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

- The information contained within this Resource Booklet is based on one or more real businesses.
- This document consists of **8** pages. Any blank pages are indicated.

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World in Print Ltd (WIPL)

World in Print Ltd (WIPL) was established in 2004 by Eleanor Sherwood and Ruth Hazel and until 2013 they each owned 50% of the shares. Their business plan was simple, yet forward looking and was based on their extensive experience in the book industry and an understanding of the likely impact of technology on demand. They anticipated that books would, in a short period of time, be largely replaced by electronic versions that could be downloaded onto computers for reading. Whilst dismayed by this prospect, they appreciated that this change would drastically reduce the selling price of second-hand books. This would create an opportunity to acquire a huge stock of books for a modest investment.

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They were sure that, despite the changing nature of the market, a significant demand would continue to exist for printed books. They believed the key to success was to find a suitable warehouse to store the books and to open it as a retail outlet. Based on market research, their business plan forecasted a healthy profit.

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Central to their plan was finding a warehouse close to a well-populated area with a thriving local economy. As a result they looked to purchase a business unit to the south of London adjacent to a major road linking the capital with the south coast. The location identified for the business clearly had many commercial benefits; however this meant that the cost of business properties was much higher when compared with less prosperous areas of the UK. Consequently, finding a business unit within their capital budget was a great challenge but eventually a suitable property was identified. At a cost of £258,000, the warehouse was a considerable investment. The property was in a poor state and needed a further investment of £52,000 for repairs and conversion into a bookstore with parking and retail facilities.

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Acquiring a readily available supply of books being discarded by the public and libraries was not a problem; however the quality and resale value of these books was questionable. WIPL's first year's financial results for 2004 disappointed Eleanor and Ruth (see Table 1).

Extracts from WIPL's actual and budgeted Profit and Loss Account for the year ending 31 December 2004 and number of books sold.

	Actual	Budgeted
Revenue	£203,100	£220,000
Cost of sales (books)	£107,643	£88,000
Gross Profit	£95,457	£132,000
Administration costs	£26,100	£25,000
Salaries	£52,600	£40,000
Sales/Marketing	£11,300	£10,000
Other costs	£2,600	£2,000
Warehouse wages	£28,300	£25,000
Total overheads	£120,900	£102,000
Net Profit before depreciation, interest and taxation	£(25,443)	£30,000
Books sold	45,030	44,000

Table 1

By 2009, and despite the growing impact of a UK recession, WIPL had started to make a good return on its investment. Ironically, technology was the greatest reason behind WIPL's success with Internet sales of printed books contributing a large and growing percentage of its sales revenue – the business had launched this service in 2007. 25

However, the long hours and stress were having a serious impact on Eleanor's health and in 2012, after many discussions with Ruth, Eleanor decided it was best for her to retire and for them to seek someone to buy her 50% shareholding. 30

Ruth was keen to ensure that any potential investor would also take an active part in the day-to-day management of WIPL. Ruth anticipated that she would continue to hold responsibility for the financial management of the business alongside her operations management role.

After six months and several unsuccessful negotiations with potential investors, Eleanor finally reached an agreement with Robin Fothergill who purchased her WIPL shares for £425,000. WIPL's balance sheet and profit and loss account were important financial documents to negotiate the price (see Table 2 and Table 3). 35

WIPL's Balance Sheet as at 31 December 2012

	£
Fixed (Non-current)	
Land and buildings	340,000
Motor vehicles	23,980
Total Fixed Assets	363,980
Current Assets	
Stock	86,750
Debtors	12,340
Cash	35,690
Total Current Assets	134,780
Total Assets	498,760
Current Liabilities	
Trade creditors	23,540
HMRC	54,320
Dividends payable	45,000
Total Current Liabilities	122,860
Long term Liabilities	0
Total Liabilities	122,860
Net Assets	375,900
Equity	
Authorised and issued ordinary share capital £1 nominal value	20,000
Profit and Loss Account	273,900
Revaluation of land and buildings (2008)	82,000
Total Equity	375,900

Table 2

Extracts from WIPL's Profit and Loss Account for the year ending 31 December 2012

	£
Sales Revenue	895,593
Gross Profit	617,959
Net Profit before interest and taxation	98,515

Table 3

Ruth was satisfied with her new colleague and shareholder. Robin had been a highly successful sales and marketing executive with several major organisations, including a well-known international charity running over 700 retail outlets in the UK. Ruth believed that their respective skills, experience and ideas would be complementary. 40

Indeed, Robin was happy for Ruth to continue with her current duties. He had already made plans for several projects for WIPL. The first was to create a café area inside the warehouse. He thought this would add value to the business, in particular by attracting customers to spend longer in the warehouse. 45

Robin was also keen to develop WIPL's corporate social responsibility (CSR). This would begin with the management of the café where the following would be introduced: 50

- only Fairtrade products would be sold
- an apprenticeship scheme for young unemployed people
- a donation of 20p per customer to a Ugandan Education Project.

Robin's experience in sales was put to good use when he put forward his plans to Ruth who was eventually convinced.

The café was opened in 2014 and, ever since, it has caused Ruth a good deal of concern over its financial performance. She has scheduled a meeting with Robin to discuss the café's future but knows he will resist any change because of his belief in the café's indirect benefits to WIPL. 55

At the meeting, Robin was stunned to discover that Ruth's proposal went far beyond the question of the future of the cafe as she explained to him:

"Let's be honest Robin, the café is not our only poorly performing profit centre. The latest annual accounts illustrate the issues." (See Table 4.) 60

WIPL's Profit and Loss Account for the year ending 31 December 2015

	Internet £	Retail (on-site) £	Café £	Total £
Revenue	962,321	125,463	45,878	1,133,662
Cost of sales	307,943	35,130	20,645	363,718
Gross Profit	654,378	90,333	25,233	769,944
Administration	28,500	28,500	28,500	85,500
Salaries	138,000	138,000	46,000	322,000
Sales and marketing	21,100	21,100	21,100	63,300
Warehouse wages	46,000	46,000	46,000	138,000
Other costs	16,935	16,935	16,935	50,805
Total overheads	250,535	250,535	158,535	659,605
Net Profit before interest and tax	403,843	(160,202)	(133,302)	110,339
Interest				0
Corporation tax				17,654
Net Profit after interest and tax				92,685

Table 4

Ruth continued, "We could become much more profitable by closing down the café and the retail on-site and focusing on Internet sales. What's more, we could relocate the Internet business to anywhere in the UK."

Robin asked for time to consider Ruth's proposal from a whole business perspective and insisted that they meet again in a week's time.

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Ruth agreed but insisted it was important that WIPL's other stakeholders did not hear about her plans for the business.

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