

Scenario

The questions in this paper are based on the following scenario.

You should read this scenario carefully before you start to answer the questions.

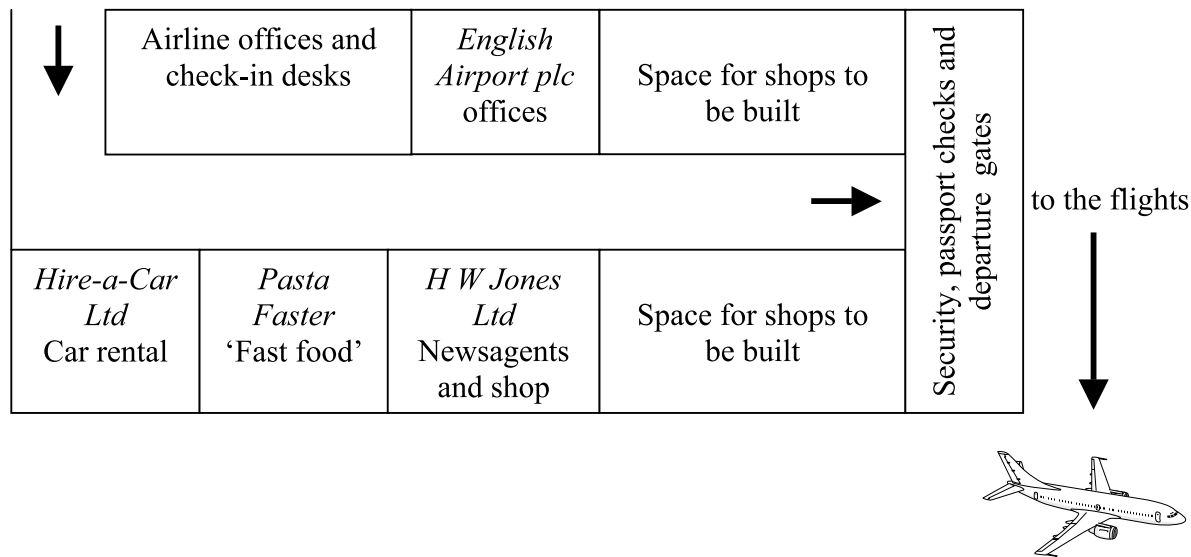
Businesses at Wessex Airport

Wessex Airport is in the West Country of England. It is owned and run by *English Airports plc*, whose offices are at the airport. *English Airports plc* is planning to develop Wessex Airport by building new shops to rent. These shops will sell their goods and services to the increasing numbers of people who use Wessex Airport.

- 5 The airline companies that fly from Wessex Airport have office space and a customer reception area where passengers check in for their flights. At the moment there are three other businesses at the airport.
 - *Hire-a-Car Ltd* is a car rental firm with branches in the west of England, including one at the Airport. Raoul Pinto is the Manager of this outlet.
- 10 • *Pasta Faster* is a newly established ‘fast food’ restaurant, owned and run by Bryan MacLean.
- *H W Jones Ltd*, a national retailer, has a shop selling papers, magazines, books, snacks and other items at the Airport. The Manager of this branch is Sheila Weston.

You work at Wessex Airport. The layout of the airport is shown below.

Airport Entrance



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Answer ALL questions in the spaces provided, referring to the scenario where necessary.

1. At *H W Jones Ltd*, Sheila Weston uses these methods to pay for goods and services.

Cash

Cheque

Direct
Debit

Select from above the **most appropriate** payment method for (a) to (d).

A payment method may be used more than once.

(a) *H W Jones Ltd* sells sandwiches. The supplier of these sandwiches wants Sheila to send payment by post.

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(1)

(b) The electricity bill must be paid monthly. The amount of the bill varies each month, and Sheila wants to make sure it is paid.

.....
(1)

(c) Sheila has to send a payment of £455 for a new display stand to *Showitoff Ltd*, a display stand manufacturer.

.....
(1)

(d) Sheila buys biscuits for the staff tea breaks.

.....
(1)

(Total 4 marks)

Q1



Leave blank

2. *H W Jones Ltd's* customers pay by cash, cheque or credit card.

(a) State and explain **one** advantage and **one** disadvantage to *H W Jones Ltd* when customers pay by **credit card** rather than by cash or cheque.

Advantage

.....

.....

Disadvantage

.....

.....

(4)

Staff in *H W Jones Ltd* use a bar code reader to record each item sold.

(b) Describe **one** way that this method of recording sales helps *H W Jones Ltd* reduce its costs.

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.....

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(2)

Q2

(Total 6 marks)

3. Each month, Sheila receives a Wages Budget for part-time staff from the Head Office of *H W Jones Ltd*. Sheila also calculates each month the actual wages she pays to these part-time staff.

How does the Wages Budget, and Sheila's calculation of wages paid, help her manage the shop?

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Q3

(Total 3 marks)



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4. Bryan MacLean opened the *Pasta Faster* 'fast food' restaurant last month. Bryan has

- A bought furniture for *Pasta Faster* customers to use
- B paid his first month's rent
- C bought kitchen equipment, e.g. cooker, freezer
- D hired staff who are paid weekly
- E bought a stock of soap for the toilets.

(a) (i) List the costs above as either start-up costs or running costs by placing the letters A–E in the correct column below.

| Start-up Costs | Running Costs |
|----------------|---------------|
| | |
| | |
| | |
| | |
| | |

(5)

(ii) Using **only** the information above, select **one fixed asset** and **one current asset**. For each asset selected, state why it is either a **fixed** or a **current** asset.

Fixed Asset

.....

.....

Current Asset

.....

.....

(4)

(b) Bryan buys sauces and paper napkins for customers to use. Why will Bryan treat these as **variable** costs?

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(2)

Q4

(Total 11 marks)



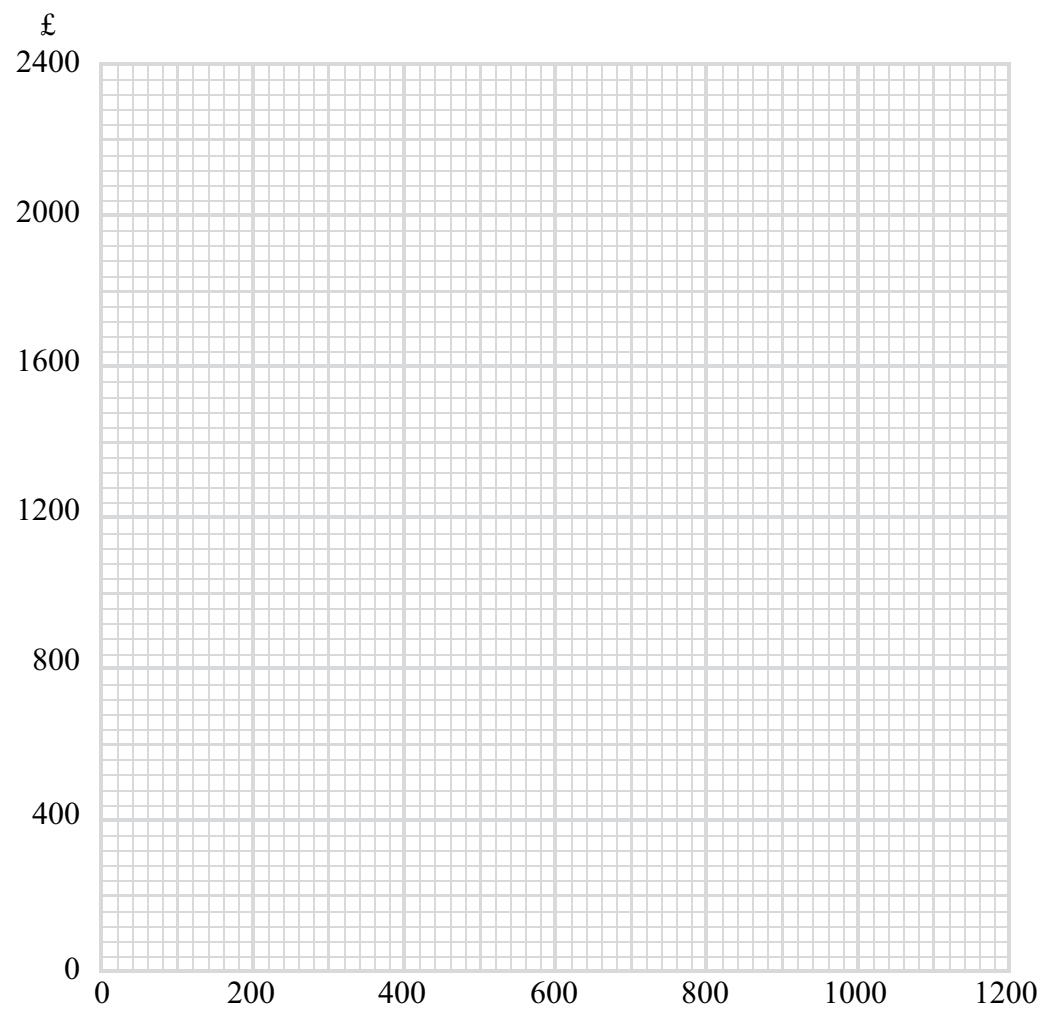
5. Bryan calculated that the cost of each meal would be 75p, and that his fixed costs would be £1 000 each month. Bryan planned to sell 1,200 meals a month at £2 each.

(a) Using this information, complete the following table.

| Number of meals sold | 200 | 400 | 600 | 800 | 1 000 | 1 200 |
|----------------------|-------|-------|-------|-------|-------|-------|
| Sales revenue (£) | 400 | 800 | | 1 600 | 2 000 | 2 400 |
| Variable costs (£) | 150 | 300 | 450 | 600 | | 900 |
| Fixed costs (£) | 1 000 | 1 000 | 1 000 | | 1 000 | 1 000 |

(3)

(b) Using the information in the table above, draw a fully labelled break-even chart on the graph below. Label the break-even point.



(5)



Leave blank

(c) Now Bryan has been in business for a month, he has found that

- fixed costs were £100 less than he thought they would be
- the cost for each meal was 80p, not 75p as he had planned.

Explain the effect these changes in Bryan's costs have had on his break-even position.

The formula for calculating break-even is:

$$\frac{\text{Fixed Costs}}{\text{Selling Price per unit} - \text{Variable Cost per unit}}$$

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(5)

Q5

(Total 13 marks)

6. For each situation below, what would be the **most appropriate** business document for Bryan and his staff at *Pasta Faster* to use? Tick **one** box **only** for each situation.

| SITUATION | Delivery Note | Invoice | Purchase Order | Receipt | Statement of Account |
|---|---------------|---------|----------------|---------|----------------------|
| Suppliers send this to <i>Pasta Faster</i> at the end of a month to show how much is owed | | | | | |
| <i>Pasta Faster</i> sends this to suppliers when it wants to buy goods | | | | | |
| Suppliers send this to <i>Pasta Faster</i> after each order has been received, requesting payment | | | | | |
| <i>Pasta Faster</i> issues this to customers to prove the customers have paid | | | | | |
| Suppliers send this to <i>Pasta Faster</i> with the goods they are sending | | | | | |

Q6

(Total 5 marks)



Leave blank

7. At *Hire-a-Car Ltd*, Raoul Pinto recently received a sales catalogue from a supplier, *Hodgson Ltd*.

Raoul ordered 12 of each type of seat cover from *Hodgson Ltd*, and paid in advance. Raoul has received the seat covers, and completed the Goods Received Note below.

| Goods Received Note | | | |
|----------------------------|-------------------------|------------------|---------------------------|
| Number: GRN 546 | | Our ref: PO 3537 | Date: 14 April 2005 |
| Quantity | Description | Item Reference | Condition of Goods |
| 12 | Seat covers (driver) | SCD | 8 OK: 4 wet and sent back |
| 12 | Seat covers (passenger) | SCP | 8 OK: 4 wet and sent back |
| 12 | Seat covers (rear) | SCR | 8 OK: 4 wet and sent back |

Raoul has now received the following Credit Note from *Hodgson Ltd*. All unit prices are correct.

| Hodgson Ltd Whitomer Road Wolverhampton West Midlands WV10 6AG | | Credit Note | |
|---|-------------------------|--------------------|-----------------|
| To: R Pinto Hire-a-Car Ltd Wessex Airport outlet Lanchester LC5 5TY | | Number | 001774 |
| | | Date | 27.04.2005 |
| | | Your Reference | PO 3537 |
| | | Our Invoice | SI 9078 |
| Quantity | Description | Unit Price (£) | Total Price (£) |
| 4 | Seat covers (driver) | 7.75 | 31.00 |
| 4 | Seat covers (passenger) | 7.25 | 29.00 |
| 2 | Seat covers (rear) | 12.50 | 25.00 |
| Reason for credit: | | GOODS TOTAL | 85.00 |
| Damaged in transit | | VAT | 14.87 |
| | | TOTAL | 99.87 |



Leave blank

(a) What is the purpose of this Credit Note?

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(1)

(b) Describe what Raoul should do with this Credit Note after he has checked its accuracy.

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(2)

(c) (i) What error does this Credit Note contain?

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(1)

(ii) If Raoul does not spot this error, what would be the effect on *Hire-a-Car Ltd*?

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.....
(1)

(d) Complete correctly the section below, which is taken from the Credit Note, and calculate the correct amount that *Hire-a-Car Ltd* **should** have received from *Hodgson Ltd*.

| Quantity | Description | Unit Price (£) | Total Price (£) |
|--------------------|-------------------------|----------------|-----------------|
| | Seat covers (driver) | 7.75 | |
| | Seat covers (passenger) | 7.25 | |
| | Seat covers (rear) | 12.50 | |
| GOODS TOTAL | | | |
| VAT | | | |
| TOTAL | | | |

(5)

Q7

(Total 10 marks)



8. Raoul has produced the following figures to enter in *Hire-a-Car Ltd's* Cash Flow Forecast.

- Raoul expects to receive the following amounts from customers who will be hiring cars:

| | £ |
|-----------|-------|
| July | 8 750 |
| August | 9 250 |
| September | 7 750 |

- Raoul expects to pay staff salaries of £3 500 a month, and other expenses that total £600 a month.
- He also expects to pay £350 in July and in August for power and telephone bills, and he thinks this amount will go down by £50 in September.
- Raoul expect to pay these amounts for car parts, tax and insurance:

£1 150 in July
£1 200 in August
£1 125 in September.

- Raoul has ordered a new hire car, and plans to pay the £9 000 cost of the car in July.

(a) Using these figures, prepare a Cash Flow Forecast for *Hire-a-Car Ltd* using the table on page 11.



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Cash Flow Forecast for *Hire-a-Car Ltd*, July – September 2005.

| 2005 | July (£) | August (£) | September (£) |
|-----------------------------|----------|------------|---------------|
| Inflow (Receipts) | | | |
| | | | |
| | | | |
| Total Inflow | | | |
| Outflow (Payments) | | | |
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| | | | |
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| | | | |
| Total Outflow | | | |
| Net Inflow / Outflow | | | |
| Opening Balance | 2 400 | | |
| Closing Balance | | | |

(10)

- (b) Raoul is now thinking of buying a second car as well as the one included in the Cash Flow Forecast. Consider how the information in the Cash Flow Forecast will help Raoul decide how to pay for the second car.

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(3)

Q8

(Total 13 marks)



9. At *Hire-a-Car Ltd*, Raoul produces a Profit & Loss Account after every three months of trading. Raoul has the figures he needs for the three months February to April 2005.

- Sales from hiring cars to customers totalled £22 800.
- The cost of these sales – tax and insurance on the cars, and replacement parts for them – came to £4 850.
- Staff were paid £10 200 in salaries.
- Power and telephone bills totalled £950.
- The value of *Hire-a-Car Ltd's* cars would go down, costing £5 400 in depreciation.
- Raoul paid other expenses of £1 800.

(a) Using this information, complete the Profit and Loss Account for *Hire-a-Car Ltd* below. Some information has already been entered to help you.

| Profit & Loss Account for <i>Hire-a-Car Ltd's</i> Wessex Airport outlet | | |
|--|--------------|--------------|
| for the three months ----- | | |
| | £ | £ |
| | | |
| Cost of Sales | | 4 850 |
| Gross Profit | | |
| Expenses: | | |
| | | |
| | | |
| Depreciation | 5 400 | |
| | | |
| Total expenses | | |
| | | |

(8)



Leave
blank

(b) Explain why each of the following stakeholders will be interested in the information shown in *Hire-a-Car Ltd's* Profit & Loss Account for these three months.

(i) Sarfraz Ahmed, who works full-time at *Hire-a-Car Ltd's* Wessex Airport outlet.

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(3)

(ii) Sarah MacLachlan, who does not work at the airport but is a shareholder in *Hire-a-Car Ltd.*

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(3)

(Total 14 marks)

Q9

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10. The scenario (lines 2–3) states that Wessex Airport is being developed by *English Airports plc*, the owners, with new shops to be built in the airport.

(a) Select **one** of the following financial documents. State the purpose of this financial document, and show how *English Airports plc* will use it to help plan this development.

- Cash Flow Forecast
- Budget
- Forecast Profit and Loss Account

Document selected

Purpose

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How it will be used

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(3)

(b) The directors of *English Airports plc* need to raise money to pay for the building of the new shops. They have two options.

Option 1

English Airports plc sells more of its shares.

Option 2

English Airports plc takes out a long-term loan from its bank

Choose **one** of these options to build the new shops. Justify why *English Airports plc* should choose this option.

Option chosen (**tick ONE box ONLY**): Sell more shares in the company

Take out a long-term bank loan

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