

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.

Clarian Farm

Clara Gish and Lillian Bowe own and run *Clarian Farm*. Clara and Lillian do not grow and sell crops, or raise animals for meat. *Clarian Farm* is for people who want a day out. It is very popular with families with young children, who like the tame animals at the farm.

The information below is from the website of *Clarian Farm*.

Clarian Farm - a great day out in the country!

You will receive a warm welcome to Clarian Farm. There's a lot happening each and every day for all ages.

Visit us, meet our animals and join in the fun and games. We have some things that you would expect to find on a farm, and plenty of other things that you wouldn't!!

Clarian Farm

- has an 'Animal Hotel' where people going on holiday can leave small pets, such as rabbits and gerbils, to be cared for by farm staff
- has stables for horses and donkeys
- allows visits by school trips, where pupils learn about caring for animals
- arranges children's birthday parties, where the children can meet and feed the animals
- has a café and shop, where visitors can buy snacks and gifts



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1. *Clarian Farm* uses these methods to pay for goods and services.

Cheque

Credit card

Cash

Direct debit

Select from above the **most appropriate** payment method for (a) to (d).
A payment method may be used more than once.

(a) Paying for the repairs to the stables. The builders will accept payment by post, a month after the work is completed.

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(1)

(b) Paying Louise, a part-time cleaner who works for four hours each weekend cleaning the shop. Louise does not have a bank account.

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(1)

(c) Paying for a monthly visit by the vet, who checks that animals at *Clarian Farm* are healthy. The vet's charges vary each month, and Lillian is keen to make sure she does not forget to pay him.

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(1)

(d) Paying for repairing a *Clarian Farm* vehicle. This will cost £455.75 and Clara wants to delay payment coming out of the farm's bank account for as long as possible.

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(1)

(Total 4 marks)

Q1



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2. *Clarian Farm* sets a budget for animal food. The budget for May 2007 is shown below. Lillian wants to know the budgeted cost of this food for the whole of May.

(a) Complete the table below by calculating the **budgeted** cost of this food, including the total budgeted cost, for May 2007. (Note: There are 31 days in May.)

Food for:	Budgeted cost per day	Budgeted cost for May (31 days)
Horses and donkeys	£20 per day	£
Other large animals	£8 per day	£
Small animals	£3 per day	£
Total budgeted cost		£

(1)

Lillian has kept records of the actual cost of this food for May. These are shown below.

Food for:	Actual cost for May
Horses and donkeys	£635.50
Other large animals	£248.00
Small animals	£85.25
Total actual cost	£968.75

(b) Using the above figures and your calculations from (a), show if *Clarian Farm* has been successful in keeping to these budgeted costs.

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(5)

(Total 6 marks)

Q2



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3. *Clarian Farm* buys animal feed from Rudy Williams, a local supplier. Clara and Lillian want to order the following items from Rudy Williams.

- 24 boxes of bird pellets, reference number BP53, cost per box £2.45
- 120 packets of mixed seeds, reference number MS20, cost per packet £0.41
- 48 boxes of hamster food, reference number HF96, cost per box £1.24

Using this information, complete the Purchase Order below, to be sent to Rudy Williams at 125 Bara Street, Melford, Melfordshire MD6 8DF.

Note:

- The last completed Purchase Order was numbered 804
- Clara and Lillian want these items delivered immediately.

Clarian Farm Griffth Lane, Dempster, DW3 9CA						
PURCHASE ORDER			Order No: _____			
To _____ _____ _____ _____						
Please Supply						
Item Description	Quantity	Reference Number	Unit Cost £ p		Total Cost £ p	
TOTAL						
Delivery Terms: 						

Q3

(Total 7 marks)

5



Turn over

4. Clara and Lillian had to pay different costs when they began *Clarian Farm* as a business.

(a) Using the information below, list the costs for *Clarian Farm* as either start-up or running costs by ticking the correct column.

	Start-up Costs	Running Costs
• Building <i>Clarian Farm's</i> café		
• Leaflets that advertise <i>Clarian Farm</i>		
• A computer for keeping business records		
• Food sold in <i>Clarian Farm's</i> café		

(4)

(b) From the information in (a) above, give an example of **one** fixed asset and **one** current asset for *Clarian Farm*.

Fixed asset

Current asset

(2)

Ramon works part-time at *Clarian Farm* every Sunday from 1pm until 5pm. He works in the café, but if there are no customers Ramon helps look after the animals.

Clara does not know whether to show Ramon's pay as a variable cost or as a fixed cost.

(c) Which cost should Clara select, and why?

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(2)



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Items sold in *Clarian Farm's* shop are scanned using a bar code reader.

- (d) Describe **one** way that using a bar code reader to scan items sold will help *Clarian Farm* reduce its costs.

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(2)

Q4

(Total 10 marks)

5. Lillian has started to list assets and liabilities to use in the balance sheet for *Clarian Farm*. However, she has made some errors in her list.

Study Lillian's list below. Using the right-hand table, list correctly the assets and liabilities.

Lillian's list
Assets
Buildings
Furniture and equipment
Customers who owe money
Bank overdraft
Liabilities
Vehicles
Stock
Loan from the bank

Corrected list
Assets
Liabilities

Q5

(Total 6 marks)



6. Clara has produced the following Cash Flow Forecast for *Clarian Farm*, for the three months July–September 2007.

Cash Flow Forecast for *Clarian Farm*, July–September 2007

2007	July (£)	August (£)	September (£)
Total receipts	6 400	6 500	6 000
Total payments	5 850	5 850	5 950
Net inflow/outflow	550	650	50
Opening balance	240	790	1 440
Closing balance	790	1 440	1 490

Clara now realises that she has forgotten to include a payment for further repairs to the stables. This repair work will cost £2 000. The repair work will take place in August but payment for it will be a month later.

- (a) Using this information, update the Cash Flow Forecast for *Clarian Farm*. Show your updated figures in the blank Cash Flow Forecast on page 9.

(3)



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Updated Cash Flow Forecast for *Clarian Farm*, July–September 2007

2007	July (£)	August (£)	September (£)
Total receipts			
Total payments			
Net inflow/outflow			
Opening balance			
Closing balance			

(b) (i) How has the Cash Flow Forecast for *Clarian Farm* changed now that the missing payment has been included?

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(2)

(ii) Consider **one** decision that Clara and Lillian will now have to make as a result of updating this Cash Flow Forecast.

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(2)

(Total 7 marks)

Q6



7. At *Clarian Farm*, Clara produces a Profit and Loss Account at the end of each month of trading. Clara has the figures she needs for May 2007.

- Ticket sales income from:
 - the public who visited *Clarian Farm* £12 550
 - school groups that visited *Clarian Farm* £600
 - birthday parties held at *Clarian Farm* £575
- The cost of all these sales came to £4 860
- *Clarian Farm* staff received salaries and wages £3 445
- Power and telephone bills totalled £800
- Food and other expenses came to £2 060

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

<i>Clarian Farm: Profit and Loss Account</i>		
for		
	£	£
Sales		
Gross profit		
Expenses:		
Staff salaries and wages	3 445	
Total expenses		

(8)



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(b) Why would each of the following stakeholders be interested in seeing the information shown in **this** Profit and Loss Account?

(i) Mary Fairbanks, the manager of *Clarian Farm's* bank.

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(3)

(ii) Doug Pickford, who lives and farms next door to *Clarian Farm*.

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(3)

Clara could calculate her profit easily if she used a computer spreadsheet, because formulae are entered in cells.

(c) Outline **one** reason why Clara's Profit and Loss Account may be wrong even if she used a spreadsheet containing formulae.

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(2)

(Total 16 marks)

Q7

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8. Visitors to *Clarian Farm* can pay by credit card, debit card, cash or cheque. Vidor and his family recently visited *Clarian Farm*. Vidor paid the entrance fee that day by credit card rather than by cheque.

(a) Describe briefly what happens when Vidor uses his credit card to pay the entrance fee.

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(2)

(b) Why is Vidor likely to have chosen to pay by credit card rather than by cheque?

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(2)

(c) What are **two** disadvantages to *Clarian Farm* of letting Vidor pay by credit card rather than by cheque?

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2

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(4)

(Total 8 marks)

Q8



9. Lillian wants to check whether it is worth *Clarian Farm* continuing with the ‘Animal Hotel’. This ‘Animal Hotel’ is used by people who are going on holiday, and who need to leave their small pets to be cared for by *Clarian Farm* staff.

Lillian has calculated various costs and revenues for the Animal Hotel.

- Fixed costs are £400 a month.
- The variable cost for each pet is £3 on average.
- The sales income from each pet is £19 on average.

Lillian knows that the formula to calculate the break-even point is

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{\text{Selling price per unit less variable cost per unit}} \\ \text{(Sales income per pet less variable cost per pet)}$$

- (a) How many pets must *Clarian Farm* take in each month in order to break even?

Show **all** your working.

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(2)

- (b) What will be the effect on the break-even point if Lillian decides to increase the price that *Clarian Farm* charges for use of the Animal Hotel?

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(2)



Lillian has information about the costs and revenues of the birthday parties held at *Clarian Farm*. These are as follows.

- Sales income from each birthday party: £80
- Variable costs of each birthday party:
 - food and drink for children £15
 - party hats, gifts and other items £9
 - other variable costs £6
- Fixed costs per month £400

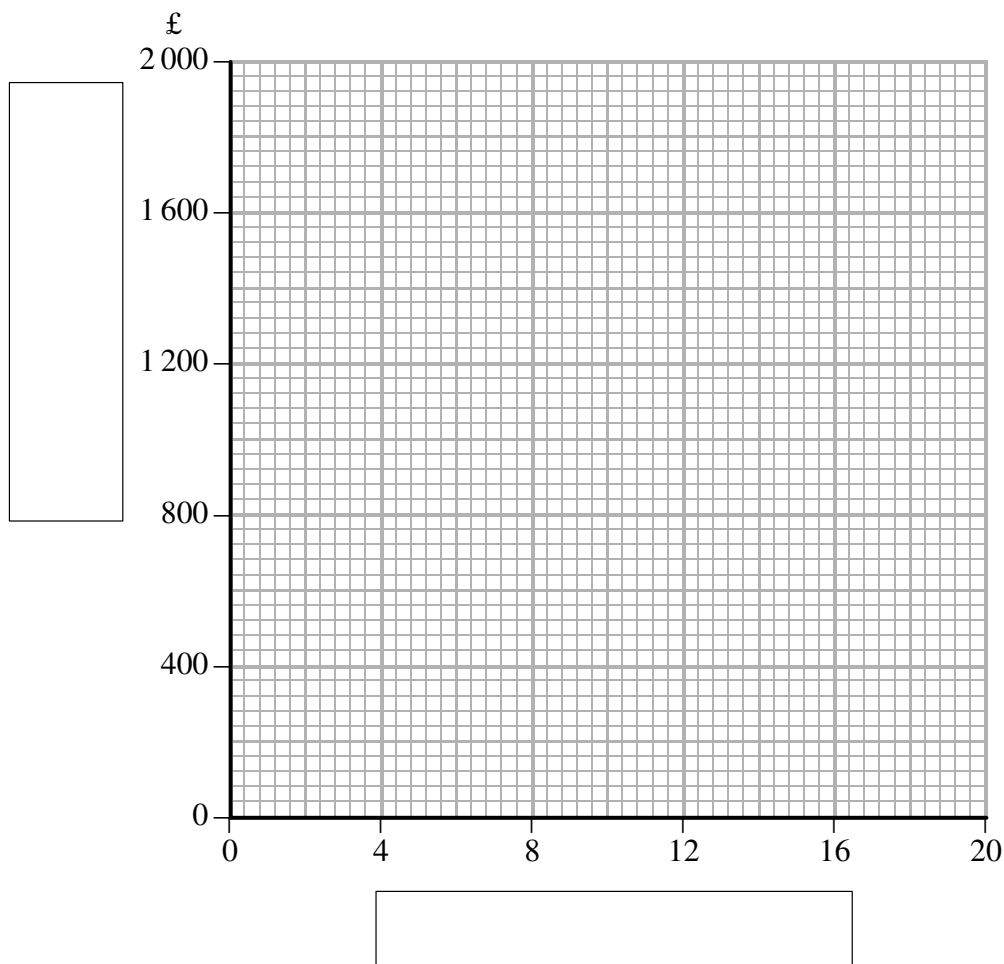
(c) Using the data given above, draw a fully labelled break-even chart on the graph below. Label the axes and label the break-even point. **(5)**

You may find it helpful to complete the Activity Table before you draw the chart.

Activity Table

Number of birthday parties	0	10	20
Sales			
Variable Costs			
Fixed Costs			
Total Costs			

Heading



Lillian has set up a spreadsheet to construct her break-even charts. An extract is shown below. Lillian has already entered formulae in the star (*) cells.

	A	B
1		(£)
2	Sales income for a birthday party	
3		
4	Variable cost 1: food and drink	
5	Variable cost 2: party hats and gifts	
6	Variable cost 3: other items	
7	Total variable cost for a birthday party	*
8		
9	Sales income less Total variable costs	*
10		
11	Fixed Costs	
12		
13	Break-even point	*

(d) Identify **one** cell that contains a formula. State this formula and describe the calculation it will carry out.

Cell reference Formula

Calculation

..... (3)

Lillian knows that using a spreadsheet helps her because formulae are used that calculate changed figures quickly and accurately.

(e) Describe **one** advantage for Lillian, **other than** the use of formulae that calculate changed figures, from using spreadsheets for her financial and other records.

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 (2)

(Total 14 marks)

Q9



10. Clara and Lillian are planning to create a new play area for young children who visit *Clarian Farm*. They will have to buy play equipment, such as a slide and a climbing frame, and build a proper playing surface so the children can play safely.

(a) How will **each** of the following documents help Clara and Lillian to create this new play area?

- Budget
- Forecast Profit and Loss Account

How budget will help

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How forecast Profit and Loss Account will help

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(4)

Clara and Lillian need £15 000 to pay for the new play area. They disagree on how to pay for the new play area.

- Clara has about £12 000 saved, and wants to invest her savings in the play area. Lillian has no savings and cannot offer to invest any money.
- Lillian wants to use profits from future sales. At the moment, Clara and Lillian do not have enough spare cash from profits.

(b) Choose **one** of these sources of finance to pay for the new play area. Consider the advantages **and** the disadvantages of using this source, and explain why you have chosen it rather than the other source.



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