



## 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.

### *Rawlinson Entertainment Ltd*



*Rawlinson Entertainment Ltd*, known as *REL*, manages musicians. *REL* invites musicians to become its clients, and finds work for them. The clients pay a fee to *REL* for finding them this work.

At present, *REL* is arranging a '40<sup>th</sup> anniversary tour' for its client the *Apollo Band*, a group of musicians who first toured in the late 1960s. Although the *Apollo Band* had only one hit, they made several vinyl albums (records) that have been reissued on CD and are still popular today. This has encouraged the *Apollo Band* to re-form and tour the United Kingdom.

Stan Ruskin and Neil Slater started the *Apollo Band*. Stan and Neil wrote the songs and will go on tour with the original *Apollo Band* members. *REL* will arrange the tour and pay all tour costs. The *Apollo Band* will repay *REL* for these services.

You are a friend of Stan's family, and Stan sometimes asks you about business matters.



Leave  
blank

1. *REL* uses these methods of payment.

Cash

Cheque

Credit  
Card

Debit  
Card

Direct  
Debit

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

(a) *REL* needs to pay a supplier of items to be used by the *Apollo Band* on the tour. *REL* plans to send the payment by post.

.....  
(1)

(b) *REL* is hiring a van to transport the band members and their equipment. This is expensive and *REL* wants to delay payment coming out of its bank account for as long as possible.

.....  
(1)

(c) An employee at *REL* wants to take a photocopy of the van hire agreement. *REL*'s copier is not working, so the employee will go to a nearby shop where copies can be taken for 10p each. Five pages need copying.

.....  
(1)

(d) Stan and Neil earn money from their song writing. The money is received by *REL* on behalf of Stan and Neil, and needs to be paid monthly straight into their bank accounts. The amount paid by *REL* changes each month.

.....  
(1)

(Total 4 marks)

Q1

3

Turn over



Leave blank

2. REL will pay tour costs on behalf of the Apollo Band.

Using the information below, list the costs for the tour as either start-up or running costs by marking a cross (☒) in a box. If you change your mind about an answer, put a line through the box (☒) and then mark your new answer with a cross (☒).

	Start-up Costs	Running Costs
• Printing posters that will be put up before the tour begins.	<input type="checkbox"/>	<input type="checkbox"/>
• Petrol for the van used on the tour.	<input type="checkbox"/>	<input type="checkbox"/>
• Buying a stock of tour T-shirts to be sold at each concert.	<input type="checkbox"/>	<input type="checkbox"/>
• Meals for the band members, to be paid for as they tour the country.	<input type="checkbox"/>	<input type="checkbox"/>

(Total 4 marks)

Q2

3. REL will set a budget for the tour.

(a) What is a budget?

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.....  
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(1)

(b) Describe **one** way that a budget will help REL when arranging this tour.

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(2)

(Total 3 marks)

Q3



Leave  
blank

4. Fans can buy advance tickets for the *Apollo Band* tour from *REL*.

(a) Outline **one** likely cost to *REL*, and **one** likely cost to the fans, if credit cards are used to buy these tickets.

*REL* .....

.....

.....

.....

.....

The fans .....

.....

.....

.....

.....

(4)

T-shirts and other tour items will be sold to fans at concert venues by *REL* employees.

(b) (i) Describe **one** advantage to *REL* if fans use credit cards rather than cash to buy T-shirts and other tour items.

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(2)

(ii) Name the financial document that will be given to fans who pay by cash, as proof of payment for their T-shirts.

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(1)

Q4

(Total 7 marks)





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**REL Ltd**

**PURCHASE ORDER**

To

Nowell and Bohay Ltd  
Leggs Lane  
Innes  
IN6 4RE

Order No.	2078
Date	5 December 2007

Quantity	Description	Item Reference	Unit Price £
4	Shure Dynamic Microphone	SM 58	70.00
4	Quiklok microphone stand	A 300	23.50
3	Denon Amplifier	AVR 3806	695.00

**GOODS RECEIVED  
NOTE**

Date: 15 December 2007

No. 76

Quantity	Description	Item Reference	Condition of Goods
4	Shure Dynamic Microphone	SM 57	OK
4	Quiklok microphone stand	A 300	OK
2	Denon Amplifier	AVR 3806	OK

**Nowell and Bohay Ltd  
INVOICE**

To

REL Ltd  
Martin Road  
Spoonsash  
SP3 6TF

Invoice	S 2878
Date	19/12/07
Your Reference	2078

Qty	Description	Item Reference	Unit Price £	Total Price £
4	Shure Dynamic Microphone	SM 58	70.00	280.00
4	Quiklok microphone stand	A 300	32.50	130.00
3	Denon Amplifier	AVR 3806	695.00	2085.00



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The correct Invoice total to pay *Nowell and Bohay Ltd* is £1483.50

(b) Complete the Cheque below for one of *REL's* employees to sign. Use today's date. (5)

<b>Speare Bank</b>		00 – 06 – 88
Spoonsash Branch 3 Smith Street, Spoonsash SP17GH		Date _____ 20__
Pay	_____	£ <input type="text"/>
	_____	
	_____	
		For & on behalf of REL Ltd
004852	00-06-88	68139251

(c) Describe why *REL* sends a Remittance Advice with each Cheque.

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(2)

Q5

(Total 14 marks)

6. *REL* employees have to calculate total cash receipts for the tour, which will take place in May 2008, although tickets will be sold in advance.

Forecast receipts are given below.

- Number of tickets sold, at £20 each:
  - March 10000
  - April 9000
  - May 5000
- Sales of tour items in May:
  - o T-shirts, 5000 at £15 each
  - o Souvenir mugs, 1500 at £5 each
  - o Other souvenirs, 800 at £4 each

(a) Using the above information, complete the Receipts section of the Cash Flow Forecast for the *Apollo Band* tour, for the three months March to May 2008. Calculate the Total Monthly Receipts, and then show the Total Receipts in the end box.

(6)





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**Cash Flow Forecast (Receipts) for the *Apollo Band* tour, March–May 2008.**

2008	March (£)	April (£)	May (£)	
<b>Inflow (Receipts)</b>				
				<b>Total Receipts</b>
<b>Total Monthly Receipts</b>				

*REL's* fee for the tour is five per cent (5%) of total cash received.

(b) Calculate *REL's* fee according to the Cash Flow Forecast above.

£ ..... (1)

The Cash Flow Forecast for all *REL's* work, for the first six months of 2008, is below.

**Cash Flow Forecast for *REL*, January–June 2008**

	Jan (£)	Feb (£)	Mar (£)	Apr (£)	May (£)	Jun (£)
<b>Opening balance</b>	12 000	4 000	5 000	2 500	2 000	52 000
<b>Inflows</b>	80 000	90 000	82 500	89 500	135 000	82 500
<b>Outflows</b>	88 000	89 000	85 000	90 000	85 000	84 500
<b>Closing balance</b>	4 000	5 000	2 500	2 000	52 000	50 000

(c) Using this Forecast, analyse **one** decision that *REL* will need to make.

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(2)

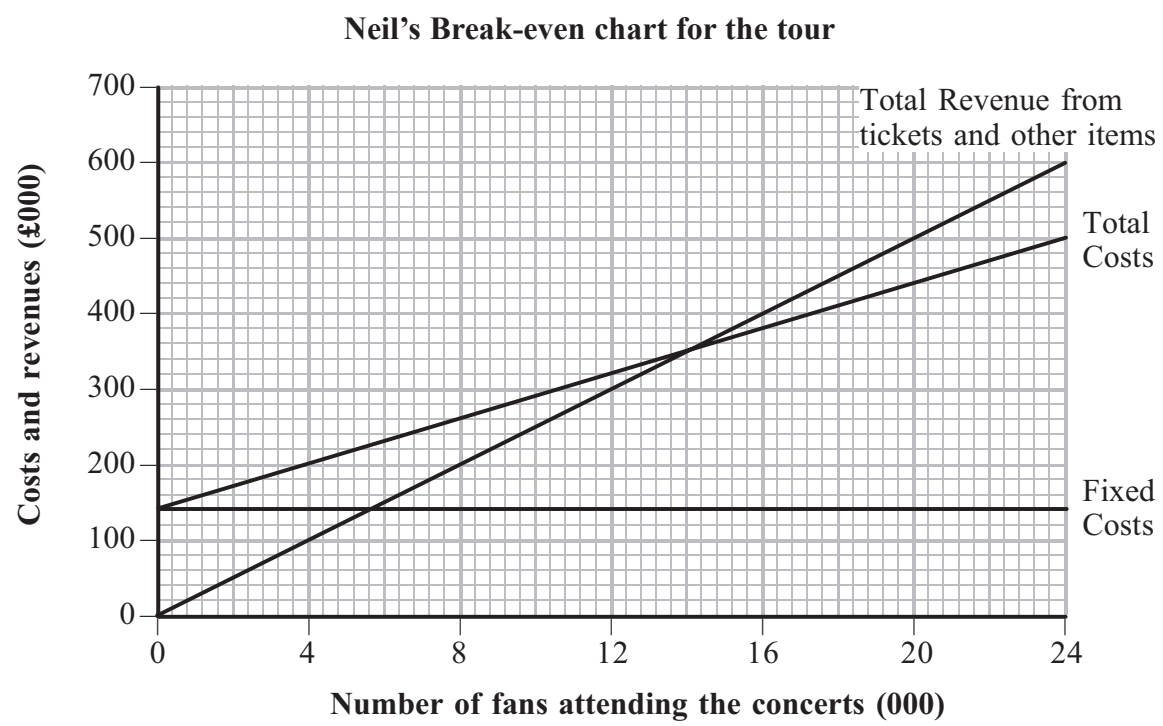
Q6

(Total 9 marks)



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7. Stan and Neil have done their own calculations to see whether the *Apollo Band* will make a profit from the tour. Neil has constructed the Break-even chart below.



(a) Use Neil's Break-even chart to answer the following questions.

(i) What are the fixed costs and total costs for the tour if there are 24 000 fans?

Fixed costs £ .....

Total costs £ .....

(2)

(ii) How much, on average, will each fan spend on tickets and other items?

£ .....

(1)

(iii) How many fans need to attend the concerts for the tour to break even?

.....

(1)

(iv) If 24 000 fans attend the concerts, how much profit or loss will the *Apollo Band* make? (State clearly whether it is a profit or a loss.)

.....

(1)

(v) If only 12 000 fans attend the concerts, how much profit or loss will the *Apollo Band* make? (State clearly whether it is a profit or a loss.)

.....

(1)

Neil has used a computer spreadsheet to construct this Break-even chart.

(b) Outline **one** advantage to Neil of doing this if he has to make changes to the data.

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(2)



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Neil has now discovered that the fixed costs for the tour will be £10000 less than forecast.

- (c) Discuss the effects that this change in the fixed costs will have on the break-even point for the *Apollo Band* tour.

The formula for calculating break-even is

$$\frac{\text{Fixed Costs}}{\text{Selling Price per unit} - \text{Variable Cost per unit}}$$
$$\left( \begin{array}{l} \text{Sales revenue} \\ \text{from each fan} \end{array} - \begin{array}{l} \text{Variable Cost} \\ \text{for each fan} \end{array} \right)$$

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(5)

Q7

(Total 13 marks)



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8. REL's Balance Sheet shows its assets and liabilities.

(a) Where will the items below appear in REL's Balance Sheet? Indicate your answer by marking a cross (☒) in a box. If you change your mind about an answer, put a line through the box (☒) and then mark your new answer with a cross (☒).

	Fixed Asset	Current Asset	Liability
Amounts owed by REL to its clients	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
An overdraft REL has on its bank account	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Money in REL's Petty Cash Box	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
REL's photocopier	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

(4)

Larry Smith is a manager employed by REL.

(b) Analyse why Larry might be interested in REL's Balance Sheet.

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(2)

(c) (i) Name **one other** stakeholder group who would be interested in the final accounts (Profit & Loss Account, or Balance Sheet) of REL.

**Note:** REL is a limited company.

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(1)

(ii) Why would **this** stakeholder group be interested in REL's final accounts?

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(1)

(Total 8 marks)

Q8



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9. Employees at *REL* have recently arranged two concert dates by the band *Slush Watch*. The following information about expenses (costs) and revenues (income) has been sent to *Slush Watch* band members.

**Summary of *Slush Watch* concert revenues and costs**

We sold 2500 tickets at Cambridge Civic Hall at full price (£20) and 150 at reduced price (£15).

We sold 1200 tickets at The Corn Exchange, Wolverhampton, at full price (£20) and 50 at reduced price (£15).

We sold the following *Slush Watch* merchandise.

- 1350 T-shirts at £18 each.
- 450 replica tour posters at £5 each.
- 600 tour programmes at £10 each.

The cost of our charges for arranging and promoting the concerts is £25 000.

Other costs to be paid by *Slush Watch* are as follows.

- Cost of buying and printing T-shirts: £7 each
- Cost of printing posters: £2.50 each
- Cost of printing programmes: £4 each
- Cost of concert hall hire:
  - Cambridge Civic Hall £25000
  - Wolverhampton Corn Exchange £13500
- Cost of staff support, transport, hotel reservations £15000.

Enter this information in the Table on the opposite page and calculate the profit or loss that *Slush Watch* has made on its tour.

Q9

(Total 13 marks)



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<b>Tour expenses (costs)</b>	<b>£</b>	<b>Tour revenue (income)</b>	<b>£</b>
<b>Total</b>		<b>Total</b>	

**Profit or loss £** ..... (State whether it is a profit or a loss.)

**Space for workings**

15  
**Turn over**



10. *REL*'s directors plan to invest in cars for employees to use. The directors believe that the total cost of buying these cars will be about £50 000.

The directors have the option of hiring rather than buying the cars.

(a) Outline **one** advantage and **one** disadvantage to the directors of hiring rather than buying the cars.

Advantage .....

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.....

Disadvantage .....

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**(4)**

The directors have decided to buy the cars. A Cash Flow Forecast is being prepared to help them plan this investment.

(b) (i) State the purpose of a Cash Flow Forecast.

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**(1)**

(ii) Show how the directors of *REL* could use this Forecast to plan this investment.

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**(2)**









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