

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.

The Inn on The Island



Until recently, Bella and Lou lived and worked in a city. Bella worked in an office, and Lou worked as a chef. They have now moved out of the city and set up a business by buying and running a small hotel in Scotland. The hotel is known as *The Inn*. Its full name is *The Inn on The Island* because it is on a small Scottish island, which is a popular holiday destination.

Tourists visit the island to see the lovely views and to enjoy the peace and quiet. Some of them stay at *The Inn*.

There is no bridge from the mainland to the island so tourists have to use *Go See Ferry*, the local sea ferry. *Go See Ferry* sails to and from the island, carrying local people, tourists and their vehicles.

Bella is your friend, and often asks you for business advice.



Leave blank

1. The financial documents sent and received by *The Inn* include the following.

Credit Note	Goods Received Note	Purchase Order	Receipt	Statement of Account
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Select from above the **most appropriate** document to use for (a) to (d).

A document may be used more than once.

(a) Adel, a customer, has booked to stay at *The Inn* and has paid a £20 deposit. Adel wants evidence from *The Inn* that the deposit has been paid.

..... (1)

(b) *The Inn* buys some of its food from a local farm. Frank, the farmer, wants to send Bella information about how much is owed at the end of the month.

..... (1)

(c) Blaskos, a shop in the nearest town, has delivered some new pillows for *The Inn*. Bella wants to record and store information about the condition of the pillows.

..... (1)

(d) *The Inn* has paid Blaskos for the pillows, but has paid £6.01 too much. Bella wants Blaskos to sort out this overpayment.

..... (1)

(Total 4 marks)

Q1



2. At *The Inn*, Bella has recently received the following Invoice from a supplier.
This Invoice contains a calculation error.

(a) Circle the **first** calculation error you find on the Invoice.

(1)

SALES INVOICE		Invoice number: 1931			
<i>Brownings</i>					
<i>Chaney Road, Todville, TV1 2RE</i>					
<i>Tel: 0131 552 7208</i>					
<i>VAT Registration Number: 134 562 7456</i>					
To: The Inn on The Island Deszo Island Argdour AR24 6AG					
Ref. your Order: PO 632					
Quantity	Reference	Description	Unit Price	Total Price	
				£	p
4	BL55	Bedside lamps	£4.45	17	80
4	T465sm	Small tables	£15.55	60	20
Total Goods				78	00
Trade Discount @ 20%				15	60
Subtotal				62	40
VAT @ 17.5%				10	92
Total to Pay				73	32



Leave blank

(b) In the extract from the Sales Invoice below, calculate the correct 'Total to Pay'.

(3)

Quantity	Reference	Description	Unit Price	Total Price	
				£	p
4	BL55	Bedside lamps	£4.45		
4	T465sm	Small tables	£15.55		
Total Goods					
Trade Discount @ 20%					
Subtotal					
VAT @ 17.5%					
Total to Pay					

(c) Discuss **two** likely effects on *Brownings* if it continues to make errors on Invoices.

Effect 1

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Effect 2

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(4)

Q2

(Total 8 marks)



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3. Because there is no bridge from the mainland to the island, people have to use the local sea ferry. *Go See Ferry* sails to and from the island, carrying local people, tourists and their vehicles.

Many people living on the island work on the mainland. They use *Go See Ferry* every day to get to work. Some people buy a monthly ticket because it is less expensive than paying daily. These people can pay for their monthly ticket by direct debit.

- (a) Describe how someone buying a monthly ticket would set up a direct debit.

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(3)

- (b) Outline **one** advantage to *Go See Ferry* of accepting payments by direct debit for the monthly ticket.

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(2)



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The tourists who use *Go See Ferry* pay for tickets by cash or by credit card.

- (c) (i) State **two** reasons why tourists might prefer to pay by credit card rather than cash.

Reason 1

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Reason 2

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(2)

- (ii) Discuss **one** advantage and **one** disadvantage to *Go See Ferry* of accepting payment by credit card rather than cash.

Advantage

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Disadvantage

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(4)

(Total 11 marks)

Q3

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7

Turn over



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4. When moving into *The Inn*, Bella found the following note from the last owners.

Hi Bella, I hope your move went well. In addition to the items on the list we sent you and Lou, we are leaving the following. We've no need (or no room!) for them, so they are yours.

In the storeroom you will find some unsold boxes of crisps and nuts from the Christmas stock: they are in date and can be sold. The same goes for the bottles of Pepsi you'll find in the fridge.

We've left the two chairs in reception, as well as a small table you could keep there or move into a bedroom. In the bar you'll find an old cash till - it still works, so why not use it?

Don't forget: you owe Mr Stoker the money for the work he did for you (we think he's done a really good job).

All the best from Martie and Landau

Bella wants to organise the information on this note into fixed assets, current assets and liabilities. She has drawn up the blank table below.

Using the information in the note, complete this table for Bella.

Fixed Assets	Current Assets	Liabilities

(Total 6 marks)

Q4



Leave blank

5. Bella has already paid the following costs

- A new sign for *The Inn*.
- The gas bill for the first month.
- A special advert in the local paper to explain that *The Inn* has new owners.
- The first monthly ticket for employees who use *Go See Ferry*.

Bella has heard the terms **start-up cost** and **running cost** but does not know what these terms mean.

Define these terms for Bella, using **two** examples from the above list of costs to support **each** definition.

Start-up costs

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(3)

Running costs

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(3)

(Total 6 marks)

Q5



6. Bella and Lou studied the existing accounts for *The Inn* before agreeing to buy it. They found that the figures for *The Inn's* last financial year were as follows.

- Salaries and wages of *The Inn's* employees £37 500
- Cost of gas and electric for *The Inn* £16 240
- Telephone costs for *The Inn* £3 530
- Advertising and insurance costs £6 800
- Sales of rooms to tourists stopping at *The Inn* £120 000
- Sales of food and drink to people using *The Inn* £30 500
- The cost of all these sales came to £28 750

(a) Use this information to complete the Profit and Loss Account for *The Inn*. Some information has already been entered to help you.

Profit and Loss Account for *The Inn*

	£	£
Sales		
Cost of sales		
Gross Profit		
Expenses:		
Salaries and wages	37 500	
Total Expenses:		

(8)



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(b) Discuss **one** reason why each of the following stakeholders would be interested in seeing the information shown in **this** Profit and Loss Account.

(i) Carla Offe, who works at *The Inn* as a cleaner.

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(3)

(ii) Mr Barris, *The Inn's* bank manager.

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(3)

Bella will use a spreadsheet to calculate profits. Two advantages of a spreadsheet are that data can be changed easily, and formulas speed up calculations.

(c) Describe **one other** advantage to Bella from using a spreadsheet to calculate profits.

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(2)

(Total 16 marks)

Q6

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7. Bella plans to produce a six-month Cash Flow Forecast for *The Inn*, starting March 2009. She will use the following information for this Forecast.

- Cash receipts from tourists and local people are expected to be as follows.

	Tourists	Local people
	£	£
March	10 000	1 000
April	10 000	1 000
May	11 000	1 000
June	12 000	800
July	15 000	800
August	15 000	800

- Food, drink, and other costs are expected to be £2 500 a month.
 - Salary and wage costs will be £3 000 a month.
 - Gas and electric is expected to cost
 - £1 400 in March, April and May
 - £1 200 in June and July
 - £1 000 in August.
 - Other costs are expected to be £1 500 a month.
 - Bella plans to buy new furniture for *The Inn* at a total cost of £6 000. The furniture will be delivered in March, and will be paid for the following month.
- (a) Prepare a Cash Flow Forecast for *The Inn* for the six months to August 2009 by completing the table on page 13.

Some of the above information has already been entered to help you.

(9)



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Cash Flow Forecast for *The Inn*, March – August 2009

2009	March £	April £	May £	June £	July £	August £
Inflow (Receipts)						
Total Inflow						
Outflow (Payments)						
Food and drink	2 500	2 500	2 500	2 500	2 500	2 500
Total Outflow						
Net Inflow / Outflow						
Opening Balance	200					
Closing Balance						

(b) Using your figures from the Forecast, or the figures from page 12, outline **one** way in which **this** information will help Bella plan her finances for the next six months.

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(2)

(Total 11 marks)

Q7

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8. There is a small restaurant at *The Inn*. Lou thinks that the fixed costs for the restaurant will be £1 500 each month, and the cost of each meal will be £2.50. Lou plans to sell up to 300 meals a month at £10 each.

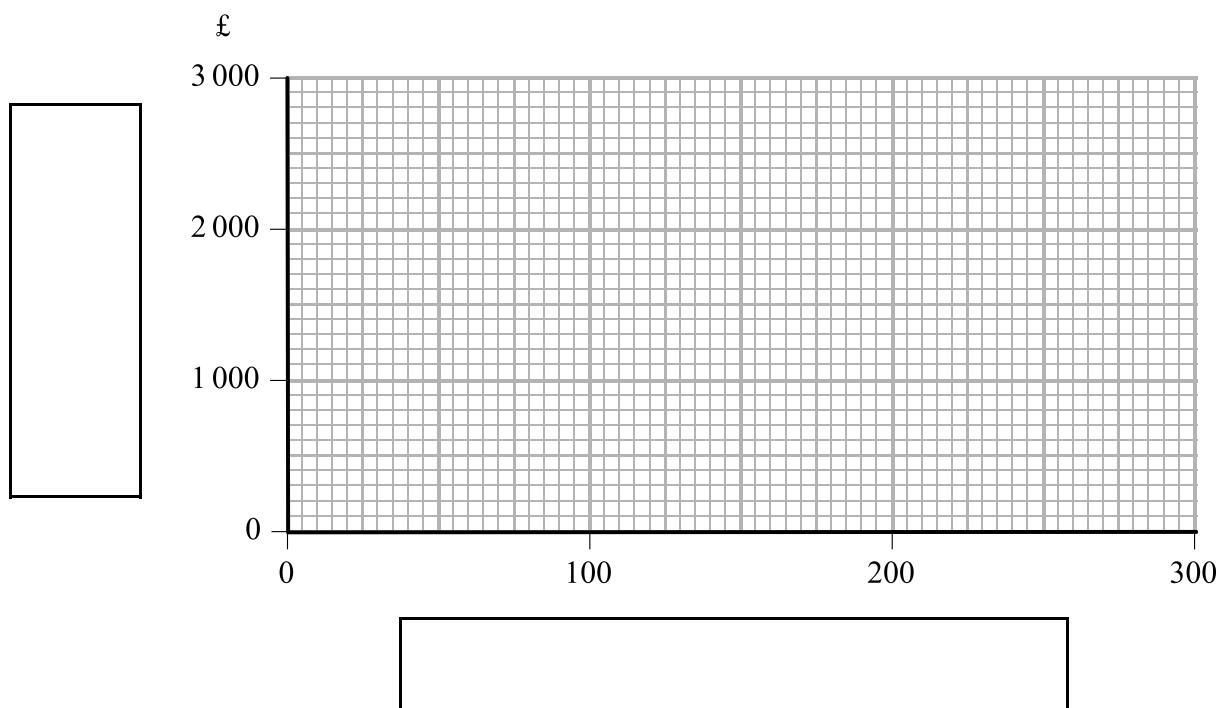
(a) Using the information above, draw a fully labelled Break-even chart on the graph below. Label the axes and the break-even point. (5)

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

Activity Table

Number of meals	0	100	200	300
Sales				
Variable Costs				
Fixed Costs				
Total Costs				

Heading.....



Leave blank

Bella thinks that charging £10 for a meal is too expensive. She would like Lou to reduce the price.

(b) How will reducing the price of a meal at *The Inn* change the

- Total Revenue line
- Total Costs line
- Break-even point?

(i) Total Revenue **line**

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(2)

(ii) Total Costs **line**

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(2)

(iii) Break-even **point**.

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(2)

(Total 11 marks)

Q8

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9. *Go See Ferry* carries both people and vehicles. The owners produce a **sales** budget each month. The budget for December 2008 for vehicles is shown below. The owners want to know budgeted sales revenue (income) for December 2008 (28 working days).

(a) Complete the table below by calculating December's budgeted sales revenue (28 days).

(1)

Vehicle	Budgeted revenue a day	December's budgeted revenue (28 days)
Cars	£140	£
Caravans	£75	£
Vans or lorries	£220	£
Total budgeted revenue		£

The records of the actual revenue earned in December are shown below.

Vehicle	Actual revenue for December 2008
Cars	£4 020
Caravans	£2 000
Vans or lorries	£6 210
Total actual revenue	£12 230

(b) Using the above **revenue** figures and your calculations from (a), analyse whether *Go See Ferry* was as successful in December 2008 as the owners had expected.

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(5)

(Total 6 marks)

Q9



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10. There are other islands that *Go See Ferry* does not visit. One of these islands is Tod Island. The owners of *Go See Ferry* plan to start a ferry service to Tod Island because they think it will become popular with tourists.

The owners will draw up a Forecast Profit and Loss Account for the planned new ferry service to Tod Island.

(a) How will the owners use the Forecast Profit and Loss Account to help plan **this** new ferry service to Tod Island?

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(3)

TURN OVER FOR QUESTION 10 (b)



The owners of *Go See Ferry* will need another boat for the new ferry service to Tod Island. They have two options.

Option 1

The owners can ask *Go See Ferry's* bank for a loan. They think the loan will be for 10 years.

Option 2

The owners can pay for the boat by using future profits from *Go See Ferry*.

(b) Recommend **one** of these sources of finance for the owners to use.

Explain why you have recommended this source, **and** why you have **not** recommended the other source.

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