

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.

Joan's Garden Centre Ltd



Joan's Garden Centre Ltd is owned by Sarah Merchant. The *Garden Centre* sells plants mainly grown there, garden furniture and other garden items that are bought from suppliers. There is a small café for the use of visitors.

Sarah offers regular customers the chance to become a 'Garden Centre Member'. By paying a monthly amount by direct debit, a customer receives special privileges such as a discount off the cost of plants.

The *Garden Centre* has visitors who enjoy gardening. Sarah offers visitors from outside the area the chance of a 'long weekend of gardening' at the *Garden Centre*. They come for three days, tour the *Garden Centre* and the area, and Sarah books accommodation for them in *MacLachlans*, a local hotel.



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1. The *Garden Centre* uses these methods to pay for its goods and services.

Cash	Cheque	Credit Card	Direct Debit
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Select from above the **most appropriate** payment method for (a) to (d).
A payment method may be used more than once.

(a) An employee at the *Garden Centre* has to go to the local shop to buy a small bottle of milk for the café.

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(1)

(b) The *Garden Centre* has bought new plant pots for £245.75 from the website of a supplier. Payment will be made through the website.

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(1)

(c) Plants for a wedding reception have been ordered over the telephone. When ordering, a £25 deposit had to be paid immediately.

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(1)

(d) Paying loan interest. This interest is paid in monthly instalments. It must be paid every month or the lender will take legal action against the *Garden Centre*.

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(1)

(Total 4 marks)

Q1

3

Turn over



Leave blank

2. Sarah uses a spreadsheet to calculate the profit or loss made on some items sold by the *Garden Centre*. Below is the start of this spreadsheet. Sarah has already entered a formula in cell B4.

	A	B	C	D	E
1	Sales of roses	<i>Miniatures</i>	<i>Hybrids</i>	<i>Shrubs</i>	<i>Climbers</i>
2	Number	61	74	48	19
3	Price (£) each	7.99	9.99	11.99	13.99
4		487.39			

(a) (i) In cell A4 above, write a word or phrase to show what is in row 4. (1)

(ii) State the formula that Sarah could have entered in cell B4.
..... (1)

Sarah finds it a lot quicker to use a spreadsheet rather than a calculator because the formulas entered carry out calculations quickly.

(b) Give **one other** advantage to Sarah from using a spreadsheet in this situation.
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..... (2)

(Total 4 marks) Q2



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3. Customers of the *Garden Centre* can use cash, credit cards and debit cards to pay for their purchases.

(a) State **two** advantages and **two** disadvantages to the *Garden Centre* when customers pay by **cash** rather than by credit card.

Advantage 1

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Advantage 2

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Disadvantage 1

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Disadvantage 2

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(4)

Ivan Gray has bought two expensive trees from the *Garden Centre*. He decided to use his credit card rather than his debit card or cash to pay for the trees.

(b) Give **two** likely reasons why Ivan used his credit card rather than his debit card or cash.

1

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2

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(2)



Regular customers are encouraged to join the 'Garden Centre Member' scheme. To do so, they have to set up a direct debit.

Ivan is a regular customer and is thinking of joining this scheme.

(c) Describe how Ivan would set up a direct debit to join this scheme.

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(3)

(Total 9 marks)

Leave blank

Q3

4. Nat Osborne was a visitor on a recent 'long weekend of gardening' at the *Garden Centre*. Nat stopped at the *MacLachlans* hotel. Details of Nat's stay are as follows.

- One night's accommodation at the weekday rate of £57.50 per night
- Two nights' accommodation at the weekend rate of £52.50 per night
- Three evening meals at £17.75 each
- Drinks totalling £9.15

MacLachlans sends the Invoice for Nat's stay to *Joan's Garden Centre Ltd*, Lily Road, Tygerville TV2 5NM. The last Invoice issued by *MacLachlans* was number 52141.

Using this information, complete the Invoice opposite. Use the examination paper date.

(7)



Leave blank

INVOICE

MacLachlans
Ball Square
Mirror
TV12 4JO
Tel: 01952 857578
VAT Reg No. 112 4882 65

Date: _____

Invoice
Number: _____

Invoice to:

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Name of Guest: _____ Date of stay: 23-26 April 2010

Number of nights	Rate per night (£)	Total	
		£	p
Cost of accommodation			
Food			
Drinks			
Other items			
Sub Total			
VAT at 17.5%			
TOTAL TO PAY			

Q4

(Total 7 marks)

7

Turn over



Leave blank

5. The *Garden Centre* grows plants for sale, and buys garden furniture to sell.

- (a) State, with a reason, whether the cost of growing the plants is a **start-up** cost or a **running** cost.

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(2)

- (b) Classify the following costs in the table below as either **start-up** costs or **running** costs for the *Garden Centre*.

Indicate your answer by marking the box . If you change your mind, put a line through the box and then indicate your new answer with a cross .

(4)

Cost	Start-up Costs	Running Costs
Brochures that advertise plants for sale	<input type="checkbox"/>	<input type="checkbox"/>
A name sign outside the Centre's café	<input type="checkbox"/>	<input type="checkbox"/>
Advertising the opening of the <i>Garden Centre</i>	<input type="checkbox"/>	<input type="checkbox"/>
Heating the greenhouses where plants are grown	<input type="checkbox"/>	<input type="checkbox"/>

- (c) For each balance sheet item in the table below, indicate whether it is a fixed asset, a current asset or a liability.

Indicate your answer by marking the box . If you change your mind, put a line through the box and then indicate your new answer with a cross .

Mark **one** box only for each Balance Sheet item.

Balance Sheet Item	Fixed Asset	Current Asset	Liability
The greenhouses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money owing to the printer of the brochures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The café furniture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A stock of unsold garden furniture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Amounts due to the garden furniture supplier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(5)

(Total 11 marks)

Q5



Leave blank

6. When starting the 'Garden Centre Member' scheme, Sarah bought database software to store details of members. She has also bought badges for each member.

(a) Outline whether Sarah should treat each of these costs as **fixed** or **variable**.

Database software
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..... (2)

Badges
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..... (2)

Sarah bought a new computer for the *Garden Centre* to run the database. At the same time she bought a computerised accounting system.

Sarah has found that fewer staff hours are needed to run the computerised accounting system compared with the old manual accounting system.

(b) Discuss **one** cost, **other than** the cost of staff, that is likely to be lower now the new computerised accounting system is being used.

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..... (3)

(Total 7 marks)

Q6



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7. Sarah has produced the following Cash Flow Forecast for the café at the *Garden Centre*, for the three months July–September 2010.

Cash Flow Forecast for *Joan's Garden Centre Ltd*, July–September 2010

2010	July (£)	August (£)	September (£)
Total Receipts	9 600	9 750	9 000
Total Payments	8 775	8 775	8 925
Net Inflow/Outflow	825	975	75
Opening Balance	360	1 185	2 160
Closing Balance	1 185	2 160	2 235

Sarah now realises that she has forgotten to include a payment for new equipment for the café. The equipment will be delivered in June, and payment for it will be two months later. This new equipment will cost £3 000.

- (a) Using this information, update the Cash Flow Forecast for the *Garden Centre*. Show your updated figures in the blank Cash Flow Forecast opposite.

(5)



Leave blank

Updated Cash Flow Forecast for Joan's Garden Centre Ltd, July–September 2010

2010	July (£)	August (£)	September (£)
Total Receipts			
Total Payments			
Net Inflow/Outflow			
Opening Balance			
Closing Balance			

(b) (i) How have the Cash Flow Forecast balances changed now that the missing payment has been included?

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(3)

(ii) Consider **one** decision that Sarah will now have to make as a result of the change to the Cash Flow Forecast.

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(3)

(Total 11 marks)

Q7

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8. The *Garden Centre* is expanding. It now has a website where Sarah plans to sell products online.

Sarah has prepared the following sales budget.

<u>Month</u>	<u>Number of items Sarah hopes to sell online</u>	
	<i>Plants</i>	<i>Other items</i>
July	100	150
August	200	275
September	300	400
Average sales price per item	£10	£20

(a) (i) Calculate the **total** sales income that Sarah hopes to make from these online sales.

£.....

(1)

Space for your working

(ii) How, in the future, could Sarah use **this** budget to judge whether online sales are a success?

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(3)



Sarah plans to start selling online in July. She has estimated the following monthly costs and revenues.

- An average price of £15 for each item she sells
- A variable cost of £10 for each item she sells
- Total fixed costs of £4 000.

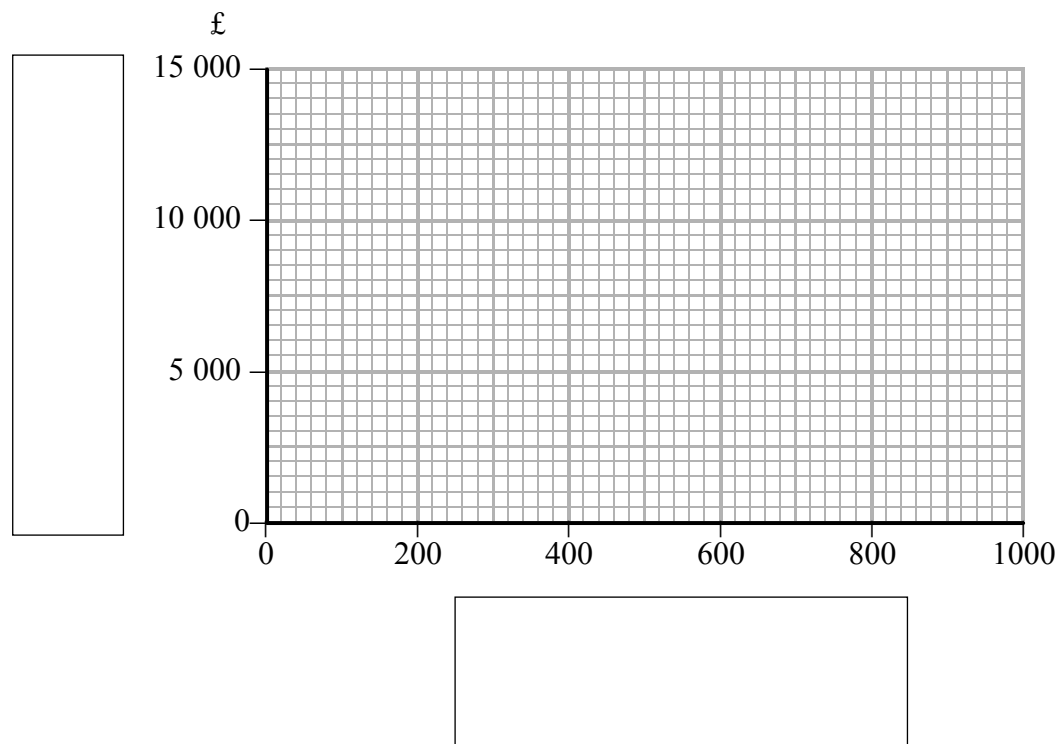
(b) Using the information above, draw a fully labelled Break-even chart on the graph below. Label the axes and the Break-even point.

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

Activity Table

Number of items sold:	0	500	1 000
Sales			
Variable Costs			
Fixed Costs			
Total Costs			

Heading



(5)



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Sarah now thinks she can cut her fixed costs by 10 per cent.

- (c) (i) Sarah thought her fixed costs would be £4 000. How much will they now be if they go down by 10 per cent?

£.....

(1)

- (ii) If the fixed costs do go down, discuss the effect that this will have on the Break-even point for the online sales.

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

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(5)

Q8

(Total 15 marks)



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9. The following items are to be entered in the Profit and Loss Account for the *Garden Centre*.

	£
Income from plant sales	47 400
Cost of plant sales	31 250
Income from sales of other items	45 550
Costs of sales of the other items	28 225
Depreciation on equipment	2 500
Wages and salaries	15 780
Administration expenses	2 300
Other expenses	5 000

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

Joan's Garden Centre Ltd Profit and Loss Account period ended 5 April 2010

	£	£
Cost of Sales		
Gross Profit		
Expenses:		
Depreciation on equipment	2 500	
Total expenses		

(8)



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Ivan is a customer of the *Garden Centre* and is now a 'Garden Centre Member'.

(b) Why might Ivan be interested in **this** Profit and Loss Account?

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(3)

Q9

(Total 11 marks)

10. Sarah needs a new greenhouse for the *Garden Centre*. To buy and install the greenhouse will cost £15 000.

Sarah plans to borrow £5 000 from her bank to help buy the new greenhouse.

(a) Outline why the bank manager will want to see a Cash Flow Forecast for the *Garden Centre* before agreeing to the loan.

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(2)



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Sarah has three possible sources of finance for the other £10 000 and will need to select two of these.

Sarah can

- sell £5 000 share capital to her brother, Gary
- sell one of the *Garden Centre's* two delivery vans for £5 000
- use £5 000 retained profits.

Recommend **two** of these sources of finance for Sarah to use.

Source 1

Source 2

(b) Explain fully why you have recommended each source, and why you have rejected the other source.

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