

Read this page, then answer the questions which follow.

Context

In 1963 Ivan Morrison set up as a sole trader, making his own ice cream and ice lollies, and selling them from a van.

In the 1970s the business expanded. More vans were bought and drivers were employed during the warmer months of the year. In 1990 Ivan changed the business into a private limited company, *Nice Lolly Ltd*. Its factory and offices are located in the south of England, where land is very expensive. Ivan's son and daughter, Rayn and Gloria, are now employed as managers.

There is now large-scale production of ice cream, ice lollies and other frozen foods at *Nice Lolly Ltd*, and many different shops are supplied. The company also makes special ice cream products for special occasions such as birthday parties and company events. As a result of *Nice Lolly Ltd*'s success, Ivan is planning to open another factory.



Answer ALL questions.

1. Ivan has started to construct the next set of final accounts for *Nice Lolly Ltd.* There are some figures missing from these accounts, shown below.

Trading and Profit & Loss account

| | £ | | £ | |
|------------------------------------|---------------|--|---------------|------------|
| Sales | | | 240 000 | |
| Cost of sales (cost of goods sold) | | | <u>80 000</u> | |
| Gross profit | | | | (A) |
| Power costs | 10 000 | | | |
| Selling expenses | 12 000 | | | |
| Other expenses | <u>18 000</u> | | | |
| Total expenses | | | <u>40 000</u> | |
| Net profit | | | | (B) |

- (a) Calculate, and enter in the boxes, the missing figures for **(A)** Gross profit and **(B)** Net profit. **(2)**

Ivan has calculated some financial ratios for *Nice Lolly Ltd.*

- (b) What is the information that the **net profit ratio** gives Ivan?

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..... **(2)**



The final accounts of *Nice Lolly Ltd* for the last financial year contained the following.

| | |
|------------------|----------|
| | £ |
| Gross profit | 125 000 |
| Net profit | 40 000 |
| Sales (Turnover) | 200 000 |

(c) Using the formulae below, calculate the following ratios for *Nice Lolly Ltd*.

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1} \quad \text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}} \times \frac{100}{1}$$

(i) Gross profit ratio

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(2)

(ii) Net profit ratio

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(2)

Ivan has the following information about two competitors.

| Competitor | Gross profit ratio for 2007 | Net profit ratio for 2007 |
|------------------|-----------------------------|---------------------------|
| <i>Ices R Us</i> | 40% | 10% |
| <i>Ice Aye</i> | 35% | 15% |

(d) Assess, using all the information about both businesses, whether *Ices R Us* or *Ice Aye* performed better in 2007.

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(4)



Nice Lolly Ltd uses batch production to make its ice lollies, and flow (mass) production to make its ice cream.

(e) Describe the differences between batch production and flow production.

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(4)

Nice Lolly Ltd accepts orders for special occasions such as birthday parties. *Nice Lolly Ltd* uses job production for these orders, which are expensive to make compared to using batch or flow production.

(f) Analyse why these orders are expensive for *Nice Lolly Ltd* to make.

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(4)

Q1

(Total 20 marks)

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2. Ivan’s son and daughter work at *Nice Lolly Ltd*. Rayn is the Marketing Manager, and Gloria is the Production Manager.

Rayn and Gloria are both shareholders in *Nice Lolly Ltd*. Rayn wants *Nice Lolly Ltd* to become a public limited company but Gloria wants it to remain a private limited company.

- (a) (i) What would be **one** effect on the **ownership** of *Nice Lolly Ltd* if it becomes a public limited company?

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- (ii) What would be **one** effect on the **control** of *Nice Lolly Ltd* if it becomes a public limited company?

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- (iii) Consider whether having a Marketing Manager and a Production Manager helps *Nice Lolly Ltd* gain economies of scale.

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(4)



3. Employees will need to be recruited for the new factory. *Nice Lolly Ltd* has the following objective when recruiting employees.

‘To give equal opportunities to our employees regardless of age, race, sex, or disability.’

(a) Using **one** law from the list below, show how this helps *Nice Lolly Ltd* to achieve this objective.

- Disability Discrimination Act
- Employment Equality (Age) Regulations
- Race Relations Act
- Sex Discrimination Act

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(4)



(b) Analyse the role of job descriptions and job (person) specifications when recruiting employees for the new factory.

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(6)

Ivan has analysed two of the company's products in terms of their market segment, market share and product life cycle.

(c) (i) What is the difference between market segment and market share?

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(2)



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