



**ADVANCED GCE**  
**BUSINESS STUDIES**  
Accounting

**F294/RB**

**RESOURCE BOOKLET**

**To be given to candidates at the start of the examination**

**Friday 11 June 2010**  
**Afternoon**

**Duration: 2 hours**



**INSTRUCTIONS TO CANDIDATES**

- The information required to answer questions 1–6 is contained within this Resource Booklet.
- Do **not** hand this Resource Booklet in at the end of the examination. It is not needed by the Examiner.

**INFORMATION FOR CANDIDATES**

- This document consists of 4 pages. Any blank pages are indicated.

**INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

- Do not send this Resource Booklet for marking; it should be retained in the centre or destroyed.

## The Real Ice Cream Company Ltd (TRICC)

Luigi Montalbano is passionate about his ice cream; The Real Ice Cream Company (TRICC) is more of a way of life than simply a means to making a living. If Luigi were ever to consider writing a mission statement it would simply be 'quality, quality, quality!'

TRICC is a long-established business specialising in the manufacture of high quality ice cream. Indeed, TRICC regularly wins national food awards for its products. However, Luigi believes that TRICC has failed to exploit the potential for growth offered to the business resulting from the media coverage and interest generated by these awards. As a result of his concern, Luigi appointed TRICC's first Marketing Director, Joanne Webster, a year ago.

Luigi, as its Managing Director, is the third generation of his family to run the company. Luigi and other family members wholly own TRICC (see Table 1). There is general agreement about how TRICC should operate; for example, the continuing policy to pay a high dividend. Apart from Luigi and his sister, Teresa, the other shareholders depend on their dividend to supplement their incomes, Luigi alone would like to see more of the net profit reinvested in the business. In 2009, for example, TRICC's net profit was £217,350. All major decisions have to be approved by Luigi's father, Gianni, who semi-retired in 2008 but is still the company's Chairman.

**Table 1: TRICC shareholders**

Shareholder	% shareholding
Gianni	45
Luigi	20
Luigi's sister – Teresa	15
Luigi's uncle – Carlos	10
Luigi's aunt – Isabella	10

Luigi has great plans for TRICC. He knows from highly positive consumer feedback that its products are outstanding in terms of quality. Luigi is determined to manage TRICC through a phase of significant growth in sales. Indeed, sales continue to rise (2008 – £1.446 million: 2009 – £1.823 million). Until now the business has been satisfied to depend upon independent retailers for the vast majority of sales but Luigi has his sights on contracts with major supermarkets. He is already at an advanced stage in negotiations with one national supermarket which targets the top end of the grocery market and whose strategy is to promote quality foods. If successful with these negotiations, TRICC would secure a five-year national contract subject to a three-month regional trial launch.

If the contract were to be secured, TRICC would have to make an investment of £450,000 in plant and machinery in order to increase capacity. Luigi would have to overcome his father's natural instinct to minimise business risks. Firstly, the business has never borrowed to fund the purchase of assets and so there is the question of how to fund this expansion strategy. Secondly, the strategy would need to meet his father's strict investment appraisal criteria – Gianni requires a rate of return of 12% and a payback period of less than five years. In response to the investment appraisal criteria, Luigi, with the help of his marketing, operations, human resource and accounting teams produced Tables 2 and 3.

**Table 2: Forecast net cash flows**

Year	Net cash flow (£)
1	85,000
2	95,000
3	105,000
4	110,000
5	110,000

**Table 3: Discount factors at 12%**

Year	Discount Factor
1	0.893
2	0.797
3	0.712
4	0.636
5	0.567

In a week's time, Luigi is meeting with his father and the other directors. It is time to review TRICC's last two balance sheets (see Table 4).

**Table 4: Balance Sheet as at 31 December**

	<b>2008</b>	<b>2009</b>
	£	£
<b>Fixed Assets</b>		
Land and buildings	572,500	646,250
Plant and machinery	143,750	129,350
Motor vehicles	87,500	93,450
	<b>803,750</b>	<b>869,050</b>
<b>Current Assets</b>		
Stock	76,150	87,550
Debtors	245,250	294,300
Cash	87,700	93,800
	<b>409,100</b>	<b>475,650</b>
<b>Current Liabilities</b>		
Creditors	280,350	294,850
Dividends payable	100,000	100,000
	<b>380,350</b>	<b>394,850</b>
<b>Net Current Assets</b>	<b>28,750</b>	<b>80,800</b>
<b>Net Assets</b>	<b>832,500</b>	<b>949,850</b>
<b>Financed by</b>		
Share Capital*		
Issued	100,000	100,000
Reserves	732,500	849,850
<b>Capital Employed</b>	<b>832,500</b>	<b>949,850</b>

\*Authorised: 150,000 ordinary shares at £1 nominal value

\*Issued and fully paid: 100,000 ordinary shares at £1 nominal value

Before the meeting Luigi needs to turn his attention to the latest sales and cost data relating to TRICC's newest product, Lemon Meringue Ice. The decision to introduce this product had not been quickly taken. Joanne and her marketing team had always supported the new product and had carried out extensive market research and product testing. The operations team, on the other hand, was far more cautious and was concerned about quality control and how the new product would stretch production capacity. Luigi had taken a balanced view and finally decided to back the new product. The new product has now been on sale for six months but the latest monthly results continued a worrying trend of poor performance. The results are summarised in Table 5.

**Table 5**

**Sales and cost data for Lemon Meringue Ice – April**

	Budget	Actual
Sales volume (litres)	8,500	7,850
Sales value	£16,575	£14,915
Cost of sales	£10,775	£10,440
Allocated overheads	£ 3,200	£ 3,400
Profit	£ 2,600	£ 1,075

Before making any decisions about the future of Lemon Meringue Ice, Luigi decided a thorough review was necessary. He emailed the Marketing Director, Finance Director and Operations Director requesting they carry out an immediate review of the planning for Lemon Meringue Ice's launch and its subsequent level of performance.

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