



ADVANCED GCE
BUSINESS STUDIES
Accounting

F294/RB

RESOURCE BOOKLET

To be given to candidates at the start of the examination

Monday 25 January 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.

The Coffee Exchange versus Café on the Prom

Katie Rogers felt she was about to fulfil her long-term ambition to own and manage her own café business. After working as a manager in the catering industry for 11 years, she recently inherited enough money to buy her own business. Over the last year she has carried out extensive research and has now identified two existing businesses in good locations. Their business and profit and loss summaries are given in Table 1.

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Table 1 – Business Summaries including Profit and Loss Account Extracts

The Coffee Exchange Ltd (TCE)	Café on the Prom Ltd (COTP)
Location: Financial District – Bristol Market: Office workers Opening times: Monday to Friday all year except Bank Holidays 7.30 am to 5.30 pm Seating capacity: 50 Years trading: 12 Extract from Profit and Loss Account Year ending 31 December 2008	Location: Seaside Resort – South Devon Market: Tourists Opening times: 7 days a week, 9.00 am to 9.00 pm closed 01 November to 31 March Seating capacity: 85 Years trading: 9 Extract from Profit and Loss Account Year ending 31 March 2009
£	£
Sales revenue 154,385	Sales revenue 213,982
Gross profit 93,453	Gross profit 156,309
Net profit 20,567	Net profit 23,008

TCE

If she purchases TCE Katie plans to increase revenue through the introduction of a lunch service for businesses. The proposal would be to prepare food during the quieter period after the early morning rush and deliver the fresh food to customers, saving executives time from breaking away from important meetings/conferences. She has carried out some market research through visiting businesses in the same area as TCE and has estimated that she would average 3,000 lunches per annum. Based on the feedback from her visits to local businesses, she then developed a business lunch menu and used this menu to calculate the average variable cost per lunch. However, Katie is all too aware that this is a difficult calculation because of regular fluctuations in the cost of food ingredients.

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Katie believes that there will be a small increase in overheads largely due to the need to promote the service and also to employ someone for the delivery service. In addition to these extra overheads, she has decided to allocate some of the existing overheads to the project, based on the lunch service's likely proportion of the café's total sales revenue. She has produced some basic figures on the proposal (see Table 2) and the next step is to make projections on the break-even.

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Table 2 – TCE Lunch Services – Forecast Revenues and Costs

Average sales revenue per lunch*	£9.75
Average variable cost per lunch*	£5.40
Annual fixed costs allocated to the lunch service venture	£12,000
*Figures are based on price/cost per lunch	

COTP

If Katie decided to buy COTP it would mean quite a change in lifestyle. Currently based in Bristol, moving to a South Devon coastal resort appeals to Katie and her children. She is used to long hours and hard work but views the seasonal nature of COTP's trading year as a strong attraction for her. She contemplated the benefits of five months every year without the pressures of day-to-day management problems.

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Katie acknowledges that she knows little about the tourist industry and its potential. However, the agency selling COTP has been keen to point out that a new marina is planned to open nearby to COTP in 2012. The agency was less forthcoming when Katie asked about staff turnover and the quality of the current workforce. In order to get a better idea of COTP's strengths and weaknesses, Katie drove down to South Devon. She decided to pose as a 'mystery customer' which enabled her to get a real feel for the business.

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Her first impression was that the décor and state of equipment compared very favourably with TCE. Katie thought that this would save her a significant amount of expenditure on refurbishment if she opted for COTP. On the other hand, the quality of service was not as good at COTP. The staff were friendly and trying their best but were obviously poorly trained and disorganised. When her food order eventually arrived, she was pleased with its overall quality and presentation.

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The decision

On her journey home, Katie continued to think about the relative strengths and weaknesses of each business. Having visited both businesses, she was no further forward in terms of making her final decision. Katie's dilemma was not helped when, on arriving home, she heard on the local radio the breaking news that one of the largest financial institutions in Bristol city centre was considering re-locating to Reading.

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Although Katie is an experienced general manager and is confident with management accounting, she is far less sure about the details of audited accounts and how to place a value on a business. She was, therefore, anxious to meet with her new financial advisor, Usha Mistry, to gain more of an insight into the financial details involved in the decision making process. In their meeting, Usha was keen to impress upon Katie some key accounting concepts.

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"Katie, I feel we need to explore in detail how both companies have followed accounting conventions. At selling prices of £315,000 for TCE and £330,000 for COTP both businesses are substantial investments for you." Usha directed their attention to both company's latest balance sheets (see Table 3). "The first thing we can do is look in more detail at the stock policies and level of debtors. I'm also interested to know how each company has valued its fixed assets; for example the respective depreciation methods."

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Table 3 – Extracts from latest Balance Sheets

The Coffee Exchange Ltd (TCE)			Café on the Prom Ltd (COTP)		
Balance Sheet as at 31 December 2008			Balance Sheet as at 31 March 2009		
	£	£		£	£
Fixed Assets			Fixed Assets		
Land and buildings		254,000	Land and buildings		239,000
Equipment		3,500	Equipment		8,870
Current Assets			Current Assets		
Stock	2,248		Stock	2,505	
Debtors	193		Debtors	304	
Cash	8,094		Current Liabilities		
Current Liabilities			Creditors	1,095	
Creditors	8,632		Overdraft	800	
			Net Current Assets		914
Net Current Assets		1,903			
Net Assets		259,403	Net Assets		248,784
Financed by			Financed by		
Share capital		10,000	Share capital		15,000
Reserves		249,403	Reserves		233,784
Capital Employed		259,403	Capital Employed		248,784

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