



**Wednesday 18 June 2014 – Morning**

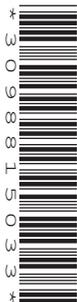
**A2 GCE BUSINESS STUDIES**

**F294/01/RB** Accounting

**RESOURCE BOOKLET**

**Duration: 2 hours**

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



#### **INSTRUCTIONS TO CANDIDATES**

- The information required to answer questions 1–6 is contained within this Resource Booklet.

#### **INFORMATION FOR CANDIDATES**

- The information contained within this Resource Booklet is based on one or more real businesses.
- This document consists of **8** pages. Any blank pages are indicated.

#### **INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

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### Drive Rite Ltd (DRL)

In 2010 Denise Richardson, a long serving traffic police officer, decided to retire from the police force at 48 years of age. Wishing to use her driving skills in a new career, Denise decided to train to become a qualified driving instructor and to set up Drive Rite Ltd (DRL). Denise committed £2000 of her substantial retirement lump sum payment to her training and, after six months, successfully completed the driving instructor qualification. Denise had been advised by other driving instructors to trade as a private limited company and DRL was formed in early 2011. 5

During her period of training, Denise had considered how to raise capital to fund her most significant capital cost, the purchase of a vehicle to use to instruct learner drivers. Even before she started to earn any revenue, there were other initial financial commitments such as motor vehicle insurance and marketing. Denise was reluctant to commit any more of her retirement fund to the start-up costs of the business. 10

Although Denise's driving abilities gave her a sense of confidence about the likely success of DRL, she knew she was not fully prepared for the financial aspects of the business. She would need to develop her understanding of business, accounting and finance. So, at the same time as training to become a driving instructor, Denise had completed a part-time course in accounting at her local college. 15

Denise knew that she would have to work a considerable number of hours per week and wondered how she would keep up with the day-to-day management of DRL's accounting records, alongside her busy schedule of driving lessons. 20

In order to calculate break even, Denise needed to estimate the number of hours she would have to work instructing learner drivers. Denise prepared forecast figures for DRL's first year of trading (see Table 1).

#### Forecasted figures for DRL's first year of trading

	£
Average price for a one hour lesson*	20.60
Variable cost for a one hour lesson	9.00
<b>Fixed costs</b>	
Motor vehicle insurance	500
Depreciation of motor vehicle**	1500
Motor vehicle maintenance	1000
General overheads	1000
Salary	25000
*In the first year of trading, Denise was prepared to work an average of 40 hours per week giving driving lessons for 50 weeks of the year.	
**a straight line depreciation method has been used.	

**Table 1**

Using the information in Table 1, Denise was in a position to forecast DRL's net profit (loss) for its first year of trading (see Table 2).

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**Forecasted profit and loss account for DRL's first year of trading**

	£	£
<b>Revenue</b>		
Cost of sales		
<b>Gross Profit (Loss)</b>		
Motor vehicle insurance	500	
Depreciation of motor vehicle	1500	
Motor vehicle maintenance	1000	
General overheads	1000	
Salary	25000	
Total overheads		29000
<b>Net Profit (Loss) before interest and taxation</b>		

**Table 2**

After some difficult years, DRL is now trading successfully. Denise has established a good reputation as a driving instructor for achieving a high pass rate for her pupils. Denise has ambitious plans for DRL and has heard that another local driving school, MSM Ltd (MSML), is available for purchase. MSML is a well-established business operating with three motor vehicles and employing four full-time equivalent driving instructors. Its owner has decided to retire and is looking to sell the business as a going concern.

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Denise considers MSML as a good opportunity to quickly increase sales and profit margins. Before proceeding with her plan to purchase MSML she wants to conduct a full analysis of its financial health. She has made an informal approach to the owner of MSML and, after some persuading, has managed to obtain some recent financial data (see Tables 3 and 4).

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**Extracts from MSML's Profit and Loss Accounts for the years ending  
31 December 2012 and 2013**

	<b>2013</b> £	<b>2012</b> £
<b>Revenue</b>	252 300	243 400
Cost of sales	99 100	92 500
<b>Gross Profit</b>	153 200	150 900
Motor vehicle insurance	1 900	1 800
Depreciation of motor vehicle	2 300	2 300
Motor vehicle maintenance	5 780	4 360
General overheads	2 600	2 100
Salaries	137 180	136 100
<b>Net Profit before interest and taxation</b>	3 440	4 240

**Table 3**

## MSML's Balance Sheets as at 31 December 2012 and 2013

	2013 £		2012 £	
<b>Fixed Assets</b>				
Motor vehicles (net book value)	21 900		24 200	
<b>Total Fixed Assets</b>		21 900		24 200
<b>Current Assets</b>				
Stock	600		200	
Debtors	800		300	
Cash	1 900		1 500	
<b>Total Current Assets</b>		3 300		2 000
<b>Total Assets</b>		25 200		26 200
<b>Current Liabilities</b>				
Trade creditors	2 600		3 100	
<b>Total Current Liabilities</b>		2 600		3 100
<b>Long term Liabilities</b>		1 200		3 800
<b>Net Assets Employed</b>		<b>21 400</b>		<b>19 300</b>
<b>Equity</b>				
Authorised and issued Ordinary Share Capital £1 nominal value	1 000		1 000	
Profit and Loss Account	20 400		18 300	
<b>Equity Shareholder Funds</b>		<b>21 400</b>		<b>19 300</b>

Table 4

Denise has also carried out some other research and has discovered that MSML's labour turnover of driving instructors is quite high. Typically it would appear that MSML's instructors only stay with the business for 18 months. She has learnt that the owner of MSML tends to have an autocratic style of leadership and is prone to changing an instructor's working hours at very short notice.

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Whilst instructing her pupils, Denise regularly sees MSML vehicles and her view is that these vehicles are rather old and not well maintained.

Despite these reservations, Denise has also learnt that MSML's pass record for its learner drivers is slightly higher than her own record. MSML seems to have a good reputation and gains much of its business through word of mouth recommendations.

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With the local area experiencing a significant growth in population, Denise is preparing to make a formal offer to buy MSML but she still has many issues to resolve.





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