



ADVANCED GCE

BUSINESS STUDIES

Further Accounting and Finance

2875

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

Friday 11 June 2010

Afternoon

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- If you use additional sheets of paper, fasten the sheets to the Answer Booklet.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be awarded marks for the quality of written communication where an answer requires a piece of extended writing.
- This document consists of **4** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

County Bakery Ltd (CBL)

Emma Chan is the Managing Director of County Bakery Ltd (CBL). The company is a well-established family business. CBL sells to two types of market; independent retailers with whom they currently have 45 accounts and one regional supermarket, Price Pulveriser (PP), which has 15 outlets. The relative importance of these markets has changed over time as shown in Table 1. This trend is expected to continue.

5

Table 1 % of Sales by Market Type

	1999	2004	2009
Sales to independent retailers	90	71	40
Sales to regional supermarket	10	29	60

Working capital is a cause for concern for Bruce Conrad the company accountant. The independent retailers settle their accounts on a monthly basis. However, PP takes far longer to pay. Reducing the debtor payment period of PP would not be easy; Bruce is well aware of its market strength.

CBL is run on rather conservative lines. For example, the business holds high levels of flour, yeast and sugar stocks. Emma believes that this is a kind of insurance against stock outs. Bruce has researched average bakery industry performance ratios for similar size businesses to CBL (see Table 2).

10

Table 2 Average Bakery Industry Ratios

	1999	2004	2009
Gross profit margin %	39	40	38
Net profit margin %	13	14	11
Stock turnover (times per year)	16.8	19.3	21.8

Emma knows that competition in the bakery industry is intensifying. She feels that it is essential that CBL updates both its working practices and its methods of production. As part of this strategy Emma is considering an investment in new machinery. The outlay is estimated at £285 000, however, the investment will give CBL the opportunity to develop a new product range of continental type breads that PP's buyer has, for sometime, been keen for CBL to offer. Emma has investigated what this new product range might mean to CBL in terms of additional annual net cash flow; her estimated figures are shown in Table 3. Bruce, however, has reservations about whether the investment would meet CBL's requirements for a return of at least 15% p.a. over a 6 year period (see Table 4).

15

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Table 3 Annual Net Cash flows

Year	Net Cash Flow (£'000)
0	(285)
1	55
2	65
3	75
4	75
5	75
6	75

Table 4 Discounted Cash Flow at 15%

Year	DCF Value
0	1.000
1	0.870
2	0.756
3	0.658
4	0.572
5	0.497
6	0.432

Bruce joined CBL in 2008 and is planning to update the management accounting data available for decision making. His priority is to introduce a standard costing system. Bruce is worried about CBL's future and feels it is important to meet with Emma to detail his concerns. At the subsequent meeting, Emma was surprised by the strength of Bruce's opening comment, 25

"As a matter of urgency, Emma, I think we need to review our financial information."

As far as Emma is concerned CBL has always made a profit; the business performs well and is in quite a strong financial position.

Bruce then produced financial information to support his view. See Table 5 and Table 6. 30

Table 5 Summary of Profit and Loss Accounts for CBL

	1999 £	2004 £	2009 £
Sales Turnover	308 000	624 300	1 198 900
Cost of Goods Sold	180 500	410 800	822 200
Gross Profit	127 500	213 500	376 700
Net Profit	43 700	56 800	66 500

Table 6 Balance Sheet as at 30th June 2009

	£	£
Fixed Assets		
Land and Buildings		185 000
Plant and machinery		92 358
Vehicles		84 002
Current Assets		
Stock	99 642	
Debtors	216 985	
Cash	18 075	
Current Liabilities		
Creditors	279 919	
Net Current Assets		54 783
Less: Long Term Loan		55 550
Net Assets		<u>360 593</u>
Financed by:		
Share Capital		35 000
Reserves		325 593
Capital Employed		<u>360 593</u>

Answer **all** questions

- 1 (a) Calculate for 2009:
- (i) The debtor repayment period for CBL. [2]
 - (ii) The stock turnover ratio for CBL. [2]
 - (iii) Analyse **one** implication for CBL of having a stock turnover ratio which is different to the industry average. [6]
- (b) By the end of the next financial year Bruce aims to have reduced variable costs by 3% at CBL. Discuss how the introduction of a standard costing system may help him to achieve this objective. [10]
- (c) Emma feels that the business ‘performs well and is in quite a strong financial position’ (lines 28–29). Evaluate the accuracy of her assessment of CBL’s financial performance. [16]
- 2 (a) Analyse **two** sources of finance for the proposed investment in new machinery (line 16). [6]
- (b) Recommend whether CBL should make the investment in the new machinery. Justify your view. [16]

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