

**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

Monday 25 January 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

ABS4u

Founded in 2002 as a private limited company, ABS4u is a health and fitness club with capacity for up to 700 members. However, three months ago it was sold and became part of a group of health clubs owned by Olympian Lifestyle Ltd (OLL). Since the takeover, OLL's Financial Director, Ambrose Gilling, has devoted the majority of his time to reviewing ABS4u's financial situation. He has become increasingly concerned about its financial performance. Ambrose knows that financial management at ABS4u is going to have to change.

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Ambrose has identified a number of issues that are of immediate concern. Firstly, the Bar and Restaurant stock has been valued at selling price rather than the lower of either cost or realisable value. Secondly, there does not appear to be a systematic method of stock control. A stock check confirmed his worst fears; a significant difference between the actual and recorded stock levels as shown in Table 1.

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Ambrose's discovery has also called into doubt the accuracy of the Bar/Restaurant profit and loss account as shown in Table 2.

**Table 1 – Bar/Restaurant stock
year ending 31 March 2009**

	Recorded	Actual
Average stock units	2 098	1 327
Average unit value	£2.92	£1.46

**Table 2 – Bar/Restaurant simplified profit and
loss account year ending 31 March 2009**

	£
Sales turnover	73 600
Gross profit	41 850
Net profit	1 200

There was some consolation for Ambrose in terms of ABS4u's existing practice of using profit centres to manage the four distinct areas of the club (see Table 3). However, his relief was short-lived when he viewed the current absorption costing method used.

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Table 3 – Profit centres: year ending 31 March 2009

	Bar/ Restaurant £	Beauty Spa £	Gym £	Sports Injury Clinic £	Total £
Sales turnover	73 600	24 070	204 480	16 550	318 700
Gross profit	41 850	14 840	114 620	9 300	180 610
Overheads	40 650	40 650	40 650	40 650	162 600
Net profit	1 200	(25 810)	73 970	(31 350)	18 010

Of most concern to Ambrose, however, was ABS4u's current level of sales and its cash flow position. A nearby competitor has recently adopted an aggressive pricing strategy in an attempt to attract new members. As a result of the competitor's lower monthly membership prices, ABS4u has experienced a 10% fall in membership to 520. In reaction to this decline, OLL's Sales and Marketing department has proposed that to secure new members' loyalty, 12 month's membership should be offered for the price of nine. This offer would require new members to pay in full, in advance. Although Ambrose could see the advantage of the proposal in terms of cash flow, he was less sure about the marginal cost pricing tactics and the impact that this might have on profitability. He prepared the information in Table 4 for a forthcoming meeting with OLL's Sales and Marketing Director, when a decision about whether to adopt this strategy would be made.

20

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Table 4

Projected number of new members likely to take up offer:	40
Current average monthly membership subscription:	£35.50
Average monthly variable cost per member:	£15.60

Despite Ambrose's concerns, there was at least one piece of good news! Ambrose has discovered that ABS4u has consistently undervalued land and buildings in the company's balance sheet. He will need to adjust the company's accounts to reflect the new valuation and, at the same time, incorporate the revised value for stock. See Table 5 for the latest balance sheet – before the changes identified by Ambrose.

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Table 5 – ABS4u: Balance Sheet as at 31 March 2009

	£	£
Fixed Assets		
Land and Buildings		115 000
Equipment		12 350
Current Assets		
Stock	6 248	
Debtors	1 093	
Cash	942	
Current Liabilities		
Creditors	5 834	
Net Current Assets		2 449
Less: Long Term Loan		42 500
Net Assets		<u>87 299</u>
Financed by:		
Share Capital		5 000
Reserves		82 299
Capital Employed		<u>87 299</u>

Answer **all** questions

- 1 (a) (i) Using Tables 1 and 2, calculate the revised net profit in 2009 for the Bar/Restaurant. [4]
- (ii) Using the revised figures, after the changes for stock, evaluate ABS4u's 2009 financial performance. [16]
- (b) Analyse how information technology could help ABS4u keep accurate stock records. [6]
- (c) Discuss the advantages and disadvantages of using profit centres at ABS4u. [10]
- 2 (a) Using Table 3, analyse **one** alternative method of absorption costing that could be used by ABS4u. [8]
- (b) Recommend whether the Sales and Marketing Director's new membership proposal (lines 20–25 and Table 4) should be adopted. Justify your view. [16]

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