

Scenario

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blank*

The questions in this paper are based on the following scenario.

You should read this scenario carefully before you start to answer the questions.

Rainfree

- 1 Mina and Peter Prince own and run *Rainfree* as a partnership. *Rainfree* manufactures umbrellas, which are **sold only to retailers**.

5 Trade is seasonal. Sales are highest for the partnership during the period September – March each year. The retailers supplied by *Rainfree* order umbrellas two months ahead of public demand.

Rainfree plans to start selling two new umbrellas, the ‘Windbuster’ and the ‘Executive’, from February. The ‘Windbuster’ is made from special materials, and will not break in high winds. The ‘Executive’ is a small umbrella which collapses for easy storage. To encourage sales of the ‘Executive’, retailers who order this umbrella will be given one month’s credit.

- 10 As well as these two new umbrellas, Mina and Peter would like to expand *Rainfree* by manufacturing waterproof clothing. At the moment the partners do not have the machinery needed for this, and they are not sure whether their bank will help finance the expansion. Mina and Peter have limited funds of their own. At present, machinery and most of the other assets owned by *Rainfree* are fully used making the umbrellas.

- 15 Each year *Rainfree* prepares detailed plans of its income and expenditure, for each department and for the business as a whole.

You work in the Finance Department of *Rainfree*.

Answer ALL questions in the spaces provided, referring to the scenario where necessary.

Leave blank

1. *Rainfree* uses these methods to pay for goods and services.

Credit Card	Cash	Debit Card	Cheque	Direct Debit
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Select from above the **one most appropriate** payment method for (a) to (d).
A payment method may be used more than once.

(a) Paying a window cleaner. The cleaner comes into the office after cleaning the windows, for immediate payment of £8.00.

..... (1)

(b) Paying a supplier of materials. *Rainfree* plans to send the payment by post.

..... (1)

(c) Monthly payment of a telephone bill. The amount changes each month, and *Rainfree* wants the money taken straight out of its bank account.

..... (1)

(d) Paying for petrol by an employee. *Rainfree* does not want the money taken immediately from its bank account.

..... (1)

Q1

(Total 4 marks)

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2. *Rainfree* uses these documents to buy and sell on credit.

Leave blank

Invoice

Statement of Account

Purchase Order

Delivery Note

Goods Received Note

Credit Note

(a) Select from the above to answer the following questions. Not all of the documents will be used. A document may be used more than once.

(i) Which document will *Rainfree* send to a supplier, *Stewart & Sons Ltd*, asking for a delivery of wood to make umbrella handles?

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(ii) Which document will *Rainfree* send to a customer, *Anderson Stores plc*, showing all the transactions over the last month and the amount that the customer now owes?

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(iii) Which document will *Rainfree* send to another customer, *Morris plc*, describing the goods sent and showing how much is being charged?

.....

(3)

(b) *Rainfree* has received a Remittance Advice from a supplier. State **three** items of information that would appear on the Remittance Advice.

1

2

3

(3)

Q2

(Total 6 marks)

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3. When *Rainfree* sells umbrellas to retailers, an invoice is prepared and the accounting records are updated.

Leave blank

(a) *Rainfree* has sent the following goods to *Wilson's Department Store*

- 24 Standard Umbrellas, unit price £5.00
- 30 Deluxe Umbrellas, unit price £6.80
- 40 Golfing Umbrellas, unit price £8.50.

Using this information, complete the invoice below to be sent to *Wilson's Department Store*. The last invoice issued by *Rainfree* was number 11254.

Quantity	Description	Unit price	Total
		£	£
24	Standard Umbrellas	5.00
30	Deluxe Umbrellas	6.80
40	Golfing Umbrellas	8.50
Sub Total			
VAT@17.5%			
Total to Pay			

Invoice to:	
Wilson's Department Store 23-25 High Street Newtown Hanfordshire NT5 6GF	

Rainfree 54 Beeton Road Newtown Hanfordshire NT7 4RD Tel: 01342 400500 VAT Reg No. 112 4332 76	INVOICE Date: 15 January 2004 Invoice Number:
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(5)

QUESTION 3 CONTINUES ON PAGE 6

- (b) *Rainfree* made an error on Invoice Number 11253 sent to another customer, *James & Sons*. The amount entered in the 'Total to Pay' box was £550.00 when it should have been £505.00.

Leave blank

Explain **one** effect of this error on *Rainfree*, and state how this error will affect the profits of *Rainfree*.

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(4)

- (c) Explain how a computerised accounting system will do **both** of these tasks more quickly than a manual system.

Preparing an invoice

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Updating the accounting records

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(3)

Q3

(Total 12 marks)

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Leave blank

4. (a) *Rainfree* has identified some costs for its new ‘Windbuster’ umbrella.

- Production staff wages will be paid weekly.
- Plastic handles for the ‘Windbuster’ will be bought regularly from suppliers.
- The ‘Windbuster’ will be advertised every month in a trade magazine.
- New machinery will be bought to manufacture the ‘Windbuster’.
- A market research firm will be hired to estimate the likely ‘Windbuster’ sales.

Using the above information, list the costs of the ‘Windbuster’ as either start-up costs or running costs by placing them in the correct column below.

Start-Up Costs	Running Costs

(5)

(b) Factory rent and purchases of nylon for umbrellas are two other costs for *Rainfree*. For each cost, state whether it is fixed or variable, and explain why.

Factory rent

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Purchases of nylon

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(4)

Q4

(Total 9 marks)

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5. (a) Mina Prince estimates that the fixed costs for the ‘Windbuster’ umbrella will be £6 000, and that the variable costs will be £5.50 per umbrella. Each ‘Windbuster’ will be sold for £8.50. Mina also knows that the formula to calculate the break-even point is

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{\text{Selling Price per unit less Variable Cost per unit}}$$

How many ‘Windbuster’ umbrellas must be sold in order to break even?
Show all your working.

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(1)

- (b) Mina’s estimate of the fixed costs turned out to be wrong. They are 10% higher than she originally thought. How many ‘Windbuster’ umbrellas must now be sold to break even?
Show all your working.

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(2)

- (c) *Rainfree* also sells ‘The Bargain Brolly’ for £5.00 per umbrella. The variable costs of this product are £3.00 per umbrella, and total fixed costs are £4 000.

Using the data given above, draw a fully labelled break-even chart on the graph opposite. Label the break-even point.

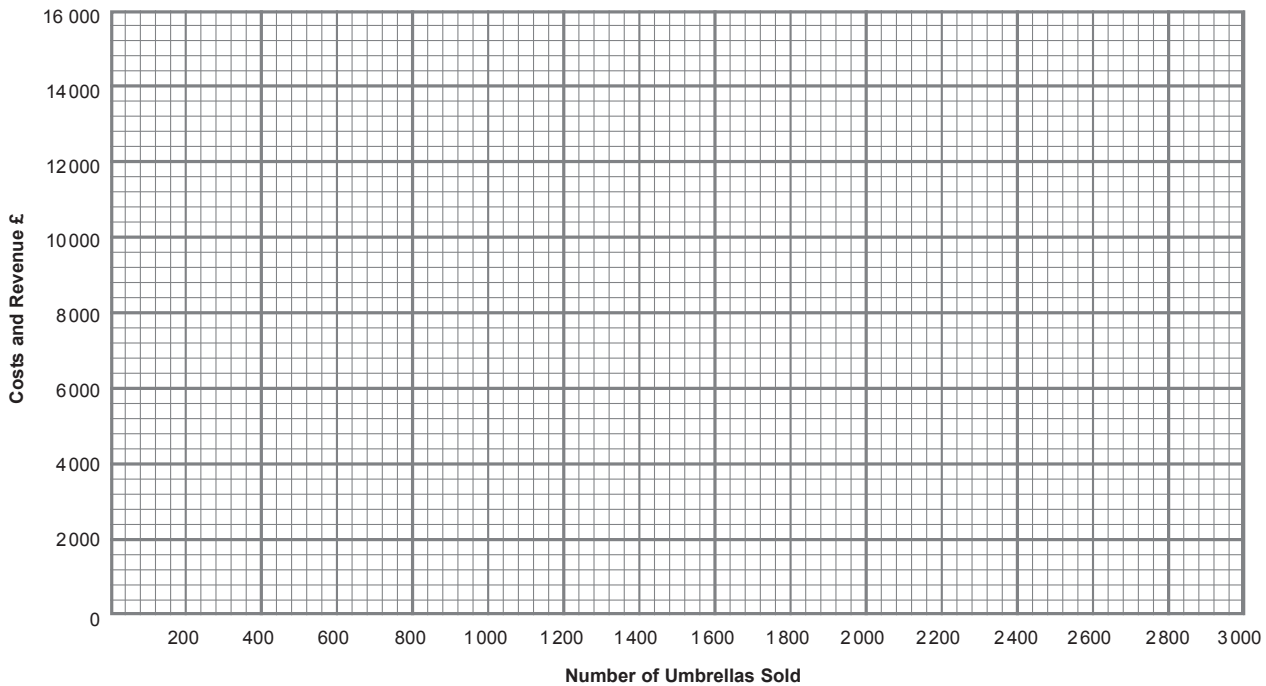
You may find it helpful to complete the Activity Table before you draw the chart.

Activity Table

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Number of Umbrellas Sold:	0	1 500	3 000
Sales	£	£	£
Fixed Costs	£	£	£
Variable Costs	£	£	£
Total Costs	£	£	£

Break-Even Chart for the Bargain Brolly



(5)

(d) Explain the advantage of using a spreadsheet program to construct this break-even chart if fixed costs change.

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(2)

Q5

(Total 10 marks)

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6. (a) *Rainfree* will be selling the new 'Windbuster' and 'Executive' umbrellas from the start of next month. Mina needs to prepare a Cash Flow Forecast for the 'Windbuster' umbrella from the following information.

- Sales and purchases for the first three months of production are expected to be as follows (all in cash).

2004	Sales	Purchases
February	£30 000	£12 500
March	£25 000	£10 000
April	£20 000	£7 500

- Advertising costs are expected to be £1 000 each month.
- Wages will be £2 000 per month.
- Machinery will be bought in February and paid for in March, the cost being £25 000.
- In February *Rainfree* will pay a company £5 000 to carry out market research.
- *Rainfree* will keep a separate bank account for the 'Windbuster'.

Prepare a Cash Flow Forecast for the 'Windbuster' for the three months February – April 2004 by completing the table on page 11.

Cash Flow Forecast for the 'Windbuster' Umbrella

Leave blank

2004	February	March	April
	£	£	£
Inflow (Receipts):			
Total Inflow			
Outflow (Payments):			
Total Outflow			
Net Inflow/Outflow			
Opening Balance	6 000		
Closing Balance			

(10)

(b) Mina has prepared the following summary of her Cash Flow Forecast for the new 'Executive' umbrella, based on giving customers one month's credit.

Leave blank

Cash Flow Forecast (summary) for the 'Executive' umbrella

2004	Feb	Mar	Apr	May	Jun	Jul
	£	£	£	£	£	£
Total Inflow	0	10 260	14 120	15 990	17 540	17 430
Total Outflow	6 400	9 300	13 220	16 230	15 440	16 980
Net Inflow/Outflow	(6 400)	960	900	(240)	2 100	450
Opening Balance	5 000	(1 400)	(440)	460	220	2 320
Closing Balance	(1 400)	(440)	460	220	2 320	2 770

(i) Name the months when a negative closing balance is shown.

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(1)

(ii) Using the information above, state the **most likely** reason for the negative closing balances.

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.....

(1)

(c) To finance the negative closing balances, Mina and Peter could approach their bank manager for either an **overdraft** or a **loan**.

Leave blank

(i) Explain which is **more appropriate** in this situation.

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(2)

(ii) Explain why the bank manager is likely to want to see the financial records of *Rainfree* before allowing Mina and Peter to borrow money.

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(3)

Q6

(Total 17 marks)

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7. (a) During the year ended 31 December 2003, *Rainfree*

Leave blank

- paid its employees wages and salaries of £130 000
- sold goods to customers for £620 000
- paid £380 000 for the goods it sold
- paid other expenses totalling £43 000.

Use this information to complete the Profit and Loss Statement below, by filling in the shaded boxes.

**Profit & Loss Statement of *Rainfree*
for the Year Ended 31 December 2003**

	£	£
		380 000
Gross Profit		
Expenses:		

(8)

(b) State **two** reasons why it is important for Mina and Peter to know how much profit or loss is being made each year by *Rainfree*.

Leave blank

Reason 1

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Reason 2

.....

(2)

(c) The following items appear on the balance sheet of *Rainfree*. Classify each item in the table below as either

- a fixed asset
- a current asset
- a liability

by ticking the appropriate column.

Item	Fixed Asset	Current Asset	Liability
Computers			
Creditors			
Delivery Van			
Cash			
Stock			

(3)

Q7

(Total 13 marks)

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8. The Scenario on page 2 (lines 11-16), states that Mina and Peter would like to expand *Rainfree* by manufacturing waterproof clothing.

*Leave
blank*

(a) Explain why it will be important for Mina and Peter to produce a budget if they decide to expand.

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(3)

(b) Mina and Peter could finance the buying of machinery needed to expand by

- using their own funds
- selling some of *Rainfree*'s existing assets to raise money.

(i) Explain **one** advantage and **one** disadvantage to Mina and Peter from using their **own funds**.

Advantage

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Disadvantage

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(4)

(ii) Explain **one** advantage and **one** disadvantage to Mina and Peter of *Rainfree* selling some of its **existing assets**.

Leave blank

Advantage

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Disadvantage

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(4)

Q8

(Total 11 marks)

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