Managing Capital Expenditure

Specimen Paper

The specimen examination questions contained in this publication are representative of the type of questions used to assess candidates taking the written examination paper for this qualification.

A marking scheme for each of these questions is towards the end of this document.

The examination paper consists of 10 short-answer questions. Candidates are given 1 hour 30 minutes to complete the paper. Candidates can score a maximum of 4 marks per question. The examination paper is marked out of a total of 40 marks and candidates will need to obtain 20 marks to pass.

Managing Capital Expenditure

Answer *all* ten questions that follow this scenario

Peter and Paul are the owner operators of The Tiddly Duck free-house pub and restaurant and have run a busy and profitable food led business for 10 years. During the last three years there has been a small but consistent rise in food and beverage sales in the evening during the week and significant demand for tables on Friday and Saturday evenings. This demand can only rarely be accommodated, so customers are being given the opportunity to book further in advance. This is compromising some of The Tiddly Duck's regular, loyal customers, who complain when they can't get a table and sometimes opt to go to a competitor restaurant, of which there are several.

The local population is soon to increase, with the development of both a new business park and architect designed private housing project providing a future boost to the local economy. Completion of both is planned in 9 months.

Peter and Paul are in the middle of a thorough review to establish the best course of action to develop the business over the next few years.

First indications suggest that extending the restaurant by adding a conservatory into the garden area could be useful and profitable, but this is yet to be established. Peter and Paul estimate the extension would add another 30 covers to the existing 50. Small, private wedding parties are catered for in the restaurant on Saturdays only, but these are not allowed to extend into normal operations on Saturday evenings.

There is a second, pressing need for investment in the kitchen, which is not designed for efficient food production and some of the equipment is breaking down regularly. These deficiencies combine to slow service when the restaurant is busy and this is limiting the number of customers that can be accommodated on Fridays and Saturdays by around 12 each evening.

Capital expenditure for the conservatory could be £80K and the kitchen would cost an estimated £40K. Only one of these two projects can be funded.
No decision has yet been made.

Current restaurant spend is £35.00 net of VAT per person including drinks and this figure is the same for weddings.

Fixed costs will not be affected by the proposed restaurant extension, other than the finance costs above. Current GP% is 64%; wage ratio is 32% and other variables 18% of sales.

Managing Capital Expenditure

1. Describe what is involved for Peter and Paul when carrying out the SW element of a SWOT analysis for a capital expenditure project which they have identified and give an example of each.

[4 marks]

2. Estimate the payback period in years if the restaurant project proceeds and costs £100K including finance charges, based on current average spends and 80% occupancy of the new restaurant extension.

[4 marks]

3. Explain the role of benchmarking in planning a capital expenditure investment.

[4 marks]

4. State four pieces of legislation, which Peter and Paul would have to take into account should they decide to go ahead with the kitchen project.

[4 marks]

5. Explain why Peter and Paul should insist on a written contract with their chosen contractor what should be included in it.

[4 marks]

6. Identify the services Peter and Paul would require of an architect and a contractor to deliver the restaurant project.

[4 marks]

7. Explain the purpose of a project plan and why Peter and Paul should prepare one for whichever project they decide to go ahead with.

[4 marks]

8. Describe the scope and extent of communicating the project and explain the importance of this communication.

[4 marks]

9. Explain the suitability of two different methods of marketing communication Peter and Paul could use to relaunch their chosen project.

[4 marks]

10. Explain the key financial measures Peter and Paul should use when conducting a post project financial review.

[4 marks]

Marking Scheme

The answers to Questions 1-10 should be covered by the appropriate Assessment Criteria as indicated below. Examiners are instructed to give credit to valid answers.

Question 1

This question assesses Assessment Criteria 1.1 which states:
Identify the strengths, weaknesses, opportunities and threats of a capital expenditure opportunity.

Question 2

This question assesses Assessment Criteria 1.5 which states:
Calculate break-even for a capital expenditure investment.

Question 3

This question assesses Assessment Criteria 2.2 which states:
Explain the role of benchmarking when planning a capital expenditure investment.

Question 4

This question assesses Assessment Criteria 2.5 which states:
Identify the way in which legislation and regulations affects a capital expenditure investment.

Question 5

This question assesses Assessment Criteria 3.4 which states:
Explain the importance of written contracts with contractors.

Question 6

This question assesses Assessment Criteria 3.5 which states:
Identify the services required of a contractor for a capital expenditure investment.

Question 7

This question assesses Assessment Criteria 4.1 which states:
Explain the purpose of a project plan for a capital expenditure investment.

Question 8

This question assesses Assessment Criteria 4.5 which states: Explain the importance of communicating a project plan for a capital expenditure investment.

Question 9

This question assesses Assessment Criteria 5.2 which states: Explain the suitability of different methods of marketing communication to a range of capital expenditure scenarios.

Question 10

This question assesses Assessment Criteria 6.1 which states: Explain the importance of carrying out a financial evaluation after completion of a capital expenditure investment.