

Profit and Loss and Budget Control

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.

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Answer *all* ten questions that follow this scenario

The Blue Anchor has been run for the last year by business partners Simon and Jack. Simon and Jack are both new to the licensed trade and have used this first year in business to trial ideas that they have had for years.

The business is located in an east coast seaside, and while the town is busy in the summer months the Blue Anchor does not benefit from the best position. Nether the less it has a strong regular local trade throughout the year.

As the year comes to an end Simon and Jack need to ensure that they fully complete their accounts so that they can determine how successful, or not, they have been. The partners are keen to see the final figures as they plan to use this years figures to form a strategy for the coming year. They are currently having problems as neither of the partners are very good at general administration so before they are able to complete their year end accounts they are having to backtrack and ensure that the weekly records have been completed correctly.

Profit and Loss and Budget Control

The Blue Anchor Profit and Loss

Last Year £	%	The Blue Anchor	This Year £	£	%
276,000		Total sales			100
166,000		Bar sales	170,000		
(73,000)		Less bar cost of sales	(85,000)		
93,000	56.02	Bar gross profit		85,000	50
110,000		Food sales			
(65,000)		Less food cost of sales			
45,000	40.91	Food gross profit			45.53
138,000	50.00	Total gross profit			48.31
		<i>Less controllable expenses</i>			
24,500		Wages	25,000		
3,750		Heating, fuel and lighting	3,950		
3,880		Repairs and renewals	4,500		
851		Telephone charges	910		
35		Newspapers	35		
33,016		Total Controllable expenses		34,395	
104,984	38.04	Operating profit			
		Fixed Costs			
37,500		Rent and rates	34,000		
		Rent rebate	(5,000)		
21,000		Salaries	22,000		
835		Telephone rental	850		
7500		Loan interest	7,500		
66,835		Total fixed costs		59,350	
38,149	13.82	Net Profit			

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Additional information:

Retail food sales = £123,375 including VAT

Opening food stock = £6,600

Closing food stock = £7,500

Food purchases = £56,900

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1. Using the relevant additional information (page 4 of this paper), calculate the VAT element for food sales and, using this figure, determine the net value of food sales for the year. Show your calculations in the box below and enter your answers into the profit and loss account on page 3.

[4 marks]

2. Using the additional information given, calculate the cost of food sales, enter the figure onto the profit and loss template and use this figure to calculate the overall gross profit in £'s and % terms for this year end.

[4 marks]

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3. Calculate the variance between the total fixed costs and total variable costs for this year and last year and comment on the result.

[4 marks]

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4. Some of the expenses paid by the Blue Anchor Hotel are telephone, wages, salaries and electricity.
a) For each expense, show in the table below whether it is a variable cost, a semi-variable cost or a fixed cost.
b) Briefly explain the difference between fixed costs and variable costs.

[4 marks]

Expense	Type of cost
Telephone	
Wages	
Electricity	
Salaries	

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5. Simon and Jack have begun preparing a budget for the following year. State two benefits of preparing a budget.

[4 marks]

6. The profit and loss account shows that the Blue Anchor has spent more on wages this year compared to last year despite a fall in income. Using the principles of manpower planning; outline four steps that Simon and Jack can take to control their wage costs.

[4 marks]

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7. The Blue Anchor's Trading, Profit and Loss Account does not include depreciation of the hotel's fixed assets. State **two** reasons for depreciating fixed assets.

[4 marks]

8. Simon is keen to celebrate the partners first year in business and has decided to throw a party to thank the regulars for their support. Calculate the bar sales break-even for this one off event using the following information.

[4 marks]

Entertainer fee:	£350
Extra staff hours	
2 x 4 hrs @ £7.00 ph:	£56
Buffet:	£120
TOTAL EVENT COSTS:	£526

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9. Neither of the partners have very good administration skills and have failed to keep complete records throughout the year, resulting in extra work completing their year end accounts. Explain the importance of keeping complete and accurate weekly sales and expenditure records.

[4 marks]

10. Using the information contained in the profit and loss template, complete the account for this year by calculating the net profit in £'s and the %. Enter your figures onto the profit and loss account on page 3.

[4 marks]

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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:

Calculate the VAT element of sales to determine the value of net sales.

VAT element of food sales = Retail food sales / 6 = £123,375 / 6 = £20, 562.5

Net sales = Retail sales less VAT = £123,375 - £20, 562.50 = £102,812 (rounded up to £102,813 for entry into the P&L)

Question 2

This question assesses Assessment Criteria 2.1 which states:

Calculate the overall gross profit of different products and/or services for a business.

Total GP:

Food sales £102,813 less cost of sales £56,000 = £131,813

Cost of sales = Opening stock £6,600 + Purchases £56,900 – Closing Stock £7,500 = £56,000

Question 3

This question assesses Assessment Criteria 2.2 which states:

Explain the positive and adverse variances against budget and year on year for a business.

Question 4

This question assesses Assessment Criteria 3.1 which states:

Define variable and fixed costs.

Question 5

This question assesses Assessment Criteria 3.2 which states:

Explain the importance of setting budgets to control costs.

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Question 6

This question assesses Assessment Criteria 3.9 which states:
Outline the principles of accurate manpower planning for a business.

Question 7

This question assesses Assessment Criteria 4.2 which states:
Explain the reason for depreciating fixed assets.

Question 8

This question assesses Assessment Criteria 4.6 which states:
Calculate break-even for a business.

$\frac{\text{Additional Costs}}{\text{Gross margin}} \times 100 = \text{Break Even}$

$\frac{526}{50} \times 100 = \text{£}1,052 \text{ (exc. VAT)}$

Question 9

This question assesses Assessment Criteria 1.3 which states:
Explain the importance of financial information for a business (i.e. the Trading and Profit and Loss account).

Question 10

This question assesses Assessment Criteria 1.7 which states:
Calculate a Profit and Loss account budget for a business.

Please refer to profit and loss account below.

Profit and Loss and Budget Control

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851		Telephone charges	910		
35		Newspapers	35		
33,016		Total Controllable expenses		34,395	
104,984	38.04	Operating profit		97,418	
		Fixed Costs			
37,500		Rent and rates	34,000		
		Rent rebate	(5,000)		
21,000		Salaries	22,000		
835		Telephone rental	850		
7500		Loan interest	7,500		
66,835		Total fixed costs		59,350	
38,149	13.82	Net Profit		38,068	13.95