

2. Study the information below and then answer the questions that follow.

### Stellios Snacks

Jack Stellios and his daughter Hellena run a snack food business in Bristol based on the lunchtime office trade in and around the City. Since Hellena joined the business six years ago it has grown significantly and they now rent four shops - the original, still run by her father, and three others, run by managers. Hellena, along with an assistant, does all the administration and ordering for each outlet and is based in an office above her father's shop.

At the 2006 annual budgeting meeting, things were not going well. Each of the three managers had presented their 'mini budgets', but Jack, who felt that he knew the business he had established thirty years ago well enough, had produced nothing. His view is that **'the problems involved with the drawing up of budgets makes them not worth the paper they are written on'**.

Hellena was unhappy, with both her father's attitude to financial planning, as well as the performance of some aspects of his shop. His was the only shop still selling kebabs and she pointed out that the **contribution** they were making was a concern and that he should think about not selling them in the future. She presented him with the financial information below in an attempt to persuade him that her advice was correct.

#### Costs, price and sales of products in Jack's shop in September 2005.

Monthly fixed costs for each shop - £6000

	Sandwiches	Baguettes	Kebabs	Pastries
Selling Price per item	£2.50	£2.75	£2.60	£1.50
Variable Costs	£0.50	£0.60	£2.00	£0.60
Unit Sales - Sept.	2000	2500	400	1200

- (a) With the use of examples, distinguish between the fixed and variable costs that Stellios Snacks is likely to be incurring. [4]
- (b) Using the financial information that Hellena gave to her father, explain what is meant by the term *contribution*. [4]
- (c) Calculate the profit that was made by Jack's shop in September 2005. [6]
- (d) Evaluate Jack's view that *the problems involved with the drawing up of budgets makes them not worth the paper they are written on*. [6]