



Unit 3 – Finance Revision Project



One of the major stories so far this year is the story of the Little Chef and the demise of the restaurant chain in the UK. Below are a few facts about the Little Chef:

- 235 Restaurants throughout the UK
- 4,500 staff employed
- Over 20 million customers
- Only service station located on A and B roads throughout the UK

Every year the Little Chef serves up:

- 10 million cups of tea
- 12 million rashers of bacon
- 13 million eggs
- 13 million sausages

But recent the Little Chef has run into financial difficulty reporting it has been making losses of up to £3m per year. Little Chef has struggled to find a buyer and is now looking is dispose of the business the best way possible.

Your Task: Devise a Business Finance Pack to potential investors about the possibility of keeping the Little Chef on A45 at Dunchurch. Below is a series of tasks that you need to include in your report to them.

Making and receiving payments

The current management of Little Chef are considering introducing a 'card only' scheme at all its restaurants and scrapping conventional cash and cheque payments to reduce fraud.

Your Task: Explain the advantages and disadvantages of adopting this approach.

Covering the costs

Potential investors will be looking at the range of costs and revenue sources that are involved in the restaurant.

Your Task: Identify the entire likely running and start up costs that the Little Chef may incur. Also where the restaurants revenue sources come from i.e. how they make their money. The investors would also

like a list of fixed and variable costs within the business. You may wish to do this in a table format.

Additionally the new investors want to know how they could implement new technology (ICT) to reduce costs and would like your recommendations.

Cash Flow Forecast

Any new investor likes to know how the business plans to keep afloat – especially the cash side of any business.

Your task: Draw up a likely cash flow of the inflows and outflows of the Little Chef. Where do you think the money comes from and what do the spend it on. Investors realise that it is not possible to say for definite but would like an approximate figure. Use the cash flow template.

Investors also want to know what you think the advantages and disadvantages are of creating a cash flow. They also want you to produce a cash flow the involves costs being 15% higher than you have anticipated and explain what this does for your cash flow and how you might resolve this.

Breakeven

The new investors want to bring a new range of 'healthy foods' into the Little Chef. These include a range of salads, pasta dishes and fruit. They anticipate the new range will cost in the region of £150,000 (fixed costs) per restaurant and £0.65 (variable cost) per product sold and anticipate the average selling price to be around £3.95.

Your Task: work of the breakeven point of the new line i.e. how many items will it need to sell to pay off the new line.

Profit and Loss

The investors have dug out the following figures about the 'average' Little Chef's expenditure and revenues.

Your Task: Create a profit and loss account for Little Chef based on the following figures:

Insurance	£55,000
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Raw Materials (food)	£150,000
Other costs	£10,000
Refurbishments	£15,000
Advertising	£9,000
Total Value of Sales	£5,000,000
Transport Costs	£5,000
Wages	£110,000

Balance sheet

Investors want to know what they are investing in and therefore wish to know the approx amount of value a company has.

Your task: List the fixed and current assets of the business and give an approximate value (based on possible research i.e. research costs of 30 tables in a restaurant and minus wear and tear). They would also like to know possible liabilities owed by the business.

Sources of Finance

The investors are well aware of the financial situation of the Little Chef and can raise a percentage of the required capital to help keep the Little Chef afloat. However, there needs to be a considerable amount raised by other means...

Your Task: Investigate the following forms of finance and explain why they could be/may not be useful for the Little Chef to raise finances: owners funds, profits, loans, grants, hiring and leasing, issuing shares, selling assets and venture capital.

Finally, give reasons why Little Chef, Dunchurch is worth investing in. This needs to be a convincing argument (highlighting both positive and negative aspects) but one which is honest and fair about the businesses true financial state.