

# **Quantitative Skills Workbook**

for Edexcel AS and A Level Year 1

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# **Teacher's Introduction**

Advanced Level Business students sometimes find the quantitative skills required for success in this area of study a challenge. This workbook has been produced with the intention of providing them with the opportunity to develop their skills, knowledge and understanding of the pics and concepts that require the demonstration of quantity to business context.

Each section within the work ows students to examine both theoretical no have the opposition in plete exam-style questions that should assist in enhancement of success in a state of settings, including during lessons, and within homework task activities and examinations.

The workbook includes <u>all</u> AS Business quantitative terms and concepts associated qualification. The resource will, therefore, support students preparing for the one quantitative skill topics for Themes 1 and 2 of the full A Level course.

Sections 1 to 12 are organised as follows:

- Part A: Specification Overview this provides an overview of the term or colloard and the understanding required.
- Part B: Theoretical Overview a brief summary of the key points associated related term/concept.
- Part C: Example detailed quantitative and written responses to exam-style
- Part D: Practice Activity each section includes two a tice activities that a
  their understanding of the terms/concepts. Instead are provided at the end

The AS assessment activities or you. It wants with the chance to complete assess level of study. The assess at the presented in a similar format to the exam par schemes are to de to the exam par schemes are to the exam par schemes are to de to the exam par scheme are to

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# **Specification summary**

Students will study the topics from Themes 1 and 2 during their AS qualification qualification. Here are the topics from each theme:

Th	eme 1: Marketing and people	Theme 2: Managing bu
•	Meeting customer needs	Raising finance
•	The market	Financial planning
•	Marketing mix and strategy	Managing finance
•	Managing people	Resource management
Ŀ	Entrepreneurs and Lie 1	External influences

The topics t



emes 1 and 2 are examined across Papers 1 and 2.

Paper 1: Marketing and people is worth 80 marks and students have 1 hour and should be directed to spend one minute on each mark. If a question is worth approximately six minutes answering it. Section C has one extended, open-res should spend 5-10 minutes on reading and planning. The paper is worth 50% of th

- **Section A** one data response question broken down into a number of parts
- **Section B** one data response question broken down into a number of parts
- Section C one extended, open-response question from Theme 2 content

Paper 2: Managing business activities is also worth 80 marks and students have 1 it. The paper is worth 50% of the AS and is structured as follows:

- Section A one data response question broken down into a number of parts
- **Section B** one data response question broken down into a number of parts
- Section C one extended, open-response questic to in Theme 1 and 2 cont link and connect the topics from Themes and their responses.

Students could be required to in their quantitative skills across a range two themes. This will them to develop the ability to calculate, use, under numerical ( 79 on Yith constructing and interpreting a range of graphical form

Quantitative skills will be assessed by at least level 2 mathematical skills, which will overall AS marks. These may be assessed across the assessment objectives.

## AS and A Level Year 1

Business Themes 1 and 2 could include assessment of the quantitative skills relate

- Market size and market share
- Adding value
- Price and income elasticity of demand
- Cash flow forecasting
- Sales forecasting
- Sales, revenue and costs PECLION COLA
- Break-even
- **Budgets**
- Profit
- Liquidity
- Capacity utilisation

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# **Practice papers topics coverage**

		AS Leve
	Multiple-choice	Paper
Market size and market share	Q3, Q4, Q10, Q13	Q7, Q8, Q9
Adding value	Q2	
Price and income elasticity of demand	Q 16, 24, Q15, Q16	
Cash flow forecase	Q8, Q19	
s- fo i i s	Q23	
Salt 100 nue and costs	Q1	Q1, Q8
Break-even analysis	Q12, Q17	Q2, Q3,
Budgets	Q7	
Profit	Q2, Q20	
Liquidity	Q21, Q22, Q24	
Capacity utilisation	Q11	
Stock control		Q5, Q6
Economic influences		Q7, Q1





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# **SECTION 1: THE MARKET**

(MARKET SIZE, SALES GROWTH, MARKET GROWTH AN

# Part A: Specification Overview

Subject content 1.1.1 The Market requires students to consider market size and market of 'dynamic markets' includes market growth, size are required to calculate growth, market share and market size.

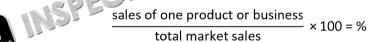
# Part B: The et ... Oerview

A market is where buyers and sellers come together to exchange goods ar Toni&Guy is an example of a service retailer operating in the hairdressing market, example of a good provided in the mobile phone market.

**Market size** is the value of a market based on the total income or total quantity of businesses which operate within it over a specified period of time. The market size adding up all the income or unit sales of all products or companies within the market in 2014 was £1.1 billion based on value and 345 million litres based

**Sales volume** refers to the quantity of products sold or services provided by a bus time. If the sales volume is based on all products sold or all services provided by a market then this equates to market size (see above). For the year ending June 20 cream sales was 16.9 million kilograms.<sup>2</sup>

Market share refers to the proportion (percentage's to cotal market which is sproduct. For example, in 2014, Unilever, the plant of well-known ice creaments and Cornetto, had a 25 ft ar of the UK ice cream market. It is called



**Sales growth** refers to the percentage change in sales either based on income or business over a specified period of time. For example, Magnum ice cream sales in ending June 2014 in comparison to the previous year. It is calculated as follows, e income data:

current sales for a specific product or business – previous period sales for specific previous period sales for a specific product of business

**Market growth** refers to the percentage change in the total market based either obusinesses or all products within the market over a specified period of time. For February 2015 the UK ice cream tub market based on volume declined by 4.9%. Follows, using either volume data or income data:

current total market sales



http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11744608/Heres-the-scoop-China-i-market.html

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http://www.thegrocer.co.uk/reports/digital-features/ice-cream-report-2014/magnum-going-great-guns-in-

<sup>3</sup> http://www.euromonitor.com/ice-cream-in-the-united-kingdom/report

<sup>4</sup> http://www.thegrocer.co.uk/reports/digital-features/ice-cream-report-2015/family-tubs-left-on-shelf-as-pr

# Part C: Example

The UK supermarket sector was valued at £26,407 million for the 12-week period £292 million increase on the 12-week period ending March 2014. Tesco's market ending March 2015 was 28.7%, Asda 17.0% and Sainsbury's 16.8%. Waitrose's valued at £1,383 million, and £1,318 million for the same period ending March 20

- Calculate the market size of the supermarket industry to the 12-week period £26,407 million - £292 million = £25,11 fr
- Calculate the market grove of the upermarket industry between the 12-week March 2014 and 1. 1. 2. 5.



The supermarket industry grew by 1.1% between the 12-week periods end 2015.

Calculate the value of the supermarket industry supplied by Tesco for the 12-v March 2015.

$$\frac{26,407 \times 28.7}{100}$$
 = £7,759 million

Calculate Waitrose's market share of the supermarket industry for the 12-wee

5. Calculate Waitrose's sales growth between the 12-week cariods ending March TION COR

$$1,383 - 1,318 = 65$$

les I can income grew by 4.9% between the 12-week perio March

6. Which supermarket would be considered the most dominant out of those listed?

Tesco would be considered the most dominant supermarket as it had the listed by at least 23.5% (28.7% Tesco – 5.2% Waitrose).



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# Part D: Practice Activity

# **Activity 1**

Worldwide mobile phone sales and market share 2015 an

	20	15	
Company	Unit sales ('000)	Market (%). (%)	Unit sales
Samsung	320,219.7	RG97	307,59
Apple	225,850	15.9	191,42
Huwaei	3.27	7.3	68,080
L5 719	72,748.2	5.1	81,41
X Zog Education	65,618.6	4.6	56,529
Others	635,368.5	44.6	539,69
Total		100	

Use the table above to answer the following questions.

1. What was the size of the mobile phone market in 2014?

2. What was the size of the mobile phone market in 20

3. Calculate the market growth of the mobile phone market between 2014 and

4. Calculate the market share of Apple in 2014 and Sammi, in 2015.

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http://www.gartner.com/newsroom/id/3215217



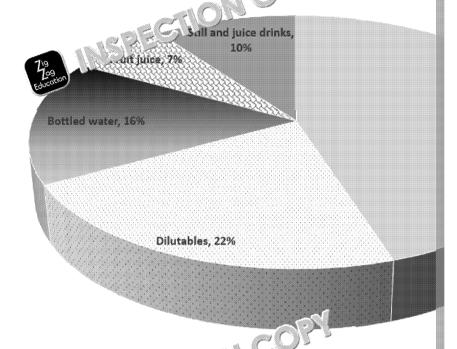
5.	What happened to the sales growth of Apple and Samsung between 2014 a
	MON
	79. Education
	CO3-X
6.	Using the calculations completed Questions 4 and 5 and any other releval firms do you consider to the calculations completed Questions 4 and 5 and any other releval firms do you consider to the calculations completed Questions 4 and 5 and any other releval firms do you consider to the calculations completed Questions 4 and 5 and 5 and any other releval firms do you consider to the calculations completed Questions 4 and 5 and 5 and 3 a
	79 1 1 3 B B B B B B B B B B B B B B B B B



## **Activity 2**

In 2013, the UK soft drinks market comprised carbonated, dilutable, bottled water drinks. Fruit juice drinks are 100% fruit juice, while still and juice drinks contain 99 2013, 14,520 million litres were consumed at a value of £1.07 per litre. The 2013 a growth of 2.0% on the previous year. The market increased in value by 4.1% in a

The following chart represents the **UK soft drinks** con an do by sector for 2013



In 2013, the UK consumption of bottle in 20

1.	Calculate the size of the off drinks market for 2013 based on value.
	Educado
2.	Calculate the size of the UK soft drinks market for 2012 based on litres.
۷.	Calculate the Size of the OK Soft drinks market for 2012 based off littles.
	205



http://www.britishsoftdrinks.com/write/mediauploads/bsda\_annual\_report\_2014.pdf

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# 3. Calculate the size of the UK soft drinks market for 2012 based on value. Calculate the value of the UK carbonated drinks market for 2013 based on co Calculate the market growth of the UK bottled water market between 2012 a





# SECTION 2: ADDING VALUE TO PRODUCTS

# Part A: Specification Overview

Adding value is part of subject content 1.1.3 Market Positioning. Students are required businesses can add value to products/services and how this may support their pos

# - Part B: Theoretical Overview

Added value is the incress of that a business generates while embarking or It is the diffa produce.

Added value = Price that a product/service is sold for - The cost of product

Sometimes the added value may be large; for instance, cod, chips and mushy pear restaurant will be priced much higher than the cost of buying in the ingredients, a meal, whereas the difference between the cost of production and the price a cust cod, chips and mushy peas at a local takeaway will be much smaller. Clearly the restaurant example will be higher as the takeaway will not have to pay waiting sta with the restaurant area, including heating, lighting and maintaining that area; ho compared with the cost of production is still likely to be higher.

Businesses may add value in various ways, including the following:

- Brand name, reputation and image customers may be willing to pay more to e.g. due to prestige or quality associations. Coca-Cive for much more that cola drinks, yet the production costs to produce to alink are likely to be fairly
- Additional product warranties
- Customer service offered
- Ambiance of the same s
- Unique 79 the product/service offered

All of these points are linked to the market position of a product/service because compare one organisation's offering with that of another.

# Part C: Example

The following is an example to show how to calculate the added value.

A branded jacket may cost £10 to produce but sells for £85. What is the add

Added value = Price that a product/service is sold for - The cost of product INSPECTION COP

Added value = £85 - £10

Added value = £75

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# Part D: Practice Activity

## **Activity 3**

Rose McGovern, a sixth-form Business Studies student, produced handcrafted bear enterprise business she ran with two other students. The group sold their items at local craft and trade fairs. This is slightly higher than other craft stalls that sell at each piece of jewellery being a unique design.

A jewellery kit that includes all the items to record to be eaded jewellery cost pieces of jewellery can be produced in the stesource. Each one takes about two costs at £0.75 per hour. Fresh as a Swarovski-like crystal included that cost in a jewellery with the cost is a sea tissue paper which costs £0.50.

1.	Calculated added value for the jewellery.
2.	Explain <b>two</b> ways in which Rose's business added value.
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# **Activity 4**

2.

A leading 16 GB computer tablet sells for \$499.00 in the USA. It has the following

- Display/touchscreen \$115.00
- Memory \$24.75
- Battery \$15.00
- Processor \$14.00

- Other component costs \$37.25

  Manufacturing costs
- the promotion and distribution costs equate to 20% of the tot 1. Assum calculate one added value for the computer tablet.

Reminder: calculate the promotion/distribution costs using:

% × total production cost = \$	
100 = \$	
	•
In the first quarter of 2015 Apple had a 26.8° shore car the global compute different ways that Apple has addar to the iPad Air 2 during the man process.	r II
Education	
	•
	1
	•



http://www.cnet.com/uk/news/apples-ipad-air-2-costs-275-to-358-to-make-teardown-reveals/

http://www.macrumors.com/2015/04/30/idc-tablet-shipments-q1-2015/

# SECTION 3: PRICE ELASTICITY AND INCOME ELAST

# Part A: Specification Overview

The interpretation of price and income elasticity of demand to marketing decision them is part of 1.2 Market section and appears within subsection 1.2.4, Price Elast are required to interpret price and income elasticity of least d and be able to an price and income revenue as part of 1.2.5, Income Elasticity of Demand. Edexcel calculate both price elasticity of demand.

# Part B: T 199 to Un Overview

Elasticity of demand is the measurement of how responsive customer demand is variable, e.g. price or income.

## Price elasticity of demand (PED)

This measures how responsive customer demand is to a change in price of a product the principle that **if price increases demand for a product will fall**, but **if price decinity will increase**. It is calculated by:

percentage change in quantity demanded percentage change in price

Calculating the percentage change is completed as follows:

change in demand a number) × 100

The above process can be used fire out the percentage change in price or incordata has to be used in the freemand, depending on which calculation is to be considered.

Ignore any newcoord in the price elasticity of demand coefficient, answer to the elastic example, if it is -1.5, treat it as 1.5.

The **value of knowing the PED coefficient** is that it can be used to determine the revenue of a change in price.

If the coefficient is **greater than 1** the product is **price elastic**. A small change in percentage change in demand. If the business wishes to **increase revenue** and the should **not increase price**, as this will lead to a larger percentage fall in demand the price, which will **result in revenue decreasing**. It should **decrease price**, as this will increase in demand than the percentage decrease in price, **resulting in revenue** in

If the coefficient is **less than 1** the product is **price inelect** he demand for the responsive to a change in price. A small change in price will lead to a smaller perception be business wishes to **increase rever**; and product is price inelastic it shoul lead to a smaller percentage from than the percentage increase in price, **increasing**. It should not be a price, as this will lead to a smaller percentage percentage increasing.

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The following worked example demonstrates the process followed to calculate the

A motorcycle retailer has a PED of -1.6 for a Honda motorbike. The selling price pe at this price is 50 motorbikes a year. What will be the effect on revenue if the selli £13,500?

Thus, in this scenario, if price is reduced by 10%:

- Demand will increase by 1.6 (ignore 32 32 26) × 10%, i.e. 16%
- Demand will, therefore, rise (16%) to 58 (50 + 8) motorbikes a year
- Revenue at the high
- Revenies he is a selling price is £783,000 (58 x £13,500)
- Revent 733,000 higher (£783,000 £750,000) if the selling price is

The price elasticity of demand can be influenced by a number of factors, including

- Availability of substitutes if consumers perceive a product to be similar to willing to switch to an alternative if their usual product's price increases. The substitutes, the more price elastic the demand is for the product.
- Differentiation if customers consider the product to be unique, an increase
  a significant fall in demand, if any, as they will believe there is not a suitable
  level of differentiation results in demand for the product being more price in
- Brand loyalty a product with a strong brand image may acquire a significan
   The greater the level of brand loyalty, the more price inelastic demand is for
- Ability to switch to other products the ease with which a customer can character another can influence the price elasticity of demand. Some contracts have customer fixed period of time, such as a mobile phone or gym membership contract. The provider results in penalty charges being incurred the customer for ending costly or difficult it is to switch to an alternative.
- Type of product necessity products are essential for the survival of the bread, are likely to be princed to the demand is likely to remain relative increase. Products in armoot essential for survival, such as a holiday, are more essential for survival.

# Income ela estado of demand (YED)

This measures the responsiveness of demand to a change in income. It is calculate

percentage change in quantity demanded percentage change in income

Normal goods have a positive income elasticity of demand; demand increases as types of normal goods: normal necessities and normal luxuries. A normal necess between **0** and **1**. Demand increases in a smaller proportion to the income increanced to consume more of these products as income increases, e.g. washing powe fruit juice. These products tend to be income inelastic. Demand will remain relationances. A normal luxury product has a coefficient greater than **1**. Demand increase income increase. Consumers are more willing to space to luxuries as income city breaks, luxury chocolates. These products tend to be income elastic. Demand changes.

Inferior goods have a new come elasticity of demand; demand falls as income e.g. own-broke peans, tinned meat. As income levels increase consumers products.

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The value to a business of knowing a product's income elasticity of demand is that aware of the impact on demand and revenue of changing income levels. This will most appropriate marketing strategy to implement, so the product or business relevels are decreasing and the product is income elastic, the business might reduce sales. In order to spread the risks associated with falling income levels a business products, so it is no longer reliant on a small number for selection.

The limitations of both price elasticity a mediasticity of demand include:

- historic data is used to calculate for enricient; therefore, it may not be an a happen in the future
- a time to base the calculation of the elasticity of demand con Howev perent time periods may generate different outcomes. This make identify which time period to use, thus potentially resulting in the coefficient future, leading to wrong strategies being chosen and/or the business lacking choosing not to use it at all.
- this can be a timely and costly process, which results in it not being viable for and it is assumed that all factors remain the same, but the internal and exter the time of the coefficient's calculation may not remain the same in the futur coefficient may have related to a period of economic downturn, but the futur therefore, the coefficient would not be applicable to the future.

# Part C: Example

	Price elastic	
Drinking water	The diasire	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
Bottle 19 er	✓	
Holid Foundier	✓	
Cigarettes	✓	
Clothing		

The price elastic items either have alternatives available or are non-essentic increases demand they will have a larger proportional decrease and vice ve are deemed necessities; therefore, if price increases, demand will have a swice versa. Cigarettes appear in both columns, as for some consumers it will necessity item, while to others it has become a habit, thus a necessity.

Based on each price elasticity of demand coefficient in the following table, pla indicate whether the price should be increased or decreased for revenue to inc

PED coefficient	eo price	
-1.2		
0.8	<b>V</b>	
709 3.3	✓	

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# 3. A business increased prices by 15%, which resulted in demand falling from 50

a) Calculate the price elasticity of demand.

Demand fell by 30%.

$$\frac{-30}{1.5} = -2 PED$$

b) A Toble shess on whether the price should be increased or decreased. The duct is price elastic (remember to ignore the negative), as the Product demand is responsive to a change in price. Price changes reso change in demand. If the business wishes to increase revenue it should and not increase it.

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4. A business's product has a PED of -2.5. Selling price per unit is currently £35 cunits, which generates a sales revenue of £280,000. What will be the effect 20% to £28?

A PED of 2.5 means that for every 1% change in price, demand (i.e. sales that if price is reduced demand increases, and if price rises demand falls.

If price is decreased by 20%:

- demand will increase by 2.5 x 20%, i.e. 50%
- demand will rise by 4,000 (8,000 x 50% = 500), 4,000 + 8,000) to
- revenue at the reduced selling price will le: \_\_\_\_6,000 (12,000 x £28)
- revenue will be £56,000 m 1 (2) \$3,000 £280,000) than it was p
- 5. In relation: inc. It is a ficery of demand, tick the appropriate column in the forwhether the list of the second increase in the forwhether the list of the second increase in the forwhether the list of the second increase in the second in the second increase in the second in the second in the second in the second increase in the second in the se

	Normal necessity	Normal luxury
Bread	✓	
Sports car		✓
Tea	✓	
Bus travel		
Own-label tea		
Overseas holiday		✓







# Average income in the economy is anticipated to fall from £24,000 to £23,04 product is expected to fall from 8,000 to 6,400.

Calculate the income elasticity of demand.

$$\frac{-960 \times 100}{24,000} = -4\%$$
Income fell by 4%.
$$6,400 - 8,000 = -20\%$$



Demand fell by 20%.

$$\frac{-20}{-4} = 5 \text{ YED}$$

b) Discuss how the income elasticity of the product could influence the market by the business.

The product has an income elasticity of demand coefficient which is pe therefore, the product is a normal luxury. Demand for the product w than income when the latter rises. Demand for the product will decre income when the latter decreases.

At a time when the economy is performing well and consumers are ex income levels, the business will benefit from ... La. ing demand, but du will fall.

The business may use the nakeding mix to create a strong brand ima income leve's , dli g, consumers will perceive it as a must-have pr , it is making it more income inclastic.

A broader product range could be developed by the business, so its por normal luxuries. The business is less reliant on one type of product for of survival if demand falls for one or more of them.

7. Explain one disadvantage of a business using a price elasticity of demand coe

The PED coefficient is based on historical data; therefore, there is no quara It might indicate to a business a product has price inelastic demand, but if enter the market with similar or better products its demand could become increases the price expecting a higher revenue it would be surprised by the be a fall in revenue due to the fall in demand being proportionally higher tBusinesses who routinely monitor market trends and Iculate the PED coe experience this drawback.

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# Part D: Practice Activity **Activity 5 (Price Elasticity of Demand)** Explain whether demand for the following items is likely to be price elastic or Car MOT test d smart HD television b) Pint of milk c) d) Coca-Cola A short-haul low-cost airline, Fly Away, offers routes from Luton (London) Air service usually has demand of 140 customers paying £120 for a return ticket. increasing the price to £138 and it is anticipated that demand will change to Calculate the price elasticity of demand for the Luton to Verona route. 10

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# Advise the business whether the selling price should be increased for the to increase revenue. Explain one reason why the effect on revenue may not be as the business c) d) iness influence the price elasticity of demai



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3.		mall independent bakery has a PED of 0.8 for American-style cupcakes. In is £1.50 and demand at this price is 50 a day. It plans to increase the s
	a)	What will be the effect on revenue if the selling price is increased to £1
	b)	Advise the business on whether the selling price should be increased o
	c)	Explain <b>one</b> benefit to the business of being aware of the price elasticit products.

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## **Activity 6 (Income Elasticity of Demand)**

- A national department store sells a range of training shoes under its name. A
  area increased from £22,000 to £24,200. The business has noticed that the s
  fallen from 800 to 600 pairs over the last year.
  - Calculate the training shoes' income elasticity of hand. 11
  - b) Explain whether the training shoes are a normal necessity, normal luxur

CO3A

c) E: 79 no cowpack to the business of being aware of the income elas for Educated ducts.

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# Discuss the implications to the business of your answer to b) above.





# SECTION 4: CASH FLOW FORECASTING AND

# Part A: Specification Overview

Constructing and analysing cash flow forecasts is part of the 2.1 Raising Finance subsection 2.1.4, Planning. Students are required to interpret a simple cash flow calculations based on changes in the cash flow variable should also be able limitations of a cash flow forecast.

# Part B: Theoret

A cash flow st predicts the amount of cash to come in and go out of the bus

It indicates when cash shortages may occur, alerting the business to take action to avoid them. Predicted short-term cash flow problems could be resolved with an overdraft or negotiating with suppliers for longer to pay. The business may ask debtors to pay in a shorter time or unwanted assets may be sold to provide an injection of cash.

Long-term cash flow problems may require a loan or new owners joining the business.

The key elements are:

- Cash inflow money coming into the business usually from sales.
- Cash outflow money going out of the basiless usually to pay bills.
- Net cash flow difference (tv) (2) cash inflows and cash outflows.
- Openi To no the amount of cash anticipated at the stal successory period; the closing balance of the previous period.

Closing balance – the amount of cash anticipated at the end of a period. A nindicates a business will not have sufficient cash to meet expected payments flow indicates there will be enough.

**Cash** and **profit** – it is often presumed that a profitable business will be cash-rich, Many businesses provide trade credit; customers receive the product or service be the amount owed. On paper the business has made a profit from this form of trading the bank balance until the customer settles their debt.

Cash is important in the **short term** to meet the payments as they fall due, as this business to continue trading. However, profit is essential it east in the **long tern** cannot grow as funds are not available for product as a perment, expanding into re-

A business may experience cac' ow Noviems because:

- it is holding too miles actions money is tied up in products. If the stock becash ir to like it want not be recovered, as it cannot be sold.
- trade a take longer to pay than they should, thereby reducing the cash
  it difficult for the business to pay the expected cash outflows
- an overtrading (growing too fast) business will have high rate of cash outflow equipment, stock, hiring new staff, etc. However, the cash invested in this ex straight away, as the cash inflows from such activities are not generated imm
- unexpected changes in demand could result in fewer products sold and cash

Cash flo

A) Cash inflows

Owner's capital

Credit sales

Total cash inflows

Cash sales

B) Cash outflows

Materials Labour

Telephone

lent

warketing

Other expenses

Total cash outflows

- C) Opening balance
- D) Net cash outflow (A -
- E) Closing balance (C



## The **benefits** of a cash flow forecast:

- the timing of cash in and out of the business is identified, thus allowing reme before a negative (deficit) occurs, such as arranging an overdraft
- periods when positive cash should be available are recognised, which allows resources will be available for new business strategies
- it allows the business to identify ways to make any a pated positive funds business, such as opening an interest-bearing at 50 in preparation to depot they become available, rather than the final non-interest-bearing at
- it allows the business to plan and a hit will know when cash will be availab
- potential lenders are in a provided to lend if they believe the business has go means as a provided

## The drawbacks of a cash flow forecast:

- it is based on estimates; therefore, it is only as good as the estimates used
- the production of a cash flow forecast can be complex and time-consuming;
   more likely to have the resources to invest in this process
- it cannot forecast for unexpected changes in market conditions

# Part C: Example

 Swan Clothing Designs is owned by Salina Choudhary. She designs urban streindependent retailers. Complete her cash flow forecast for the first three mont following data:

Sales - Jan £8,000, Feb £9,500, Mar £13,500

Loan received - Feb £1,500

Materials - Jan £5 (1), b £6,000, Mar £7,000

Rent Zig

1,500, Feb £1,500, Mar £1,500

Wages - Jan £2,200, Feb £2,200, Mar £2,200

Electricity - Mar £350

Advertising - Jan £500

Other expenses – Jan £500, Feb £500, Mar £750

Swan Clothing De

# A) Cash inflows

Loan received

Sales

Total cash inflows

## B) Cash outflows

Materials

Rent

Wages

Electricity

Advertising

Other expenses

Total cash outflows

C) Opening balance

D) Net cash outflow (A - B)

E) Closing balance (C + D







## 2. Comment on the forecasted cash flow position of Swan Clothing Designs.

For both January and February it is anticipated that the business will have pay bills. This could damage its reputation if bills are paid late or are unporefusing to provide further supplies or insisting on payment before delivery

If the business exceeds its bank balance without permission it could incur h further deepen any cash flow problems.

The planned injection of cash in Fe' (lown) will help to reduce the exp but will not resolve it compared, will not be positive until March.

Salina of the initial problem will be caused by the anticipated Janu from the onwards it is expected to improve, as cash inflows will be more she should be pleased to know it is a short-term problem rather than long anticipated to be positive by March.

3. Salina Choudhary is planning to obtain a loan in February. Advise her on whe appropriate course of action to resolve any expected cash flow problems.

The cash flow problem is expected to be short-term, as it is less than one generates would be appropriate rather than a medium—to long—term one, so the could arrange an overdraft, which will allow her to spend more than so this may be preferable as she will only be charged if she makes use of the finterest charges straight away, as soon as it is issued, regardless of whether immediate use of it or not.

As January's expected expenditure is the care to poblem, as the net conegative, she might decide to wait to late the advertising campaig and/or negotiate with supplies to pay bills, thus delaying payments

- 4. Explain recommendation of the cash flow forecast for any one of the follits accuracy:
  - changing consumer tastes, resulting in lower or higher levels of deman
  - increasing costs due to inflation resulting in higher than expected costs
  - poor market research leading to the wrong marketing mix being follow sales
  - Salina's experience within the market; a new business owner could lack together an accurate cash flow forecast



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# Part D: Practice Activity -

# **Activity 7**

2.

1. Jonathan McGovern runs a garage that provides a repair service and sells a Complete the following cash flow forecast for McGovern's Garage.

# McGovern's Garage - Cash flow forecast

	COLÝ.			
Cash inflows				
Repair sales	£9,000			
Car 719	£2,000			
Total Education inflows	£11,000			
Cash outflows				
Materials	£2,250			
Car purchases	£3,500			
Rent	£2,000			
Wages	£2,500			
Electricity	£150			
Advertising	£500			
Other expenses	£500			
Total cash outflows	1,00			
Opening balance	£800			
Net cash flow	-£400			
Clos Zos Ince				

Advise the business on whether any action may be required regarding their
#
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## **Activity 8**

Majestic Electronics sells a range of electrical items including televisions, washing well as providing a repair service. At the start of each year demand is usually low, money available to spend due to increased costs over Christmas. The business exp balance next year of £1,125 with expected cash flows for the first two quarters (Q

- Repair sales £1,300 (QTR1), £2,175 (QTR2)
- Electrical sales £6,500 (QTR1), £10,875 (QT/2)
- Stock £5,175 (QTR1), £6,600 (QTR2)
- Labour £2,440 (QTR1), £2 (2)
- Rent £1,200 (QTP1 . ). 11, (2TR2)
- Utilitie 79 (el. 1, 1, 1) £525 (QTR1), £525 (QTR2)
- Teleph 210 (QTR1), £210 (QTR2)
- Complete Majestic Electronic's cash flow forecast for the first two quarters in 1.

	Quarter 1			
Cash inflows	,			
Repair sales				
Electrical sales				
Total cash inflows				
Cash outflows				
Stock	-1CO33			
Labour	ON-COSA			
79 t MSP				
Education				
Telephone				
Total cash outflows				
Opening balance				
Net cash flow				
Closing balance				
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# Majestic Electronics' owner, Paul Bennett, believes that trade will be low aga He is considering introducing a new owner to the business so that any potent avoided. Advise the owner accordingly. A Bennett should take th€ forecast.

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# **SECTION 5: SALES FORECASTING**

# Part A: Specification Overview

The interpretation of sales forecasting is part of 2.2 Financial Planning section and subsection 2.2.1, Sales Forecasting. Students are required to consider the purpos factors affecting sales forecasts and difficulties of sales forecasts.

# Part B: Theoretical Ova 200

Managers r y ty the make decisions based on future sales levels, e.g. where recruit new xpand to new markets and/or product lines. Without the beneaten use quantitative forecasting techniques to predict future sales levels and groups.

**Sales forecasting** is the predicting of future levels of sales by forestalling what is li of conditions, and the impact that it may have on sales levels for the business.

Clearly a manager could toss a coin or put a finger in the air, make a decision base hope for the best. Such a technique is unlikely to be accurate, and its success will judgement. Considering that business decisions often involve thousands, if not m to make a decision based on luck, a hunch or a whim.

Therefore, managers often use various quantitative techniques to predict future s averages, extrapolation and correlation, which are all considered as part of the decovered within Theme 2 of the Edexcel specification. Although even quantitative to be 100% accurate, if the calculations are based on the toss of a considered as part of the decovered within Theme 2 of the Edexcel specification. Although even quantitative to be 100% accurate, if the calculations are based on the toss of a considered as part of the decovered within Theme 2 of the Edexcel specification. Although even quantitative to be 100% accurate, if the calculations are based on the toss of a considered as part of the decovered within Theme 2 of the Edexcel specification. Although even quantitative to be 100% accurate, if the calculations are based on the toss of a considered as part of the decovered within Theme 2 of the Edexcel specification. Although even quantitative to be 100% accurate, if the calculations are based on the toss of a considered as part of the Edexcel specification.

Once likely sales levels are for ten managers can then make decisions about v financial needs supply the financial needs supply t

Various fact radiotory affect sales forecasts:

- Consumer trends
- Actions of competitors/rivals
- Economic conditions

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# Part C: Example

Harri runs a restaurant and serves 135 customers on average per week who spend She plans to increase her prices by 10% and forecasts that 8% fewer customers will

1. Calculate the revenue achieved by Harri during one week of trading.

£28  $\times$  135 (customers) = £3,780 per week on ave:  $\frac{1}{2}$ 

2. Calculate the number of customers where to visit Harri's restaurant

135 customers currer

8 / 100 3: Fewer customers (rounds up to 11 customers as you 135 - 138 124 customers

3. Calculate the new average price.

Price will increase by 10%

10 / 100 x £28 = £2.80

£28 + £2.80 = £30.80

4. Calculate the new weekly revenue after the price rise.

£30.80  $\times$  124 (customers) = £3,819.20 per week on average

# Part D: Practice Activity

## **Activity 9**

Hibernate Designs uses sales forecast fe hanques to predict future sales levels,

	nun resources needs tra
1	Explain The transition of the figures forecasted being inaccurate
1.	Explain 109 Tesuit in the figures forecasted being maccurate
	200 CO33
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2.	Explain two examples of consumer trends that may affect sales forecast accu		
	INSPEC		
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3.	Explain the impact on two functional areas of the business if sales are forecast		
	- al		
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# SECTION 6: SALES, REVENUE, COSTS AN

# Part A: Specification Overview

Calculating sales volume and sales revenue is part of 2.2 Financial Planning section subsection 2.2.2, Sales, Revenue and Costs. Students are expected to be able to sales revenue (also known as turnover and sales), fixe so nd variable costs.

# Part B: Theoretical Ova Sov

Selling pric

Revenue is the total amount of money earned by a business from selling its goods

revenue = selling price per unit × output

**Cost** is the amount paid by a business for the materials/services used in the provis manufacturing of its goods.

**Fixed costs** are costs that do not change with the level of output. The business has whether a good or service is made or sold. These are also known as overheads or

total fixed costs = all fixed costs added together

**Variable costs** are costs that change with the level of output. If output increases, increase, while if output decreases, the total variable with decrease. These a

total :: (5) ses = variable cost per unit × output

Total costs are all costs he is a together.

total costs = total fixed costs + total variable costs

**Profit/loss** is the amount of money left from revenue once all costs have been degreater than the total costs the business has made a profit, while if it is lower it has

profit = revenue - total costs

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# Part C: Example

Simone's Sandwich Shop is a small business based in Suffolk which supplies sandwich cakes to employees of local firms. They also sell to people who are passing by the have the facilities to cater for meetings or events they are holding.

The business will serve approximately 80 customers each day who each spend about around £0.40 on raw materials, £0.70 on wages and £0.10 energy for each cut are £225 rent, £25 insurance, £50 business rates (20.01) £325. The business of

1. Calculate the revenue achieve is a Sandwich Shop during one week

£3.75 × 80 (c): 1 = 2300 per day £300  $T_{09}^9$  1ys, = £1,500 per week

2. Calculate the total variable costs per week of Simone's Sandwich Shop.

£0.40 (raw materials) + £0.70 (wages) + £0.15 (energy) = £1.25 per custo  $\pm 1.25 \times 80$  (customers) = £100

£100  $\times$  5 (days) = £500 total variable costs per week

3. Calculate the total fixed costs per week of Simone's Sandwich Shop.

£225 (rent) + £25 (insurance) + £50 (business rates) + £325 (salary) = £6

4. Calculate the total weekly costs of Simone's Sandwich Shop.

£625 (total fixed costs) + £500 (total variable costs) = £1,125 total costs

5. Calculate the weekly profit or loss of Simone' and do h Snop.

£1,500 - £1,125 = £375 m

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# SECTION 7: BREAK-EVEN ANALYS

# Part A: Specification Overview

Constructing and interpreting break-even is part of the 2.2 Financial Planning sect subsection 2.2.3, Break-even. Students are also required to colculate and interpretent of changes in price, output and cost, along with the limitations of Break-even output, margin of safety, contribution of the 2.2 Financial Planning sect subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and interpretent subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-even. Students are also required to colculate and subsection 2.2.3, Break-e

# Part B: Theret: Serview

**Contributio** peasure of the amount each product or service contributes tow costs (overheads) of the business. Once fixed costs are covered the contribution product or service sold is profit.

contribution per unit = selling price unit – variable costs p

total contribution = contribution per unit  $\times$  number of unit  $\cap$  OR

total contribution = revenue – total variable costs

A business can use the contribution approach to determine which products contrictovering the fixed costs of the business or generate the highest level of profit, one been covered.

	Product A
Selling price per unit (sr ) hi	£250
Variable (dir	£140
713 rib c per unit (sp p/unit – vc p/unit)	£110
Education (units)	5,500
Total contribution (sales × contribution p/unit)	£605,000

In the example above, Product A has the lowest contribution per unit at £110, but most towards covering fixed costs when the total contribution is taken into consic contributions from both these products go towards covering fixed costs. If the bu £635,000, a £542,000 profit is achieved (£605,000 + £572,000 -£635,000).

The contribution approach can assist a business in deciding whether a **special ord**. This is usually at a lower price than normal orders and does not necessarily confor as these. In reaching a decision the business would identify whether the special ocontribution or not. If it is negative, the business would be applying the order at financially worthwhile. If the special order is positive as the following factor the business in reaching its decision:

- Is there spare capacity?
- How might exist to paying a higher price?
- Will th 7 in rease fixed costs?
- Will the Education lead to future sales?

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**Break-even** is where the business does not make a profit or a loss; revenue equals calculate break-even, three pieces of information are required:

- selling price per unit
- variable cost per unit
- total fixed costs

Calculating break-even – there are three ds at can be used to calculate b demonstrated below are based ? .... wing:

- selling price per unit
- variable pe h.
- fixed co



### 1. Contribution method

$$\frac{£50}{£10-£5}$$

Break-even output = 10 units

### 2. Table method

Refer back to Section 1 for a reminder on hor accallilate each of the items

Output	Rev costs		Fixed costs	T
7.9	1370	0	50	
Education	50	25	50	
10	100	50	50	
15	150	75	50	

Reviewing the profit/loss column allows a business to identify where £0 apper business has not made a profit or a loss and, therefore, the level at which it is 10 units.

The business has total costs of £50 at zero output level even though the busin a product. It still has fixed costs that have to be paid regardless of whether a For example, the business would still have to pay rent, insurance and salaries

### 3. Charting method

The only lines that need plotting are the ray out to e and total cost line to level, but total variable costs, and files to be could be included in addition to

The exam boards to deal with linear (straight) lines in amend of part-even chart. It is not necessary to plot every single pie level. It wo pieces of data will be perfectly adequate, as the line is line below students could plot the revenue at zero output and at 15 output. Once plotted a ruler is used to draw a straight line joining the two points together repeated for all other lines of data that are to be included in the chart.

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Break-even occurs where the revenue and total lines cross, as this is where the buprofit nor a loss. The break-even output is 10 units, while the break-even revenue

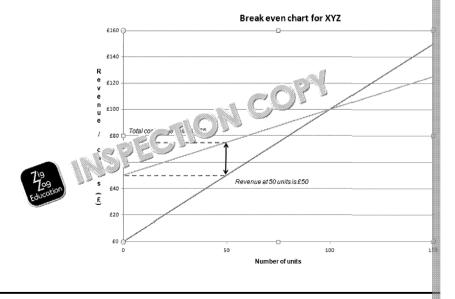
Margin of safety is the difference between the break-cyc po tput level and actual producing at. This provides an indication of how are to be an fall before the business.

mar \_\_\_\_ 1 \ f t , = break-even output – actual outpu

A business will expected at different levels of output.

The process is quite straightforward. All that is required is to identify the revenue output level. The following formula is used to ascertain whether a profit or loss is

For example, in the break-even chart below £50 revenue is achieved at an output costs are £75. A business choosing to operate at this level would make a loss of £.



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Benefits of break-even analysis – the completion of break-even analysis can supp finance, along with providing a useful business decision-making tool. A business to output will know that its marketing strategy may need amending in order to increbreak-even. Without this knowledge it may be unknowingly trading at a loss. Fur if' tool, as it allows the business to identify the impact on the break-even output, fixed costs change.

Drawbacks of break-even analysis – the assumption that what is produced as some products may not sell. For the e, there is an assumption that both prothe same, but if a produce of the same, but if a produce of the same, but if a produce of the same is an assumption that what is produced as some products may not sell. For the e, there is an assumption that what is produced as some products may not sell. For the e, there is an assumption that what is produced as some products may not sell. For the e, there is an assumption that what is produced as some products may not sell. For the e, there is an assumption that what is produced as some products may not sell. For the e, there is an assumption that both produced as some products may not sell. For the e, there is an assumption that both produced as some products may not sell. For the e, there is an assumption that both produced as a subject to the end of the end o

### Part C: Example

The example is based on the data in Section 6 within the Part C: Example section.

- Calculate the total contribution based on the 80 customers Simone's Sandwich \$
   £3.75 (amount spent per customer) £1.25 (variable cost per customer) = £5
   £2.50 × 80 = £200 total contribution
- 2. How many customers a week must Simone's Sandwich Shop have in order to be method to work out break-even.

3. Simone's Sandwich Shop's in the sess of negotiating a new lease and insufixed costs should be \$\frac{\pi}{2}\$. \$\frac{\pi}{2}\$. \$\frac{\pi}{2}\$. \$00 per week. Calculate the new break-even the table of the session of the session

709 V	202			
Cust Education	Revenue	Total variable	Fixed costs	T
	£3.75 $ imes$ customers	£1.25 × customers		To cc
0	£0.00	£0.00	£500.00	
50	£187.50	£62.50	£500.00	
100	£375.00	£125.00	£500.00	
150	£562.50	£187.50	£500.00	
200	£750.00	£250.00	£500.00	
250	£937.50	£312.50	£500.00	
300	£1,125.00	£375.00	£500.00	

Simone's Sandwich Shop's new break-in which level is 200 customers ; 50 customers.



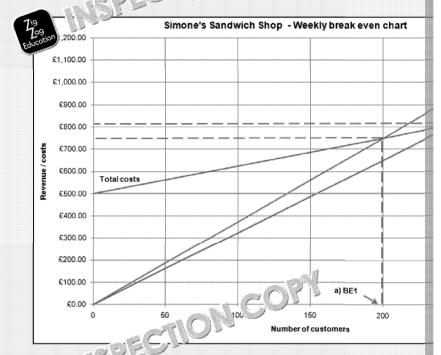
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### The business has decided to pass on its savings in total costs to its customers threaverage spend per customer being reduced to £3.25.

- a) Label the break-even output level before the reduction in prices on the ch
- b) Plot the new revenue line and label it as REV2.

  Hint: Plot the revenue at 0 customers then choose another output level and achieved at that, e.g. £325 (100 × £3.25) at 100 retomers. As the line two points plotted together and extend to the monomorphism output point available.
- c) Label the new break-even outs on me chart below as BE2.
- d) What is the new to support level due to the price decrease?



b : 1. even output level is 250 customers a week, which is av



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### - Part D: Practice Activity **Activity 10** Smyth Special Occasions is a business that organises special events including wed anniversary parties. The business charges each customer £1,000 to organise the are £1,000 per week, which includes the event planner's and office assistant's sale heating and lighting. The business usually organises four events per week. The va each event total £500. 1. Using the contribution method ிச திர்ஸ் many customers per week Smy to break even. Assuming Smyth Special Occasions continues to have at least four customers margin of safety. even position of Smyth Special Occasions at present. INSPECTION COPIL

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Smyth Special Occasions has been approached by a potential customer to a
time. The customer is not willing to pay the usual £1,000 associated with early \$200. Advise the business on the feature that should be considered.
to pay £800. Advise the business on the factors that should be considered b
CO33
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ANSPES.
7/99 advication
-ary
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### **Activity 11**

Mario's Specialist Cakes produces cupcakes for special occasions, including wedding audience is across the West Midlands. The selling price per cupcake is £2 with var one. The business has fixed costs of £3,000 per month. The business usually proca month.

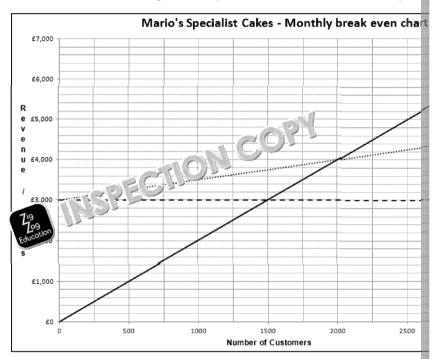
1. Complete the break-even table below for Mario's Specialist Cakes.

Output	Revenue	Total variable costs	Fixed costs	Tota
0	£0	£0		£3
500	£1,000	£250 C	£3,000	£3
1,000	£2,000	500	£3,000	£3
1,500	M333	£750	£3,000	£3
2,0 Zig Zog Education	£4,000	£1,000	£3,000	£4
2,500	£5,000	£1,250	£3,000	
3,000	£6,000		£3,000	£4



### How many cupcakes must the business sell a month to break even? Explain why Mario's Specialist Cakes har integer of £3,000, if no cupcakes zero level of output.

4. Mario's Specialist Cakes is planning to increase the selling price of each cupca expected not to continue selling 3,000 cupcakes a month, as demand is predi



Use the graph above to complete the following:

- a) Label the original break-even output BE1.
- b) Label and state the margin of safety on the chart be price increased
- c) Plot the new revenue line and label it REV2
- d) Label the new break-even output [5].
- e) What is the new to output level for Mario's Specialist Cakes?

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### Use the chart to work out how much of a profit or loss will be made if 2, month at the new price. the use of a break-even chart benefit Mario's Specialist Cakes ase the selling price or not?

g)





### **SECTION 8: BUDGETS**

### Part A: Specification Overview

Constructing and analysing budgets is part of the 2.2 Financial Planning section an subsection 2.2.4, Budgets. Students are required to construct and analyse budget adverse and favourable variances. They should outline type of budget, such as h difficulties of budgeting need to be recognised.

### Part B: Theoretical Overview

A **budget** is a tracet is to be achieved within a specified It can provi

- The per careful need of the business or budget area can be measured against the
  of success.
- The review and monitoring of the budget against actual performance can highlight of concern; for example, if costs are higher than expected or income is lower that up to the budget holder and/or managers such areas, which could stimulate fur the reasons behind the differences, and remedial action can be implemented we example, stock costs may be higher than anticipated due to unnecessary wastage provide further training to staff so that stock is handled/used to greater effect, it
- A manager or team that has been given responsibility for the control of a budgen accordance with Herzberg's two-factor theory. Performance that is measure result in employees being recognised positively, which also could be motivatively hierarchy of needs and Herzberg. This could result in employees giving their improved productivity and higher standards being achieved, along with a lower productivity.
- Setting a budget can ensure that business spending is for used on the corporations of individuals. This allows funds to be allowed ac ordingly.

There are a number of disadvantages assessing living budgets:

- A budget holder may not by call a cause undue stress of overspend or lower than expected income resulting of the late intervention being taken. The business may have for the late in acquire the necessary skills.
- Budgets be allocated based on the negotiation skills of the budget holde budget far greater than needed as they are able to present a very persuasive do not possess these skills will be allocated one which may not be sufficient f
- Some budget holders focus on the short term and will take every action poss.
   This may appear advantageous, but during this process opportunities that conthe long-term performance of the business are forgone.

Variance analysis is the process of monitoring budgets against the actual perform

Variance – the difference between the budgeted income, expenditure or profits a income or profit which is higher than the budget is known as a **positive** or **favoural** lower is known as a **negative** or **adverse variance**. Actual expenditure which is higher as a **negative** or **adverse variance**, while one that is lower is lower as a **positive** or

### **Budget XYZ**

	The second	Actual
Income	£350,000	£425,000
Expending	£270,000	£350,000
Profit 709	£80,000	£75,000

In the above example, the income variance is favourable as the business has achie budgeted. The expenditure variance is adverse, as the business has spent £70,000 profit variance is favourable, as the business achieved £5,000 more profit than ex

Note: F is favourable variance and A is adverse variance.

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### Part C: Example

Heming's Driving School provides driving lessons to learner drivers and advanced d accredited by the Institute of Advanced Motorists. Elizabeth Heming wishes to comperformance to the budgets set. The incomplete budget and actual statement is as

	Budget	Actual
Income	_A9V	
Learner driver sales	€52,200	£38,640
Advanced driving course sale	£11,200	£10,080
Total income	£44,800	£48,720
Expending		
Fuel Education	£13,440	£15,450
Insurance	£2,700	£2,500
Car servicing	£850	£990
Labour costs	£24,500	£26,000
Total expenditure	£41,490	£44,940
Profit/loss	£3,310	£3,780

1. Calculate the income, expenditure and profit budgets for the business.

See the table above for answers and below for the calculations.

Income budget £33,600 + £11,200

Expenditure budget £13,440 + £2,700 + £850 + £24,500

Profit budget £44,800 – £41,490

2. Calculate the income, expenditure and profit ari was for the business.

See the table above for answers a 12 Dw for the calculations.

Income variance 248,720 - £44,800 = £3,920 F

Expen 79 /a. Ince £44,940 - £41,490 = £3,450 A Profit  $\sqrt{6}$  Profit

Please note that any negatives which occur in the answer do not need to be

that the difference is stated including whether it is an adverse or favourable

3. Explain how a budgeting system may help the business to control expenses.

The business can compare its performance with each target. This can high may need to be given to controlling spending, if adverse expenditure variant to improve sales require implementation, where adverse income variances be

Comparing the budget with the actual outcomes would have highlighted a expenditure, which are higher than expected:

- Fuel costs have an adverse variance. If fuel costs in increasing generally
  raise the budget for this area so that it reside. However, it may still
  garages to source fuel so that I reside diture on this area is stabilised or
- Labour costs have recovery derivance. This could be attributed to a particular occurring, a conversales were higher than expected possibly due bus 700 as choose to not increase the wages in the coming year.
- Served costs had an adverse variance they were £90 higher than a for the business to seek an alternative provider for such a small oversperservice has been reliable and efficient.
- Insurance had a favourable variance. The business may seek to reduce  $t^{l}$  if this cost can be sustained, and allocate it to an area which needs a high

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### – Part D: Practice Activity –

### **Activity 12**

A small florist's budgeted income was £3,150 and budgeted expenditure £2,250 for expenditure are expected to be 20% higher in February.

 Complete the following budget and actual performance statement for the bu
 February budget and actual performance statement.

dget	Actual
Jeson ( S)	£3,600
Education diture	£2,500
Profit	£1,100

2.	To what extent is setting a budget of value to an international florist chain s British Unit?
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### **Activity 13** Sunlight is a bakery and coffee shop in Norfolk which recently expanded into providing special occasions. In previous years the business was concerned its stock costs we what they should be, as it did not produce a budget. A business advisor suggested budget so appropriate decision-making could occur. The business produced its fire Fill in the spaces below to complete the budget and actual performance state Budget Actua Income £220,500 £234,48 Bakery and coffee £24,500 £25,02 £259,5 Total N Expenditure Materials £73,500 £85,05 £130,400 £136,9 Wages Rent £12,000 £12,00 Marketing £13,500 £17,60 £251,5 Total expenditure **COPYRIGHT Profit/loss** £7,930 **PROTECTED** Explain one reason why Sunlight should produce a budget.

# To what extent were the owners right to be concerned about the amount spe



### Part A: Specification Overview

Analysing profitability is part of the 2.3 Managing Finance section and appears with Students are required to calculate gross, operating and net profit for the year. The take figures from the statement of comprehensive incomposition and loss account calculating the gross profit margin, operating profit for the year also need to know the difference between 1 and cash.

### Part B: T 1 Overview

The success of a business can be measured in a number of ways including custom market share, brand awareness, employee retention, etc. One of the most popular based on profits and/or profitability.

**Profits** – the amount of money left from revenue once all costs have been deduct

**Gross profit** – gross profit is revenue less cost of sales. The costs associated with providing the service, such as raw materials and machinery running costs, have be However, overheads have not been deducted.

gross profit = revenue - cost of sales

Operating profit (net profit) – the profit left after all operating costs have been degross profit less overheads, i.e. those costs that are not cost linked to the product a service, e.g. premises costs (rent) and marke in cost linked to the profit trading activities of the business.

operating profit = gross profit – overheads

**Profit for the (earnings)** – the profit left after all costs have been deducted and interest charges on borrowings. This indicates to the board of directors and that can be allocated to the shareholders (dividends) and the amount that should assist with future strategies and growth.

Profit for the year = operating profit – all other costs (e.g. taxes,

**Profitability** – the ability of a business to generate profits above its costs. It is usurevenue (gross profit margin, net profit margin or operating profit margin) or net

Gross profit margin – the percentage of revenue which is gross profit. For the year Ryanair group's gross profit margin was 40.1%, which means that for every £1 of reprofit. For the year ending March 2014 it was 35.1%; the profit (source: www.google.co.uk/finance?fstype="% =N - Au:RYAAY). A higher gross a previous period or similar rival busings in the business is more efficient sales, as a greater proportion of the profit is generated from revenue. As Ryanair by £0.05 between 2014 the profit in the business was more efficient.

$$\frac{\text{gross profit}}{\text{revenue}} \times 100 = \%$$



Operating profit margin – the percentage of revenue which is operating profit. For 2015, the Ryanair group's operating profit margin was 17.4%, which means that for £0.17 was operating profit. For the year ending March 2014, it was 11.7%; therefore earned nearly £0.12 was operating profit (source: www.google.co.uk/finance?fstype higher operating profit margin in comparison to a previous period or similar rival business is more efficient at managing its overheads, as a terroportion of nearly £0.05 between 2014 a business was more efficient at managing the ds.

$$\frac{\text{operating profit}}{\text{revenue}} \times 100 = \%$$

Profit for the margin – the percentage of revenue which is profit after all cosprofit from non-trading activities has been included, including finance charges and March 2015, the Ryanair profit for the year margin was 15.3%, which means that £0.15 was the profit for the year. For the year ending March 2014, it was 10.4%; revenue earned £0.10 was profit for the year (source: www.google.co.uk/finance?fs higher profit for the year margin indicates the business is more efficient at manage charges on borrowing, fuel charges and the wage bill. As Ryanair's profit for the year effective at managing its costs, as proportion of profit from its sales. This would indicate to the board of directors the shareholders a dividend and/or retain profits for future strategies, such as launchic countries.

$$\frac{\text{profit for the year}}{\text{revenue}} 100 = \%$$

Analysing the profitability of a business i a secause:

- it allows a business to under can \ ... it has performed;
- it identifies areas t'
- director by be a led about whether to allocate a dividend to shareholder a new 2000.

However, the **drawback** is that the process is based on historical data and there is will reflect the future. The business may analyse its profitability, but in future year the competitiveness of the market or economic conditions change. Decisions bas will take a while to implement and by the time they are introduced the market matching could mean that the business misses out on new opportunities or does not had identified and implemented to deal with increasing competitiveness, because it is performance.

There are a number of ways the profits or profitability of a business could be impr

- Lower costs this can be achieved by reducing waste, finding a cheaper suppallow profit margins to improve, assuming prices remains the same. However provide the required quality materials or is unable at meeting deadlines, to could suffer, resulting in the loss of th
- Increase prices a higher price is ease profit margins, but this may be use a strong loyalty tower and are likely to purchase from a rival profit margins.
- Increase output or sales, possibly leading to mistakes occurring, r

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### Part C: Example

R C Francis PLC is a global business that produces a range of soft drinks. It has expethat is highly competitive and dominated by a well-known international brand. In redirectors has expressed concern regarding its performance.

	2014 (£'000)	2013 (
Revenue	166,775	151
Gross profit	7,81	77,
Operating profit	<i></i> ,827	18,
Profit for the call	17,345	12,

1. Calculating g margin for R C Francis PLC for 2013 and 2014.

2014 Education 84 × 100 = 52.6

 $2013 \quad \frac{77,443}{151,056} \times 100 = 51.3\%$ 

2. Calculate the change in operating profit margin for R C Francis PLC between

 $2014 \qquad \frac{22,827}{166,775} \times 100 = 13.7\%$ 

 $2013 \quad \frac{18,338}{51,056} \times 100 = 12.1\%$ 

The operating profit margin increased by 1.6% (13.7% - 12.1%)

3. Calculate the change in profit for the year margin for R C Francis PLC between

2014 \frac{17,345}{166,775} \times 100 = **10.4%** 

2013 12,386 × 100 = 8.2%

The profit for the year married in the by 2.2% (10.5% - 8.3%)

4. Assess the ely lance of the business's financial performance between 2

The fin position of the business has improved. In relation to the 201-£1 of revenue nearly £0.53 was gross profit, which is an improvement in £0.02 to £0.51. The business appears to be more efficient at managing its the 2013 operating profit margin, for every £1 of revenue over £0.12 was this improved by nearly £0.02 to £0.14. The business appears to be more overheads.

The profit for the year margin has also improved between 2013 and 201-has proportionally less financing charges and/or is more efficient at general activities. For every £1 of revenue in 2014, £0.10 of profit was achieved from revenue and profits from non-trading activities included. In the prevenue £0.08 was the profit for the year. This was an improvement of £1

It is difficult to comment overall on whether in recomment is satisfactory or the current position of the business of the current position of the business of the concerned about the firm's production in the firm's production in the competitive markets appropriately appropriate trategy of expanding in competitive markets appropriate the competitive markets appropriate the comment of the comment

5. Explain the business could use to improve its profitability.

See the theoretical overview for an explanation of the possible methods; recincrease prices. It is important that the method suggested clearly explains improve, but explains any drawbacks associated with it.

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### Part D: Practice Activity

### **Activity 14**

Precision, an international jeans manufacturer, has been finding trading condition. Europe tough going. Sales have been falling within these markets; however, sales business has decided to take advantage of its growing popularity in this region by stores. The business believes that US and European consumption general are concare choosing to reduce spending to some extent or properties ity items.

1. Tick the relevant box to identify the each financial item will have an effe

Financite :	Cash
Cust Education ash sales	
Suppliers' trade credit – invoice not paid	
Suppliers' trade credit – invoice paid	
Capital raised from share issue	
Rent payment	
Sale of a fixed asset	
Bank loan	

Financial data from selected company accounts 2014 ar

	2014 (£'000)	
Revenue	3 24. )3	
Gross profit	:,507,192	
Operating profit	176,694	
Profit for the vers	150,189	
Gro 79 it Dargin	51.4%	
Oper profit margin		
Profit for the year margin	4.6%	

۷.	Calculate the gross profit margin for 2013.
3.	Calculate the operating profit margin for 201
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### Calculate the profit for the year margin for 2013. pprາ ເປັນ ງາລາວial information, assess the extent to which the b concerned about the financial performance of Precision. Precision has been a profitable business over the last two years of trading bu problems, especially in 2014. Explain two reasons why a profitable business experience cash difficulties.

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### **Activity 15**

Cineworld, a cinema group with operations in the UK, Ireland and Central Europe, for a number of years. In 2013 it had a 25.5% share of the UK market.<sup>12</sup>

The business has embarked on a period of expansion over the last few years. This arthouse cinema chain, Picturehouse, in 2012 for £47.3 m<sup>111</sup>, which would allow cultured target market.<sup>13</sup> During the early part of 2015, pened four new cinema Picturehouse. Six more new cinemas were portionally of the latter part of 2015. Sourcefurbished to include the latest term of new ones, which has included new 'Superscreens'.<sup>14</sup>

Between 20 13 2014 UK cinema attendance fell by 4.9% to 157.5 million in 201

For the financial year ending December 2013 the Cineworld group's gross profit m profit margin 9.2% and profit for the year margin 5.2%. In the following financial the group was £619.4 million, gross profit £180.5 million, operating profit £76.0 m £54.5 million.<sup>16</sup>

1.	Calculate the 2014 gross profit margin.
2.	Calculate the 2014 operating profit may
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3.	Calculate the 2014 profit for the year margin.
3.	Calculate the 2014 profit for the year margin.
3.	Calculate the 2014 profit for the year margin.
3.	
3.	Calculate the 2014 profit for the year margin.



http://www.theguardian.com/business/2012/dec/06/cineworld-buys-picturehouse

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http://cineworld-plc.production.investis.com/~/media/Files/C/Cineworld-PLC/reports-and-presentations/ar http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/leisure/11722574/Cineworld-hails-hails-tailandconsumer/leisure/11722574/Cineworld-hails-hai

http://www.cinemauk.org.uk/the-industry/facts-and-figures/international-comparison/admissions/

<sup>16</sup> http://cineworld-plc.production.investis.com/~/media/Files/C/Cineworld-PLC/reports-and-presentations/a

### Comment on the financial performance of Cineworld between 2013 and 2014 5. nd could use to improve profits and/or profitable

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### **SECTION 10: LIQUIDITY**

### Part A: Specification Overview

Analysing liquidity is part of the 2.3 Managing Finance section and appears within students are required to measure liquidity by calculating the current ratio and the also expected to be able to recommend ways to impressing the final part is working capital and its management – focusing to the portance of cash to a business.

### Part B: Theretic Construew

A business k two main financial documents: an income statement (also kn account) and a statement of financial position (also known as a balance sheet). Li these accounts to Companies House each year.

The full contents of a balance sheet are covered in greater detail in the second year of the Edexcel A Level course, and are covered in detail in the partner ZigZag resource to accompany this resource. The balance sheet includes a lot of quantitative information which can be used to assess the business's liquidity. However, here is a basic summary before the topic of liquidity is considered.

A balance sheet provides a snapshot of the financial position of the business at a specific moment in time. It shows the assets of the business (what it owns) and the liabilities (what it owes).



- Fixed assets it is jeanly the business which will started in ... or more than one year (e.g. proper transfer and equipment).
- Current assets items owned by the business which are likely to be turned into cash within one year (e.g. cash, debtors and stock).
- **Current liabilities** the amount owed by the business to others which is due for payment within one year (overdrafts, unpaid taxes and trade creditors).
- Net current assets the amount of current assets available for the day-to-day running of the business (current assets – current liabilities). It is also known as working capital.
- Long-term liabilities (also known as non-current liabilities) – an amount owed by the business to others which does not have to be repaid for than one year.
- Net assets fixed assets t cur meassets long-term liabilities.
- Shareholders' equity— ne anue of the funds within the business as owners' capital 19 et i e profit (total equity shareholders' capital + other + reta

A balance sheet must balance – net assets should equal total equity.



### Marks and Spencer as at 02/04/2016

Fixed assets

Current assets

Less Current liabilities

Net current assets

Less Long term liabilit

Net assets

### Shareholders' equity

Shareholders' capital

Other

Retained profit

Total equity



The balance sheet is useful to a bank deciding on whether to grant a loan, as it will whether sufficient assets are available to cover it. A business whose current liabilities may find it difficult to pay bills as they fall due. Marks & Spencer's net current assindicating its current liabilities are greater than the current assets available. If it rot cover any short-term bills this may be problematic, as there are insufficient liquidation point in time. However, due to the profitability of the built is and its internation suppliers and lenders would be unduly concerned and liquidated.

### Liquidity

Liquidity corporations in the cash available to meet its short-term financial commitments (i.e. those bills that are pay the business or indicate that the business is not operating emake a profit, in order to be able to continue to trade a business must be able to

Liquidity ratios measure if a business is able to meet its short-term financial common from its cash / near-cash assets (i.e. current assets). A business needs to have suffits current liabilities. A small business's liquidity position may be adequate despit assets, whereas a large public limited company may have £22 million in current as needed to pay all of its current liabilities with immediate effect. The current ratio used to work out how much is enough, and put the financial figures into context values of the assets and liabilities.

The current ratio – this assesses the ability of the business to pay the debts which one year (its current liabilities) from the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts. In the liquidated in full, as some of them the current assets to as in er to pay such debts.



$$\frac{\text{current assets}}{\text{current liabilities}} = X:1$$

Marks & Spencer's current ratio is:

$$\frac{1,461.4}{2,104.8} = 0.69:1$$

For each £1 of short-term debt, Marks & Spencer has £0.69 of current assets to coliquidated all its current assets, including stock, it would still not be able to meet the within one year. For a small business, such as a sole trader, this could severely the creditors demanded repayment all at the same time. However, for a firm such as unlikely as the level of profits it generates provides suppliers with confidence that with a certain level of bargaining power when it comes to debt repayment terms, have a current ratio below 1:1, but ideally the current ratio hould be at least 1.5 can vary depending on the industry. Typically the confidence that it is curated for a specific by 'ideal' to assess the business's liquidity points.

The acid test ratio – this is a sees the ability of the business to pay the debts within one its stricter test liabilities) from the current assets it has at that point is stricter test liabilities, from the current asset total. This is because current asset, i.e. the most challenging to convert quickly into cash because it need business has to wait for the customer to pay, which may involve a lengthy trade may struggle to sell some types of stock, and there is a risk that a business may per damaged and never sold at all or at least at the value that it was purchased for. It exclude stock from the liquidity measure to provide a stricter measure of a business

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$$\frac{\text{current assets} - \text{stock}}{\text{current liabilities}} = X : 1$$

Sometimes the term 'liquid assets' is used to describe to as inventory.

Imagine that Marks & Sprand entrassets include stock of £643 million. Its a



$$\frac{1,461.4-643}{2.104.8}=\mathbf{0.39:1}$$

For each £1 of short-term debt, Marks & Spencer has £0.39 of current assets (less that if it liquidated all its current assets it would still not be able to meet the debts year. As previously discussed, it would be unlikely that all of Marks & Spencer's crepayment at the same time. Also retailers can often successfully operate with cubelow the 'ideal' because the nature of their business does not involve too many in the same time.

### **Improving liquidity**

If the current and/or acid test ratio is very low, and this is unusual for the industry within, the business may wish to take action to improve the situation and could co of the following strategies:

- Reduce the levels of stock held within the business
- Convert short-term borrowings, e.g. overdrafts, into term borrowings, e
- Raise more share capital

### Working capital

Working capital refers to the finance that a business needs to support businesses are controlled to operate each day, e.g. to pay utility bills and st materials to be output. No business can operate without working capital, at is a common reason for a business to failure as a business will not be able to pay it

When a business is first established, it will not generate income immediately. It we to turn into stock, and, therefore, it will need to pay for raw materials in the hope Operating costs, e.g. gas and electricity, will also need to be paid to make the item needs is known as the working capital.

### The flow of cash

Cash moves around in a cycle:

- Cash is needed to buy ingredients/materials
- These materials are then turned into finished goods
- The finished goods are then sold to customers

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The cash from customers replaces the cash v 1 0 y the materials and operation the product (plus provides a profit)



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### **Cash Cycle** The money from Cash customers flows m into the business flo ILON COP Stock (r buy products materia Goods sold to out t Stock customers othe (finished as el goods)

### Part C: Practice Activity

Next PLC is a British multinational which specialises in clothina creessories and home throughout the UK and via franchises in 38 countries. The performance data for 2 through its own retail branches and also online. Its incomperformance data for 2



_apecilos	Year ending January 2016 (£m)	Year endi 201
1. Oe	4,176.9	3,9
Cost of sales	2,724.2	2,6
Operating profit	867.2	81
Total equity	311.8	32
Long-term liabilities	847.7	1,0
Current assets	1,642.2	1,6
Inventories	486.5	41
Receivables (debtors)	1,050.5	84
Current liabilities	1,170.6	88
Payables (creditors)	673.5	69

1. Calculate Next's current ratio for 2015 and 2016. (6)

 $\frac{1,642.2}{1,170.6} =$ **1.4**:1

0-6165 = 1.82 : 1

2. Comment on Next's liquidity 1000 \$ 1.50 and 2016.

In 2015, for every of nort-term debt Next had £1.82 of current asserbad £: 78 color it. The business is in a good position as it has sufficient short-term debt. It should not experience a liquidity issue. How below the £1.50 expected and it has also fallen by £0.42 (£1.82 - £1.40) indicating the liquidity of the business was not as strong as it was.

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http://www.next.co.uk/franchise/

<sup>18</sup> http://www.nextplc.co.uk/~/media/Files/N/Next-PLC-V2/documents/reports-and-presentations/2016/NEX

### Part D: Practice Activity

### **Activity 16**

Use the data in the table below and comment on the liquidity position of each of operate in the same industry. You should calculate both the current ratio and the

Business name	Current assets	Stock
Alpha	£46,475,2 10	£4,000,0
Beta	25,000	£98,000,0
Charlie	£9,870,000	£1,023,00
Delta	£2,568,000	£870,00

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### SECTION 11: PRODUCTION, PRODUCTIVITY AND

### Part A: Specification Overview

Analysing the operational performance of the business is part of 2.4 Resource Ma 2.4.1, Production, Productivity and Efficiency requires students to calculate produ of input per time period) and efficiency. Subsection 2 a acity Utilisation required to calculate operations duse of data in operational decision-moving.

**Note:** Labour productives, a corred in Section 12: Human Resource Data.



### Part B: Theoretical Overview

Operations management involves producing the product or service and providing standard required. A business may set itself operational targets to measure the Some measurements include unit costs and capacity utilisation.

**Unit costs** – the cost of producing one unit of output.

total costs output

Capacity – the maximum amount of output a business can produce with the resou

Capacity utilisation – the percentage of maximum por how that is being us

 $\frac{1}{2} \frac{1}{2} \frac{1}$ 



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### Part C: Example

Rosamund Café is a small business serving light snacks and drinks predominantly to Wharf. The lowest number of customers usually served during a week is 1,350 and could cater for 1,800. The weekly costs of the business are as follows:

	1,350 customers	1,650 customers
Total variable costs	£1,620	£1,980
Total fixed costs	£1,500	£1,500
Total costs	3	£3,480

1. Calculate the unit contains for 1,350 customers a week.

£3,12 79 1,350 Education 31 unit cost

2. Calculate the unit cost of the business for 1,650 customers a week.

 $\frac{£3,480}{1,650}$  = £2.11 unit cost

3. Calculate the unit cost of the business if it operates at full capacity for a week

 $\frac{£3,660}{1,800}$  = £2.03 unit cost

4. Explain the effect on the weekly unit cost of the business if it serves more custor

The unit cost of the business will decrease as the café serves more customer spread across more customers, thus reducing the unit fixed cost with each

5. Calculate the capacity utilisation of the burine sit howest number of custom

1,350 ×100 1,800 = 75%

6. Calcula 79 cc. 1 cay utilisation of the business if the highest number of custom

1,650 Education = 91.7%

7. Explain **one** advantage to the business of not operating at full capacity.

Time will be available to train staff and service the machinery/equipment at full capacity.

Failing to train staff could result in errors being made, possibly regarding f standards, which could lead to the business being prosecuted and fined.

Failure to service the machinery/equipment could result in it breaking down resulting in demand not being met and the reputation of the business suffer

Spare capacity allows the above problems to be aviled.

- 8. Explain one method the business is so that it works nearer to full capac
  - · Increase de la congresión promotional offers
  - · Rei Paray open for fewer hours or reduce the number of staff

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### - Part D: Practice Activity -

### **Activity 17**

Brenda's B&B provides a bed and breakfast service in Brighton, close to the beach. levels are close to the 35 capacity. The owner, Brenda, employs a permanent part running of the business, but during the low season there can sometimes be very lit weekly occupancy levels and total costs of the business are by bw.

	w season	
Average occupancy	20	
Total costs	£400	

1.	Calcula 1990 capacity utilisation in low season.
2.	Calculate the capacity utilisation in high season.
3.	Calculate the change in unit costs between high weasons.
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	7,9
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4.	Analyse <b>one</b> way the business could match supply to demand during the lov employee's skills are often underused during this period.
	TON CONTRACTION CO
	Education

### **Activity 18**

Huddersfield-based coach firm, Universal Travels, provides a Saturday service to a people aged 21 and over who wish to attend a nightclub in the city. The price charof travel and entry to a nightclub. A 49-seater coach is usually used. The number service has varied between 25 and 40 over the last month. To provide the service business £575, but this increases to £800 with 40 customc

The business has been approached to promise sinular service to London one weel Manchester one. Due to high day and weekend, the business does not have to service based on the current action of resources. The firm is keen to provide guidance or the current action of resources.

1.	Calculatence unit cost and capacity utilisation of the Manchester service if 2
2.	Calculate the unit cost and capacity utilisation of the Months chester service if 4
	-AION
	79 Education
3.	Analyse the implications to the business of having a higher capacity utilisation
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### Analyse one method the business could use to increase demand to at least 4 5. Advise the business of **one** strategy it could use so that the London nightclub provided.





### SECTION 12: STOCK CONTROL

### Part A: Specification Overview

Influences on the amount of inventory held by a business is part of the 2.4 Resour and appears within subsection 2.4.3, Stock Control. Students are required to intelead time, reorder levels, buffer stock and reorder questions.

### Part B: Theoretical Ova Sv

Stock may re i . . . to as inventory and consists of:

- raw ma and components
- work in progress products that are in the process of being made, but are no
- finished goods

This is fundamental to the success of a business, as without it production would available for sale online or through retail outlets.

Businesses have to be certain of selecting the right supplier, otherwise failure to to trade efficiently. They will consider a number of factors when choosing a new

- provide a competitive price?
- meet the quality standard expected?
- meet the level of demand requested?
- be flexible accept lower or higher orders?
- guarantee it is financially secure and will not go out of business midway through

A business will not necessarily choose a supplier lesson it offers the cheapest probelieves will meet its expectations. enter the cheapest probelieves will meet its expectations. enter the cheapest problems are alternative one.

A business 79 w to hold too little stock because:

- custom the choose a rival business if their demand needs cannot be me
- there will be a longer lead time (the time between a customer placing an ord more stock was held
- the reputation of the business might suffer

A business will not want to hold too much stock because:

- there is the danger the stock might perish (e.g. food manufacturer/retailer) of technology manufacturer/retailer)
- too much money tied up in inventory could result in the business missing out insufficient funds being available (opportunity cost)
- this can cause cash flow problems, as the business is reliant on selling the invidebts. There is no guarantee that all can be sold and at the full price expecte
- holding large quantities of inventory increases storage costs, as it has to be kincrease the size of warehousing required
- the business might become a target to ever who are aware it holds large could make it more prong a our large, which subsequently increase its insu

Managers to provide electronic points of sale (EPOS) or stock control chart inventory le provide POS involves the use of barcodes on items. As one item is sold this will automatically register within a database that there is one less item. Whe entered into the database by a barcode on the packaging of the items received. Treceived and sold. Once a particular stock level reaches a particular reorder level, with the supplier. This is typically used in the supermarket industry.

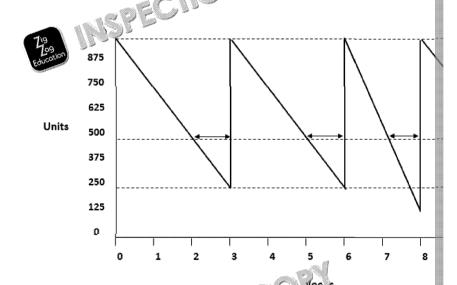
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**Stock control charts** are a means to manage the amount of stock held. They allow period of time to be analysed, with periods of excessive and/or limited stock identito implement corrective measures, so the business is not in a position where it holds.

To use the stock control charts successfully relies on the managers understanding contained within them:

- Maximum stock level this is the maximum of ur of stock the firm wants below, the business holds no more + 100 anits of stock at any time.
- Stock levels this shows the cricile stock levels over time for example, and items sold. The country with a stock level of 1,000 units at week units, the did not units being used over this period. However, as a december of the country of the being over a shorter period. This could be due to an unexpected increase in the country of the country o
- Reorder level shows the level of stock at which the firm orders new stock.
   of stock, as there is a gap between ordering and receiving the items. This bus
   week 6 and midway between weeks 8 and 9.
- **Lead time** the amount of time it takes between an order being placed and business is usually one week, as in week 3 stock was reordered and by week maximum level, thus indicating a lead time of one week.
- Minimum stock level the minimum amount of stock the firm wants to hold known as the buffer stock. This provides the business with a certain amount supplier's order is delayed or if there is a sudden unexpected increase in der keep a minimum stock level of 250 units, but in week 9 it fell below this to 12 reasons for stock falling below the minimum level include:
  - · an unexpected higher level of demand
  - a stock order being delayed
  - a department forgetting to rest as



### Note:

Denotes lead time

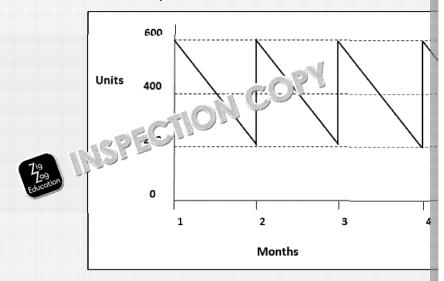
A business very very control of stock because this will halt production an able to sour control of the increased cost cannot be passed onto customers.

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### Part C: Example

Use the chart below to answer the questions that follow it.



- What is the minimum stock level of the business? 200 units
- What is the maximum stock level of the business? 600 units
- What is the reorder level? 400 units
- TION COPY What is the lead time? Approximately two cakes for example, stock is ordered midway through th I rous indicating a lead time of around two weeks.
- What is meant by buffer stock?

Buffer stock is the minimum amount of stock a business wants to hold, while

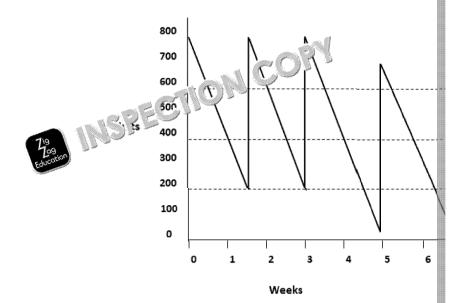
- A new customer places an order for 500 units of stock midway through month end of the same month. What are the implications to the business of taking this These are the possible implications:
  - Midway through April the business only has 400 units; therefore, the without ordering more stock.
  - If the business orders stock immediately it will take two weeks to be not fulfil the order as it would not arrive on time inless its suppliers they might charge more for doing this.
  - If the suppliers charge more for ruck the gn the order, the business might cost onto the new custor and it is, it might be accepting a lower profit
  - The reputation of humaness might also suffer if it is unable to service at 19 ose ic aelay those of existing customers. Loyal customers mig demand, revenue and profits. This means the new customer
  - However, if the new customer leads to a substantial increase in deman might be worth taking the risk of providing this order above those of
  - None of the above is an issue if the suppliers can supply in good time of capacity to meet the orders of the new customer and existing ones.

# 



### - Part D: Practice Activity Activity 19

Use the stock control chart below to help you answer the questions that follow it.



1.	What is the minimum stock level of the business?	

۷.	what is the maximum stock level of the business?	

3.	What is the reorder levels
	79

4.	what is the average lead time between weeks 0 and 5:

5.	Discuss whether the stock control of the business has been effective.



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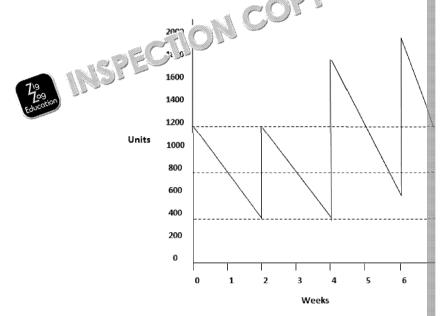
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### **Activity 20**

Francesco Footwear designs and manufactures shoes that are sold through established department stores. Since it commenced trading in 2008 it has enjoyed great succe of years, despite high levels of demand, this has not always been reflected in profit

The new managing director, Colleen Thompson, believes



1.	What is the maximum stock level for Francesco Footwean?

2.	What is the stock reorder by a fire francesco Footwear?	
	What is the stock reorder be of the francesco Footwear?	

3.	What is minimum stock level for Francesco Footwear?

4.	What is the average lead time between weeks 0 and 4?

5.	Discuss whether Francesco Footwear's profit issues can be attributed to its

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719

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### **SECTION 13: ECONOMIC FACTOR**

### Part A: Specification Overview

Understanding and interpreting economic data is part of the 2.5 External Influence within subsection 2.5.1, Economic Influences to Assess Opportunities and Threats Students are required to understand the effect on buring spending, exchange rates, interest rates, the basiness of changes in taxatic spending, exchange rates, interest rates, the basiness of changes in taxatic spending.

### Part B: Theretical Sinew

A business of operate in a vacuum. Its performance, decisions made and as both internal and external factors. One group of external influences which can habusinesses is economic factors, which include interest rates, exchange rates and in these could have either a positive or negative impact on a business. Strategies catake advantage of the opportunities created by changes in the economic factors osuch changes might bring.

### **Gross domestic product**

Economic growth refers to the rate of increase in an economy over a period of time be measured by **gross domestic product** (GDP). This is the value of a country's to services over a period of time.

Economic growth indicates positive trading conditions – an increase in the output of economy over a specified period of time. A growing economy increases business concerns it in it increasing output, which results in higher state of profits. A business is conditions to expand and/or launch new products, which there are willing to start at they believe the economy is strong at the profit is profit in the profit of the profit is profit in the profit of the profit of the profit is profit in the profit of the profit of the profit is profit in the profit of the

A positive rate of economic growth in overseas countries can lead to opportunitie products may become more desirable to overseas customers, resulting in their ex

Although economic growth has its advantages it can lead to insufficient labour and available to meet the increasing demand for goods and services. This can result in wages/salaries to attract new staff and retain existing ones, suppliers increasing p starts to exceed supply for their resources, and firms increasing prices to overcome to maintain profit margins.

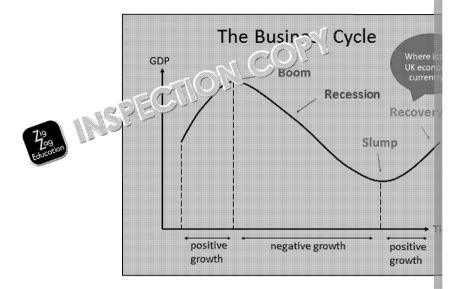
However, negative or zero economic growth vill average opposite effect as outpeconomy falls, resulting in lower sales (a) is a que to falling demand. This can trading, resulting in increased in the sales of the sa

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### The business cycle

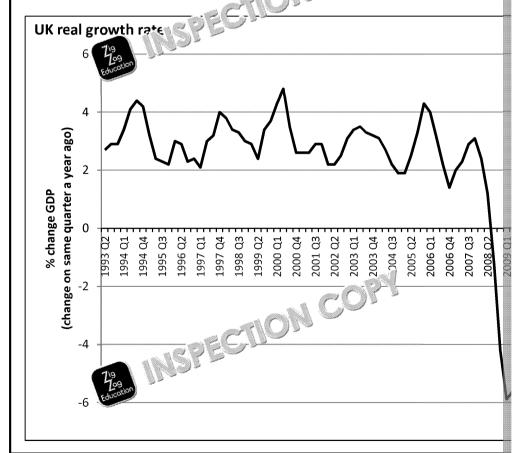
Over the past 150 or so years the UK economy (and indeed other leading economic a pattern of economic growth and then slowdown. This pattern is often referred to



The business cycle consists of four stages:

- Boom
- Recession
- Slump
- Recovery

A recession is officially defined as two or more consecutive quarters where GDP fathat the UK economy was last 'officially' and a sion in 2009.



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### **Taxation**

**Taxation** is a compulsory contribution to state revenue, which is charged by the good employee income (income tax) or business profits (corporation tax), or as a proservice which is added to the cost at each stage, from raw materials to end produce.

If **income tax** increases, it means a greater proportion of an anployee's income grants in turn reduces the amount of disposable income en loy less have available, consumer spending.

Businesses providing necessity products are unlikely to be affected by such a channecessity products in the errence lower demand. However, this very much dependent of demand of demand is products. Some might look to reduce staffing numbers if the have surplus the city which is unlikely to be utilised in the short to medium term.

A decrease in **corporation tax** results in a smaller proportion of a business's profit thus increasing the percentage of retained profit available to the firm. A business dividend to shareholders as a reward for taking the risk of investing in it, may hold developments, or decide to use it within the short term on identified projects. In happening within the economy, alongside the decrease in corporation tax, it might confidence that inspires it to bring forward the implementation of projects which the medium to long term.

**VAT** is not charged on all items; exempted items include children's and babies' clobooks. <sup>19</sup> VAT is currently charged at 20%; therefore, if a product's total cost is £10 (£20 × (20 / 100) = £20), which results in a selling price of £120 (£100 + £20).

An increase in VAT will increase the costs of production as od or providing a servicend user. Assuming all other factors remissioned, as any change in VAT will direction the government, as it will either revenue for it depending to the rate increases or falls, and also assuming unchanged production the price elasticity of demand a change in V less revenue business.

If a product has **price elastic demand** (e.g. electric blankets) an increase in price will decrease in demand, thus resulting in less revenue for the business. However, a greater proportional change in demand, which increases revenue. If the product electricity) an increase in price will result in a smaller proportional decrease in der revenue. However, a decrease in price will result in a smaller proportional increase lower revenue.

The impact of any change in VAT on the business will, therefore, also be influence demand of its products.

### Exchange rates

An **exchange rate** represents the value of one curry (1) instanother. For example, worth \$1.33. If sterling grows stronger are in the dollar it means that more used. If sterling grows weaker again to be dollar it means that fewer US dollars are

Changes in control of an affect a UK business for two main reasons. If it religious or process services, any change in the pound against another currency comore expension or cheaper. If a UK business exports, a change in exchange rate v customers either paying more or less to acquire its items.

### https://www.gov.uk/guidance/rates-of-vat-on-different-goods-and-services

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An increase in the value of sterling against another currency leads to imports become firms. They may choose to pass this cost saving on to customers in lower prices, it value will be maintained for a reasonable, foreseeable time period. If it is not pass prices, profit margins will increase. This additional profit may be used to help fund products, or support a new marketing strategy, or may be retained in the business the value of sterling makes UK exports more expensive for overseas customers, we demand, depending on the price elasticity of demand for product. The busine export price, in order to maintain overseas customers, and it is will lead to a fall in overseas for exports is not just influenced by price the maintain overseas customer will continue increase due to a change of the product design, etc. will all influenced by price the maintain overseas customer will continue increase due to a change of the product design, etc.

A decrease alue of sterling against another currency leads to imports becofirms. The increased cost they may pass on to consumers in higher prices, but this price elasticity of demand. They may seek to find alternative cheaper suppliers, meet the required expectations in relation to quality, reliability, etc. If increasing supplier are not appropriate strategies, the business will have to accept a lower pubenefit from increased demand, as their products become cheaper for overseas on the price elasticity of demand. If demand increases, they may seek to increase the increase in demand is perceived to be long-term and permanent, a business wotherwise will not do so, as the costs involved in this strategy will not be recovered available in the short term.

### Inflation

Inflation is the average increase in prices of goods or services in an economy over measured by the annual percentage change in average prices of goods or services increase at the same rate as inflation, their spending reduced, as their diffewer items due to higher prices. If salaries/w grain ase in line with inflation, maintained. If the measure is negative (a) which has occurred; the annual percentage decreased in comparison (a) to provious year.

Inflation le: 79 us less costs increasing for a number of reasons:

- raw makeo and components become more expensive, as suppliers' prices
- wage/salary costs increase as employees demand pay rises so that their spen
- service costs and energy costs increase

If the business has a price elastic product, the increase in costs cannot be passed oprices, resulting in profit margins and cash surpluses being reduced. This could iminvestments, as fewer funds are available to support the costs associated with the products may be unwilling to yield to employee pressure for a wage/salary rise if to consumers through higher prices, which could damage their relationship with

Businesses may find it easier to attract investors or acquire long-term borrowing, with rising prices, thus making the balance sheet appear healthier. Furthermore, easier to repay due to rising income levels due to higher the state of the

Inflation can be presented as a percentage of might be presented as an **index** number with an identified base and the inflation index in the control of control of the c

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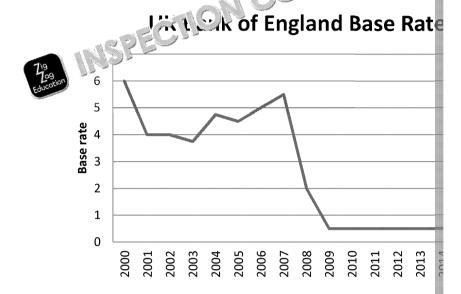


### Interest rates

Interest rates show the price of money/credit. The Bank of England sets the UK calculate interest rates, so interest rates are set independently of political influences.

Interest rates show

- the cost of borrowing, e.g. a loan or overdraft
- the return on money saved with a bank / building so



The level of interest rates can affect businesses significantly. If interest rates rise money. Therefore:

- people will be discouraged from borrowir a r or
- those with existing borrowing will have repayments and less money to
- consumer spending will set

It will be m 199 factors are money as people will earn more interest on their than spend, where demand/spending for a business's products may fall.

It will also discourage businesses from borrowing money to invest/expand because

- they can less afford to borrow money
- borrowing is less attractive

This will affect highly geared businesses the most!

For these reasons the Bank of England often increases interest rates in an attempt economy and thereby slave off an economic boom if it feels that it is not sustainable.

On the other hand, if interest rates reduce it is less expensive to borrow money,

- It will encourage people to borrow money and, therefore, they will have more
- Those with existing borrowing will have reduced ron in this and more more
- · Consumer spending will increase!

It will be less attractive to save then save it will stimula the hold demand and growth.

It will encoursinesses to borrow money to invest/expand because:

- they can afford to borrow money
- borrowing is more attractive

This will stimulate more investment and encourage firms to grow.

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### Part C: Example

Alice Cosmetics is a high-end cosmetics brand which is sold across Europe and the Uof rapid growth, as it has become the must-wear cosmetics brand among some A-lis management team are pleased with the firm's current level of growth it is concerned US economy will begin to impact negatively on its performance. The recent US economy Year £ team is documented below.

### US GDP (\$ billions)20

Year	Billions
2011	\$15,518
2012	\$14:55
2013	709 B
2014	\$1,348
2015	\$17,947

Year	£
2011	£0.64
2012	£0.62
2013	£0.61
2014	£0.64
2015	£0.67

### US Inflation rate<sup>22</sup>

Year	%	
2011	1.55	
2012	2.38	
2013	1.88	
2014	3.26	
2015	3.42	

### US Tax rate<sup>23</sup>

The personal tax rate has rem period 2011 to 2015 at 25% within the average salary brack returns separately

Comment on whether the senior management at Alice Cospetics should be conc and exchange rate.

Between 2011 and 2015 the U.S. y ... perienced growth in GDP of billion, which indicates are on I coutput for goods and services over the generates confider and bun US businesses and consumers, as it indicates in potent Los on mic stability. Furthermore, as output increases unemploy more successful required to meet the higher demand; therefore, the disposal will increase, if they were previously unemployed.

The growth should be beneficial to Alice Cosmetics, as US retailers and condemand more of the firm's products, as they are more willing to spend with increasing its demand and revenue. However, it also might provide a signa advantage of the growing US economy by expanding within it, thus potent The extent to which the firm can deal with such an increase will depend or Assuming its connection with A-list celebrities remains strong, this may be differentiate itself from rivals so that it becomes the product of choice.

Between 2011 and 2015 the US dollar became slightly stronger against the £0.03 was available within the stated perior of imeant that it became ch consumers to import Alice Cost (1) aucts. For example, in 2011, £100 \$156.25 (100/0.64) , , ) +5 this decreased to \$149.25 (100/0.67). these grater proportional chan ange in price, which increases revenue. However, as the produ A-list celebrities there is every chance the products have price inelastic demo COPYRIGHT **PROTECTED** 



<sup>20</sup> http://www.tradingeconomics.com/united-states/gdp

<sup>21</sup> http://www.x-rates.com

http://www.inflation.eu/inflation-rates/united-states/historic-inflation/cpi-inflation-united-states.aspx

http://www.moneychimp.com/features/tax brackets.htm

demand is likely to be proportionally lower than the percentage change in prevenue.

In conclusion, Alice Cosmetics should benefit from the US's growth in GDF, benefited from the US dollar becoming stronger against the British pound elasticity of its products.

Comment on whether the senior management TA Cosmetics should be concrate and personal tax rate.

In 2011, the average of J goods and services increased by 1.87%, be increased by that the average price of US goods and services what item the stability of the economy. Consumers likewise might hold off from if prices are increasing. This could result in a lower demand for non-necess cosmetics, thus resulting in Alice Cosmetics facing lower demand from the very much depend on the extent to which US consumers consider the productives are increasing. Despite Alice Cosmetics being a high-end brand, conspend on it when inflation is increasing at a higher rate, as it might still be

As the US personal income tax rate has not increased for those on an averabas not impacted on the disposable income levels of such consumers, assumed remained the same. This would not have had a direct impact either way of Cosmetics' products.

In conclusion, the management team is likely to nerned about the inthis could result in both businesses and one will reducing their spending, and services increases if reverence do comes are not increasing respective However, it will der to the consumers consider the cosmetic range when the cosmetic range where the cosmetic range when the cosmetic range when the cosmetic range where the

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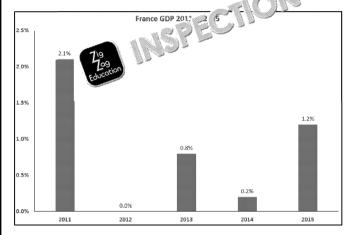


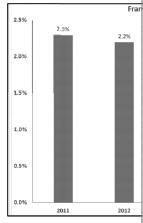


### Part D: Practice Activity

### **Activity 21**

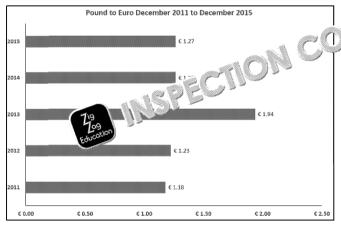
Rospeer Footwear manufactures midrange footwear, including shoes and boots, wand France under its own brand name. Its main supplier is based in France, which Although the business has been profitable for the last five years it has been concerexisting markets for demand and should be looking to expansion to other markets averse; therefore, if the company does plan to expansion, there has to be a management team has recently reviewed the allowing economic data for France:

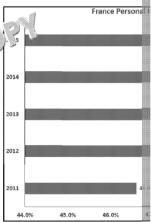




### French corporation tax 2011 to 2015

The French corporation tax rate remained constant at 33.33% between 2011 and





1.	. Using at least three different pieces of French economic data, comment Rospeer Footwear.		
36VI CO.	-6MC9,		
	79. 1813		



<sup>24</sup> http://www.focus-economics.com/countries/france

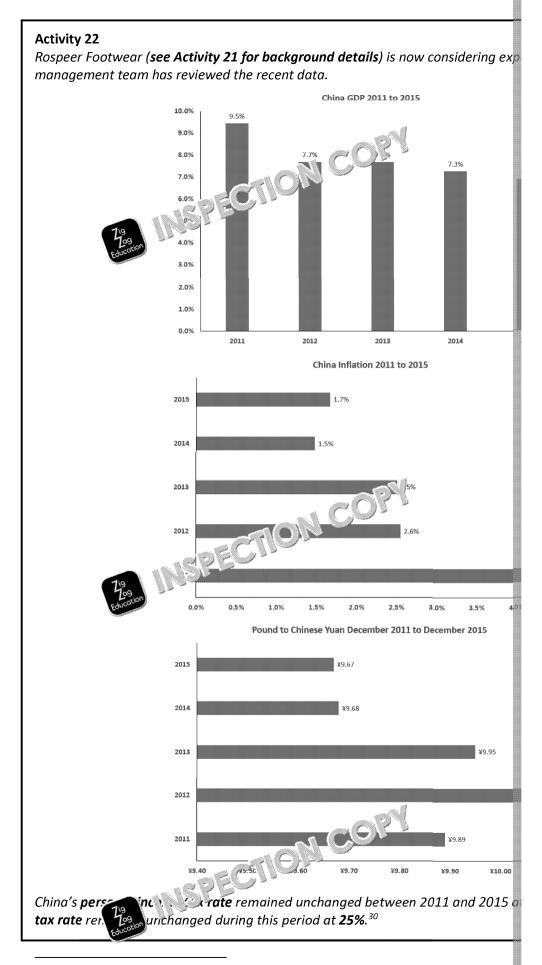
https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates.com and http://www.tradingeconomics.com/france/personal-income-tax-rate

### Taking into consideration your response to Q1, explain the hether Rospeer Foo into another international market.

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 $<sup>^{26} \</sup>quad http://www.statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/statistics/263616/gross-domestic-product-gdp-growth-rate-in-china/statista.com/stat$ 

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 $<sup>^{27} \</sup>quad http://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx$ 

<sup>28</sup> http://www.x-rates.com/

<sup>&</sup>lt;sup>29</sup> http://www.tradingeconomics.com/china/personal-income-tax-rate

http://www.tradingeconomics.com/china/corporate-tax-rate

### 1. Using at least three pieces of Chinese economic data, comment on the implica Rospeer Footwear. 2. Taking into consideration your response to Q1, advise Rospeer Footwear whe the Chinese market.

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Zig Zag Education

### **AS ASSESSMENT ACTIVITIES**

### Guidance

The assessments in this section represent an opportunity to practise some associated with the qualification; therefore, the format used is not an exact repli numerical assessment opportunities would be provided.

The first paper/assessment consists of a rare of manaple-choice questions while topics throughout Themes 1 and ? ? (e) by does not include multiple-choice however, this paper is designed as a diagnostic tool by teachers and s areas of strength are in the east areas of strength are in east and the win students during a lesson. questions/a

The other two 80-mark papers also cover a mixture of topics covered by Theme these more comprehensive practice papers have been renamed papers A and B.

The papers include a range of analytical- and evaluative-style questions that requi issues that have a numerical angle, thus encouraging them to appreciate that a areas, which they sometimes find challenging, could assist in making that difference

Once students have completed each topic, along with the practice activities will work deemed appropriate, they could be set the relevant assessment activity to

On completion the assessment could be marked by the class teacher, peer-asse themselves using the mark scheme. The suggested answers are not definitive and be given suitable recognition.

Once the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the assessment has been marked start and use this to analyse their produce the start and use the start and us which may benefit from further received





Z S P F O Z



Surname	
Forename(s)	



Edexcel AS Business

Multiple-choice to a view

For this pa

u must have:

a calculator



### Time allowed

24 minutes

### **Instructions**

- Use black ink or black ballpoint pen.
- Fill in the boxes at the top of this paper with your name.
- Answer all questions.
- Answer all questions in the spaces provided.

### Information

- The maximum number of marks from poer is 24
- The marks for each questions of who in brackets.

### **Advice**

- Read e Education uestion carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

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### Answer **ALL** the questions in this paper.

Only one answer per question is allowed.

Tick one of the boxes to indicate your answer.

<ol> <li>Mercedes has a range of costs that are incurred following is a variable cost?</li> </ol>				
		Α.	Production manager's salary	
		В. С.	Engines Building insura	
			Lio V Vertising	
	_		79	
2.	Pizze	eria	a national chain of pizza restaurants. The business recently any	
		794	arison to the previous year. Which of the following has contributed t	
		Α.	A competitor closing 10% of its restaurants	
		В.	The number of employees falling by 3%	
		C.	A new deal with a supplier resulting in an 8% saving on ingredient	
		D.	Property (restaurants) rental costs increasing by 5%	
3.	Mar	ket g	growth is:	
		Α.	the total unit sales or income for a business or a product over a spe	
		B.	the percentage change in income or unit sales for a business or produ	
		C.	a market's total unit sales or income over a specific period of time	
		D.	the percentage change in a market's total unit sales or income over	
_				
4.			ch sample with a confidence level of 90% mg.	
		Α.	the results of the sample will be rig' = 2 fir 1.5 out of 20	
		B.		
		C. D.	the results of the standle will be right 18 times out of 20	
		_		
5.	Whi	ch \	following products would have price inelastic demand?	
		A. 🤏	eaxury holiday to Barbados	
		В.	Electricity	
		C.	·	
		υ.	Theme park entrance tickets	
6.		ed on	arkets sell a range of products. Which out of the following would be a rits income elasticity of demand?	
		А. В.	-0.4 +0.4	
		Б. С.	+0.95	
		D.	+1.25	
		٠.		
7.	Rocco Ltd manufactures training shoes. It had avertising variant This means:			
	Inis	mea	the business spent Care on advertising than it budgeted for	
		А. В.	the business spent 2000 on advertising in 2015	
		Б. С	b. sent £10,000 less on advertising than it budgeted for	
		D.	business will spend £10,000 on advertising in the next financial	
	_	E	ducation and the first in the field in the f	

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8.	A business's opening cash balance was £46,000 at the start of the year, but is following factor is the most likely cause?  A. Cash sales B. Good stock control C. Trade customers are given 30 days to settle invoices and suppliers and D. Overtrading	
9.	A business imports its components from the 'Cat st of \$56,000 per month the pound was \$1.40 in March, but it v 25. Which statement from the A. Importing the components costs £4,800 less.  B. Importing 'Cat statement from the components costs £8,400 less.  C. Components costs £4,800 more.  D. D	PE
10.	In April 2016 Apple announced quarterly sales of \$50.56bn (£34.39bn), down for fall in sales for the company since 2003. Which of the following could help the A. Expand into new markets  B. Withdraw from markets  C. Decrease promotion  D. Decrease sales volumes	
11.	King Kebab, a collection and delivery kebab business, has a capacity of 60,000 31,000 last year. Which of the following is the correct capacity utilisation of t □ A. 48.4% □ B. 51.7% □ C. 55.0% □ D. 58.3%	
12.	A haircare manufacturer sells its proint an average price of £4.75. unit is £1.75 and the monthly ax c cs are £37,200. What is the break-eve A. £58,900 rs and a series £37,200. What is the break-eve B. C. 2000 units  D. 20,970 units	
13.	The UK male grooming market grew by 2.6% between 2014 and 2015 to £445 of the market in 2014?  A. £461.2m B. £438.1m C. £437.8m D. £452.1m	
14.	As disposable income increases, the demand for holidays to the Caribbean sign Which correlation reflects this relationship?  A0.3  B. +0.3  C1,25  D. +01.25	PROTECTE
15.	A well-known kry 1000 phone has a price elasticity of demand of -0.2. price i. 700 sell by 3%?  A. Quantity demanded will increase and revenue will increase.  B. The quantity demanded will increase and revenue will decrease.  C. The quantity demanded will fall and revenue will increase.  D. The quantity demanded will fall and revenue will decrease.	Zag Educatio

łΤ



<sup>&</sup>lt;sup>31</sup> http://www.bbc.co.uk/news/business-36146336

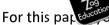
16.	A hotel chain has an income elasticity of demand of -1.2. What type of prod  ☐ A. Normal good ☐ B. Inferior good ☐ C. Extraordinary good ☐ D. Luxury good	<u></u>
17.	An engineering business has total costs of £450,000 for the year with unit co £210,000. What was its output?  A. 15,000 units B. 18,000 units C. 21,000 units D. 2000 to the costs of £450,000 for the year with unit confidence in the year with year with year with year with year with year with year	SPE(
18.	A retail budgeted £1.2m for salaries. It had an adverse salaries variance this mean?  A. It increased its salaries budget by £0.2m  B. It decreased its salaries budget by £0.2m  C. It spent £0.2m more on salaries than budgeted  D. It spent £0.2m less on salaries than budgeted	
19.	A business identifies during the following year it will have negative cash bala of £25,000 and £12,000 respectively. Which source of finance is most appro  A. Overdraft B. Loan C. Mortgage D. Share capital	
20.	Clive makes and sells furniture. He buys £8,000 w to the imber and glue wit sell at £2,500 each. Labour costs £2,000 and the verheads are £1,000. Ca  A. £250,000 B. £242,000 C. £240,000 D. D. 9,000	
21.	Which of the following is the 'ideal' result for the acid test ratio?  A. 1:1  B. 1.5:1  C. 2:1  D. 3:1	
22.	Which of the following is excluded from the acid test ratio?  A. Debtors  B. Stock  C. Cash  D. Bank	COPYRIGH PROTECTED
23.	The market for grommets is expected to rise by 27 the coming year. If what will be the value at the end of the coming year. If A. 5 billion  B. 6 billion  C. 7.5 billion  D. 7.5 billion	Zig Zag
24.	Which of the following is the 'ideal' result from the current ratio?  A. 1:1  B. 1.5:1  C. 2:1	Education

D. 3:1

### Surname Forename(s)



### Edexcel AS Business Paper A



**J**u must have:

a calculator



### Time allowed

• 1 hour 30 minutes

### Instructions

- Use black ink or black ballpoint pen.
- Fill in the boxes at the top of this paper with your name.
- Answer all questions.
- Answer all questions in the spaces provided.

### Information

- The maximum number of maximum paper is 80.
- The marks for each and are shown in brackets.

### **Advice**



- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.



## NSPECHON COPY



### **Section A**

Answer all questions in this section.

Crazy Cases Ltd produces personalised luxury mobile phone cases, and the director on a business plan to support a loan application to finance its expansion plans.

The business has the following quarterly data (three monoselling price per unit = £23.50
variable cost per unit = £11.50

- fixed costs = f42.000.00

-	Tixed Costs = 142,000.00
1.	What is 79 at 1 Cd costs'?
2.	Calculate the firm's break-even point in units.
	-024
3.	Explair real part of the second secon
	Eggl
4.	Explain <b>one limitation</b> of break-even analysis.
	INISPES
	769 ducation

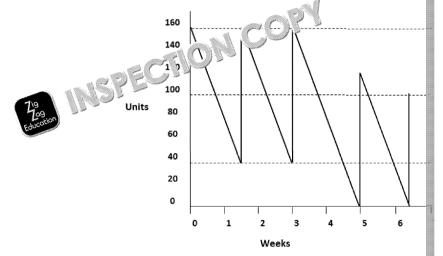
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### **Section B**

Answer all questions in this section.

5. Drovers Engineering Ltd supplies fire protection systems to the oil and gas included twith a number of customer complaints regarding orders being delivered quantity. A stock control chart has been produced to assist an investigation of



business might be experiencing problems meeting its business customer experiencing problems meeting its business customer experiences.
- 1 CO?
- FERION
79 11158
Education Education

Use the stock control chart above to assess the likely impact on the business

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7.9 7.9 7.9 7.9
Education

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# Explain two ways that Drovers Engineering Ltd might resolve its stock control

# NSPEC ON COPY



### **Section C**

Answer **all** questions in this section.

### **UK** online grocery market

UK online sales are growing at 12% a year, with grocery market sales account sales. The grocery market is traditionally competitive with market leaders. Tesco actively discounting prices to maintain their contributory factor in the recent of the UK inflation rate.

Figure 1: UK inflation rate 2011 to 201533

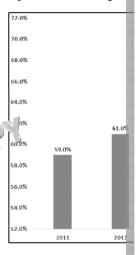


Year	Rate
2011	4.2%
2012	2.7%
2013	2.0%
2014	0.5%
2015	0.2%

Figure 2: UK smartphone users 2011 to 2015\*

45.0%
40.0%
39.4%
35.0%
30.0%
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Figure 3: Adults aged



\* Denotes an estimate

Figure 4: Facts about online shopping by gender<sup>3</sup>

	Females
Internet purchasing	75.0%
Adults who prefer to shop in person	63.0%

In 2015, the UK online grocery market was valued at \$15bn and it is predict 2020. It is the second largest global online market after China, which was valued is expected to increase by approximately 77% by 2020 to \$178bn. The fastest growing UK grocery channel by 2021.

In 2014, the UK grocery market was valued an 1 4bn.35

Supermarkets continue to by accessed by 4.1% to access the supermarkets continue to by access to access the supermarkets continue to by access to access the supermarkets continue to by access the supermarkets th



http://www.ocadogroup.com/who-we-are/the-marketplace.aspx

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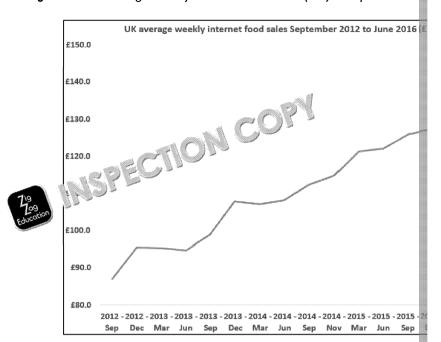


 $<sup>^{33} \</sup>quad \text{http://www.inflation.eu/inflation-rates/great-britain/historic-inflation/cpi-inflation-great-britain.aspx}$ 

http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/rdit2/e-commweb-sales/sty-5-facts.html

<sup>35</sup> http://www.igd.com/Research/Retail/UK-grocery-retailing/

### INSPECTION COPY



Marks & Spencer does not have an online service for its grocery business, approach, which can be ordered online and collected in store by customers. It have 2014 grocery market.<sup>37</sup> All of the market leaders in the grocery market, including, Lidl, Waitrose and The Co-op, have an online delivery service.

7.	Explain how prices are changing in the ''' vi herefence to the trend shown
	70 INSPECTO
	Education
8.	Calculate Marks & Spencer's total sales in the grocery market in 2014.
	- CO3/A
	TO INSPECTION COPY



 $<sup>^{36} \</sup>quad \text{https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/retailsalesindexinternetsales}$ 

http://www.statista.com/statistics/415167/grocery-market-share-marks-and-spencer-mands-united-kingdo

### Using Figures 2 to 4, assess how the online grocery market has grown. COPYRIGHT **PROTECTED**

### 10. The rate of inflation in the UK is predicted to rise by 2% over the forthcoming likely impact on Marks & Spencer's sales if inflation does rise by 2%. COPYRIGHT **PROTECTED**

11.	In 2016 Marks & Spencer announced a 3.5% increase in full-year profits to £26 March, with sales increasing by 0.8% to £10.4bn. Sales of its clothing and while food sales grew. <sup>38</sup> All the main market leaders in the grocery market Evaluate whether Marks & Spencer should enter the online grocery market using traditional distribution channels.	
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https://www.theguardian.com/business/2016/may/25/marks-spencer-boss-says-recovery-plan-will-weigh-control of the control of th

# NORTH CHON CORY



### Surname Forename(s)



Edexcel AS Business
Paper B



For this paper you must have:

a calculator



### Time allowed

• 1 hour 30 minutes

### Instructions

- Use black ink or black ballpoint pen.
- Fill in the boxes at the top of this paper with your name.
- Answer all questions.
- Answer all questions in the spaces provided.

### Information

- The maximum numb
   is for this paper is 80.
- The magnetic of the street of the magnetic of the street of the street

### Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.



## NSPECHON COPY



### **Source 1: Puddle Down Farm**

Puddle Down Farm is located in East Anglia and owned by the Braithwaite family. a dairy farm with 350 cows.

In 1984, a milk quota was introduced by the volume rariament, which limited to market (sell) in a year. If the maximus was exceeded a charge would be incorder to ensure its survival volume. And so that excess milk above the quota drains', the business of the production.

The family specified a business opportunity while holidaying in the North West. The similar position to themselves had expanded into the real dairy ice cream market returned to East Anglia and carried out market research to identify whether it was The results indicated that there was a gap in the market for a similar business ven

In 1985, one of the farm buildings was converted for ice cream production. It includings to the farm could see the cows being milked and ice cream manufactured, not only using the milk from its organically reared cows, but also sourcing local, not possible. It believes that these factors, along with its high quality standards, allowhigh level.

Initially, farm visitors had the opportunity to buy three different flavours of ice crea resounding success, with the farm broadening its product range to 18 different fonly to farm visitors, but also regional restaurants, pubs. ' s and retailers. The the North West region.

Each litre of ice cream is sold for 6.2 production costs for each litre at £0.0 £0.26 ingredients and £7.4 a 6.0 The business has monthly fixed costs of £ current cap 6.2 ingredients a month and sells at least 2,000 litres.

The family became concerned during the recent downturn in the economy that salook to reduce spending. To assist in the management of the business, a budget vand profit. Last month's budgeting statement is below.

Income budget		Expenditure budget	
	Budget		
Ice cream sales	£6,300	Labour	
Café sales	£1,350	Stock	
Bed and breakfast sales	£1,500	Other costs	
Total income	£9,150	Total expenditure	







Timothy, the Braithwaite's oldest son, believes that it is a good time to expand the out some research and believes that an ice cream parlour should be added to the used for children's parties. This would involve some construction work, as one converting for this purpose.

Part of his research found UK manufacturers' sales of ice cream, lollipops and other increased since 2011. In 2014, sales were £722.8m, an in the end of £88.6m since 2 increase of 14.0% and 27.8% respectively.<sup>39</sup>

Timothy has put forward a busing a parents, which includes the follow into consideration all arguests.

7.9	
Education Services	Quarter 1
Cash inflows	
Ice cream sales	£18,000
Café sales	£3,800
Bed and breakfast sales	£4,300
Ice cream party sales	£1,600
Total cash inflows	£27,700
Cash outflows	
Construction work*	£35,500
Stock	£3,400
Labour	£13,500
Product storage	£420
Utilities	830
Administration and maintenance	£900
Total cash outflows	£54,550
Openinali	£24,500
Net Zogow	-£26,850_
Closing palance	-£2,350

Timothy believes that the ice cream could be sold at £4.25 per litre rather than £3 brand, and this could help with meeting some of the construction costs, along wit to 1,000 litres a month. He has worked out the price elasticity of demand as -0.1.

In addition, the business has been approached by a national supermarket buyer we branches to be supplied with 4,000 litres of ice cream a month. Assuming all goes supermarket will sell the brand in all its UK supermarkets. They will pay the busin

If the supermarket order was accepted the business would need to increase capacishort term. If the ice cream was launched nationally by the permarket, the businesse production away from the farm to a bigger of the permarket, the businesse production away from the farm to a bigger of the permarket, the businesse production away from the farm to a bigger of the permarket, the businesse production away from the farm to a bigger of the permarket, the businesse permarket permarket

\*Note: The cash flow forecast relate to either opening an the capacit, business.

### NSPECTION COPY



http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/prodcom/products-sold-by-uk-manufactures/sty-prod-summer.html

### INSPECTION COPY

	Read the case study in the insert booklet and then answer t
1.	Calculate the current break-even quantity of Puddle Down Farm's ice crean
	TOPECIJON COPY
	THISPECING.
	Zog Blacker
2.	Calculate the budgeted profit for Puddle Down Farm.
	2081
3.	Explain two ben full all Down Farm of producing a monthly budget.
3.	Explain two ben fine Jumile Down Farm of producing a monthly budget.
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Zig Zag Education

# Assess the expected cash flow position of Puddle Down Farm for both quarte

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### To what extent could operating at full capacity be a problem for Puddle Down the supermarket order?

# NSPEC TON COPY



# NSPECHON COPY



### Assess the likely impact on the financial situation of the business if Puddle Dc supermarket order.

### NSPECHON COPY



### Evaluate whether Puddle Down Farm should build a new ice-cream parlour order.

# NSPECHON COPY



# NSPEC ON COPY



# SUGGESTED ANSWERS TO PRACTICE AC

### Section 1: The market

## Activity 1

307,569.9 + 191,425.8 + 68,080.7 + 81,415.8 + 56,529.3 + 539,691.3 = 1,244,739.8 th

identifying the correct formula and data

1 mark correct answer

Total of 2 marks available

4, -4.7 + 72,748.2 + 65,618.6 + 635,368.5 = **1,423,900.3** 

answer for guidance on allocating marks

Total of **Zmarks** available

1,423,900.3 - 1,244,739.8 = 179,160.5 - 1 mark 3.

$$\frac{179,160.5}{1,244,739.8} \times 100 = 14.4\% - 1 \; mark - correct \; formula \; and \; data$$

The mobile phone market grew by 14.4% between 2014 and 2015.

1 mark correct answer

1 mark identifying the market had grown rather than decreased

Total of 4 marks available

4. Apple:

$$\frac{191,425.8}{1,244.739.8} \times 100 = 15.4\%$$

IOM COSA Apple's market share in 2014 was 15.4%.

Samsung:

$$\frac{320,219.7}{1,423,900.3} \times 100 = 22.5\%$$

ir 2015 was 22.5%.

Marks a

ded based on the following:

1 mark correct formula 1 mark correct numbers 1 mark correct answer

Total of 3 marks available

5. Apple:

$$\frac{34,424.8}{191,425.8} \times 100 =$$
 **18.0%** increase in sales growth

Samsung:

$$\frac{12,622.8}{307,596.9} \times 100 = 4.1\%$$
 increase in sales growth

Marks for the above are based on the floor with 3 marks available for each

1 mark correct formula

1 mark correct to .

Apple have a higher rate of sales growth than Samsung, as Apple's increased by 1 Samsung's.

1 mark identifying an increase

1 mark identifying the amount of increase

Total of 8 marks available

6. All mobile phone businesses excluding Samsung and Lenovo have experienced a growand 2015, including Apple, thus indicating the market has become more competitive by 0.5% (15.9% – 15.4%), while Samsung's market share decreased by 2.2% (22.5% – Apple's sales growth was 13.9% more than Samsung's 4.1% at 18.0%.

As the mobile phone market has become more competitive Apple appears to be more increased competition in the market than Samsung, as it managed to increase its match while Samsung's declined. Furthermore, its sales are increasing at a higher rate than better equipped at dealing with the competitive nature of a narket. The extent to Note 7's withdrawal from the market due to 'xp odi latteries' will affect the competition of writing the resource.

or

Apple in 79 and 1.5 met share between 2014 and 2015 by 0.5% and had a sales grand this 79 suggest the American business is the most successful. However, it comore successful, because in 2015 it sold 94,369.1 (320,219.7 – 225,850.6) thousand market share was 6.6% (22.5% – 15.9%) higher.

1 mark judgement presented

2 marks judgement presented and substantiated

3–4 marks judgement presented and substantiated with evidence

Total of 4 marks available

## Activity 2

1. 14,520 x £1.07 = £15,536 (£15,536.4) million

1 markcorrect formula1 markcorrect data1 markcorrect answer

Total of 3 marks available

2. The UK soft drinks market's size was 14,520 n llically in 2013, which represented previous year, 2012.

14,520 million litres rem

ൂ വ ന് (100% + 2.0%) of the 2012 market size based

 $\frac{14,320}{102.0} \times 7$ 

, 35 (4,235.2) million litres – 2012 market size based on volume

1 mark formula nearly correct or
2 marks correct formula
1 mark most data correct or
2 marks all data correct

1 mark correct answer based on the data used

Total of **5 marks** available

3. The UK soft drinks market was valued at £15,536 million in 2013 (answer from Activi increase of 4.1% on the previous year, 2012.

£15,536 million represents 104.1% (100% + 4.1%) of the 2012 market size based on  $\sqrt{3}$ 

 $\frac{15,536}{104 \text{ 1}} \times 100$  = £14,924 (14,924.1)million - 2012 market size based on value

See Activity 6 Q2 answer for guidance on allocating  $\eta$  and

Total of 5 marks available

4. The UK soft drinks marks. A million litres in size. The calculation from Q1 is us

00

See Activity 6 Q1 answer for guidance on allocating marks

Total of 3 marks available

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The bottled water market grew by 10.5% between 2012 and 2013.

1 mark identifying the market had grown

Total of 4 marks available

# Section 2: Adding value to produces

Activity 3

1.  $\frac{£1,450}{20}$ :

ew \ ery Kit cost) – 1 marl

 $2 \times £0.7$  £1.50 (labour cost) – 1 mark

£0.73 + £1.50 + £0.50 (tissue paper) + £0.15 (Swarovski-like crystal) = £2.88 – 1 mark

G93

£6.99 - £2.38 = £4.11 added value - 1 mark

Total of 4 marks available

2. Possible responses:

• The unique design makes the product stand out from others in the market place charge a higher price than similar businesses, whose products are not considered.

 A consumer does not necessarily have the time to create their own beaded jew convenient for them to buy the product already created than produce it themselves.

• The presentation of the jewellery in a box with soft tissue paper could create a consumers paying above the unit cost to acquire the product.

1–2 marks limited knowledge

3–4 marks reasonable knowledge or reasonable knowledge

5–6 marks good application

Total of 6 marks available

Activity 4

1. \$115.0

75 + \$15.00 + \$14.00 + \$5.00 + \$11.00 + \$80.25 + \$5.00 = \$270.00 mai

2 marks if correct or 1 mark with one error

 $\frac{20 \times \$270.00}{100}$  = \$54.00 – 2 marks if correct or 1 mark with one error

\$54.00 + \$270.00 = \$324.00 - 1 mark

\$499.00 - \$324.00 = \$175.00 added value - 1 mark

Total of 6 marks available

2. Possible answers:

Apple has added value to the iPad Air 2 as follows:

- The design and functionality of the computer tablet differentiates it from other
  resulting in consumers being willing to pay above the market average, as the pr
  and revolutionary. Consumers are willing to pay above the unit cost to acquire
  the brand.
- The consumer can request a personal of read aving on the iPad Air 2 for free, compared to that of rivals in the prace.
- The regular software per encourage the consumer to believe the high added have a product of remains up to date for a long period of time.
- The Top luck is corceived to be at a higher quality standard than similar product to grann ngth of the Apple brand. This helps the product to stand out in the nunique and the best.

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

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# Section 3: Price elasticity and income elasticity of demand

## Activity 5 (Price Elasticity of Demand)

- a) The MOT car test's demand is price inelastic, as this is a requirement by law for A change in MOT test prices is likely to result in a smaller percentage change in requirement. It is a necessity for car owners.
  - b) The 42" curved smart HD television's demand is **price** sitic, as this product is likely to result in a greater percentage change in action, as the product is not
  - A pint of milk's demand is price in the percentage change in demand.
  - d) Coca-Cla's tricky of demand could be considered to be **price inelastic** it: To brind image some will have a high level of brand loyalty to the product if the country in the product if the country in the country in

1 mark Up to 2 marks stating whether the product is price elastic or price inelastifull explanation for why the product is price elastic or price

Total of 12 marks available (3 marks available on each)

2. a) 138 - 120 = 18

$$\frac{18 \times 100}{120} = 15\%$$

Price increased by 15%.

$$\frac{-14 \times 100}{140} = -10\%$$

Demand fell by 10%.

$$\frac{-10}{15}$$
 = -0.67 PED

Up to 2 marks
Up to 2 marks
U T<sup>19</sup> ar. s

orrect formula and answer for percentage change in demo correct formula and answer for percentage change in price correct formula and answer for PED

M COSA

Tot 6 marks available

b) The demand for the route from Luton to London is price inelastic as the coefficient particularly responsive to a change in price. An increase in the selling price lead demand. At the lower price revenue would be £16,800 (140 passengers  $\times$  £120 increases to £17,388 (126  $\times$  £138). The business would be advised to increase the revenue.

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

c) An increase in price should lead to a fall in demand, in theory, and this should rebusiness may have expected lower revenue due to the concentration in theory, and this should rebusiness may have expected lower revenue due to the concentration in theory, and this should rebusiness may have expected lower revenue due to the concentration in the concentration in

1–2 marks 3 marks limited understand sonscrated full undergance monstrated

Tatal of 2 months





- Differentiation the marketing mix implemented by the business could a
  unique. This would allow it to be more price inelastic, as loyal customers'
  unresponsive to price changes. This could be achieved by a high level of
  extras for free during the flight, etc.
- Substitutes the availability of other airlines providing the London to Verdelasticity of demand. If consumers perceive these as legitimate alternative more price elastic. The business does not have been it markets its own service over these conditions and be concluded.
- Customer knowleds to be aware the market is of Fly Away the great to it. An eff to it. An eff time of tional campaign will ensure brand awareness, all tires that this is a better service than others available in the

The to influence the price elasticity of demand could depend on the number market, along with the extent to which the brand is differentiated. No or few alt most consumers remaining with Fly Away, if the London to Verona route is of signification in the standard of the

0–3 marks limited response with little focus on the demands of the question
 4–7 marks reasonable response that focuses on some of the demands of the
 8–10 marks good response overall that focuses on many of the demands of the

Total of 10 marks available

### 3. a) If price is increased by 10%:

- demand will decrease by 0.8 x 10%, i.e. 8%
- demand will decrease by 4 (50 x 8%) to 46 (50 46) cupcakes
- revenue at the lower selling price is £75.00 (£1.50 × 50)
- revenue at the higher selling price will be £7. (£. 65 x 46)
- revenue is **£0.90 more** (£75.90 £75.0 ) at higher price

The increase in selling prices for the increasing by £0.

Total of 6 mc-k

b) The description kes' price elasticity of demand is less than 1; therefore, the demand is demand is not particularly responsive to a change in price. Although demand this is still a smaller percentage decrease than the percentage increase in price increase the selling price of cupcakes, as this will result in revenue increasing by

See Activity 1 Q2 answer for guidance on allocating marks

Total of **6 marks** available

### c) Possible answers:

- Price elasticity of demand allows a business to understand the impact on r
  is changed. This allows it to decide on the best pricing strategy to implem
  or increased. If the product is price elastic the business is more likely to re
  while if it is price inelastic, price will be increased.
- Price elasticity of demand will also influence the sketing strategy used the demand is price elastic the business will also influence the sketing strategy used the demand is price elastic the business will be sketing mix to develop becomes more price inelastic and a manufacture of the sketing strategy used to be sketing str

0–1 mark identific (e'b'r, )... 2 marks ich de Grebenefit v

ાં ને તે જેન્દ્ર benefit with a limited explanation

atifies the benefit and provides a full explanation

To Education marks available

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$$\frac{2,200\times100}{22,000}=10\%$$

Incomes increased by 10%.

$$600 - 800 = -200$$

$$\frac{-200 \times 100}{800} = -25\%$$

Demand fell by 25%



The training shoes' income elasticity of demand is -2.5.

Up to 2 marks correct formula and answer for percentage change in demo

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Up to 2 marks correct formula and answer for YED

Total of **6 marks** available

b) The training shoes are an inferior good as it has a negative income elasticity of

1 mark stating the product is an inferior good 1 mark explanation of why it is an inferior good

Total of 2 marks available

c) Possible answers:

• The income elasticity of demand coefficient the on past data and may change. A forecast in income level, within economy could result in the production levels to meet the educates in the product's demand, normal good. However, the output it might become an inferior good, the being and the country of the productions should have been reductions.

• To in the constraint could result in the business focusing more than a factors, which could influence success. This is one factor it could entire the should not ignore other valid information sources, such as economic analysis.

See Activity 9 Q3 c) answer for guidance on allocating marks

Total of 3 marks available

d) Possible answers:

- As an inferior good customers will switch to alternative training shoes as to would result in falling demand for this product and lower revenue, as constraining shoes.
- As income levels decrease demand for the product will increase, resulting
- The business may choose to develop a broader product range, so risk is no product.
- The business may choose to change the minus ig raix of the product so the image, resulting in consumers choosing to continue purchasing the product.

0–3 marks 4–6 marks limited r spo s In little focus on the demands of the questi limited r spo s In little focuses on some of the demands of the question.

To education marks available

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Zig Zag Education

## Section 4: Cash flow forecasting and analysis

### Activity 7

1 mark each

June total cash inflows £15.000 June total cash outflows £12,550 May closing balance £400 ection copy June opening balance £400 June net cash flow £2,450 June closing balance £2,850

Total of 6 marks available

2. Possible and

> The cas on of the business is forecast to be positive for both May and June.  ${
> m II}$ to pay the nicipated bills.

> The cash balance is expected to increase by over £2,000. If it is not needed for the I it may be wise for the owner to transfer some of it to an interest-bearing account so used. In a current account the rate of interest will be low, but a higher rate may be requirements is moved to a preferable account.

See **Activity 1 Q2** answer for quidance on allocating marks

Total of 6 marks available

### Activity 8

	Quarter 1	
Cash inflows		
Repair sales	£1,300	
Electrical sales	£6,50)	
Total cash inflows	E7 ) 0	
	CHU	
Cash outflows	(S)	
Stock	£5,175	
Labour	£2,440	
Rent 709 on	£1,200	
Rent Tolonbone	£525	
Telephone	£210	
Total cash outflows	£9,550	
Opening balance	£1,125	
Net cash flow	-£1,750	
Closing balance	-£625	

Up to 3 marks data correctly allocated in cash flow forecast

1 mark each correct calculations/answers (in bold) up to **9 marks** maximum

Total of 12 marks available

### 2. Possible answers:

- A negative cash flow is predicted for quarter 19 (2) 3, but this is expected to Any cash flow problems are expected to be here.
- A short-term cash flow probles in a specific resolved by organising an overding with suppliers for an acceptance ded who do pay.

  Introducing an acceptance business could result in Paul Bennett losing some could result in Paul Bennett losing
- ou ု ရှည်စွဲ some of the workload to be split or new ideas to be introdu
- wher is being introduced to resolve cash flow problems this would appropriate the second control of the control the problem does not require a long-term solution. If a new owner is being in assisting with the management of the business or helping it to expand, then the
- The final decision will depend on Paul Bennett's motives.

See Activity 10 Q1 d) answer for guidance on allocating marks

Total of 9 marks available



- Alerts the business to future cash flow problems
- Evidence to support loan/overdraft applications
- Assists the business to ensure sufficient cash is available to meet payments as
- Assists the business to plan for positive cash balances that could be used to bet interest-bearing savings accounts
- Time-consuming
- Inaccurate due to the experience of an owner, escally in new business start-

See Activity 10 Q1 d) answer for guidance calle at a marks

Total of 9 marks available

# Section 5: 7 To lecasting

## Activity 9

- Any two of the following:
  - Biased/inaccurate historical data
  - A major unexpected event affecting the figures which would have been challent slump
  - The longer into the future that the figures extend the less likely they are to be
  - Unexpected competitor activity

1 mark for identifying a factor
Up to 2 marks for the explanation

Total of 6 marks available (3 marks available for each factor)

- 2. Any two of the following:
  - A major fashion trend could make a product suddenly unappular/popular
  - Consumer spending may increase/decrease due causing more/less demand for a certain product

1 mark for identifying Color to wend

Up to 2 marks for the hation

Total of sks \ 70 \ 3 marks available for each trend)

- 3. Any two Education following:
  - Production if sales reduce, the production levels required will also reduce, whis not taken
  - Finance if sales reduce, the income from sales will also reduce; therefore, pro
  - Marketing if sales levels reduce marketing may be asked to adjust elements of promotional activity or reduce the price, to try to stimulate increased demand in future
  - Purchasing if sales reduce then less raw materials will be needed so purchasing

1 mark for identifying an impact
Up to 2 marks for the explanation

Total of 6 marks available (3 marks available for each impact)

# Section 7: Break-even analysis

### Activity 10

1. £1,000 (revenue per 7 t ) 2500 (total variable costs per customer) = £500 con

£1,000  $7^{19}$  os = 2 customers per week to break even

1 mark correct contribution per customer formula and data

1 mark correct answer for contribution per customer

1 mark correct break-even formula and data

1 mark correct break-even answer

Total of **4 marks** available

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### 2. 4 actual customers per week – 2 customers per week to break even = 2 customers per

1 mark correct formula and data

1 mark correct answer

Total of 2 marks available

### 3. Possible answers:

- Trade cannot fall by more than two customers a perwise the business margin of safety is two.
- The business requires two custom is acturated four. This is an advantage rus of the four. This is an advantage rus of the four.
- The contribution expressed is £500; therefore, once the business breaks even be produced as the contribution of the contribu

0–2 marks limited response with little focus on the question set
 3–4 marks reasonable response with some focus on the question set
 5–6 marks good response with clear focus on the question set

Total of 6 marks available

### 4. Possible answers:

- The special order provides a positive contribution of £300 (£800 (selling price) customer)), thus it could be accepted at this stage but other factors should be t
- Does the business have spare capacity for this order? If the business does have accepted, so that staff are kept busy and some contribution is being achieved to the business does not have spare capacity the order will have to be turned down another business which will meet it to the expected standards. This would still income from this order without having to incur the contributions.
- Will the business incur additional fixed costs
   ge provided at a loss? In this circumstant will be best if it was not accepted.
- How will this affect existing a transport of the business is not able to service existing accepting the special in any be best it is turned down, so that a loyal cust standards form.
- H 79 exit is customers respond if they become aware of this order? Existing the pecial order. This could damage the reputation of the business, if its as unfair and seeks an alternative firm to arrange future events. In this circums turning down the order.
- Will the special order lead to more orders? If this could provide further financia
  the interests of the business to accept it.

Total of 9 marks available

### Activity 11

1

Output	Revenue	Total variable costs	Fixed costs	Tota
0	£0	£0	£3,000	£3
500	£1,000	£250	£3,000	£3
1,000	£2,000	£500	£3,000	<b>£</b> 3
1,500	£3,000	£750 C)	£3,000	£3
2,000	£4,000		£3,000	£4
2,500	£5,000	£1,250	£3,000	£4
3,000	1 ft 475	£1,500	£3,000	£4

1 mark 1999 correct answer up to a maximum of **5 marks** 

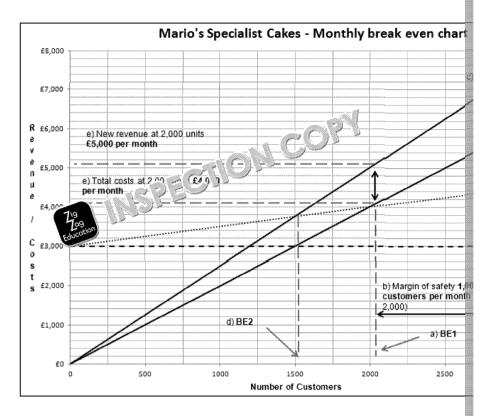
- 2. 2,000 cupcakes a month are required to break even 1 mark for correct answer
- 3. The total costs include fixed costs (1 mark) which have to be paid regardless of whether or sells anything or not (1 mark).

Total of 2 marks available

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4.



a) 1 mark labelling break-even at 2,000 customers (total of **1 mark** available

b) 1 mark labelling the margin of safety between 2,000 and 3,000 customers 1 mark identifying the margin of safety as 1,000 tomers

Total of 2 marks available

c) 1 mark new reversal line his a minor error or 2 marks now reversal line his a minor error or 2 marks new revenue line PEV2

I mg the new revenue line REV2

Tol Education marks available

d) 1 mark new break-even labelled at 1,500 (total of **1 mark** available)

e) 1 mark correct answer, 1,500 cupcakes per month (total of **1 mark** availa

f) Revenue at 2,000 customers per month is £5,000 at the new price level, while t is expected to make a £1,000 profit per month (£5,000 – £4,000).

1 mark each correct revenue and total costs data (maximum 2 marks)

1 mark correct formula

1 mark correct profit answer: £1,000 p/month

Total of 4 marks available

g) Possible answers:

• The business can use break-fine the impairs to increase to £2.5 pe ( ) ke.

• The busines tiry that 500 fewer customers per month are required increases.

• 139 pugh 700 customers could be lost due to the price increase the business that with 2,300 customers per month than 3,000.

Original price

3,000 (actual customers) - 2,000 (break-even output) = 1,000 margin of safety  $1,000 \times £1.50$  (contribution per customer) = £1,500 profit

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### New price

2,300 (actual customers) - 1,500 (break-even output) = 800 margin of safety  $800 \times £2.00$  (contribution per customer) = £1,600 profit

- There is an assumption that all other factors will remain the same. However, fewer items each month, possibly leading to fewer bulk-buying discounts increasing, thus resulting in break-even at a higher level.
- Increasing the price results in the loss of custor : vith little gain in profi
- Break-even analysis will only be useful ' e i iness if the data on which reliable.

See Activity 10 Q1 d) a er for unaance on allocating marks



``)..able

# **Section 8: Budgets**

### Activity 12

1. February budget and actual performance statement

	Budget	Actual	Variance
Income	£3,780	£3,600	£180 A
Expenditure	£2,700	£2,500	£200 F
Profit	£1,080	£1,100	£20 F

Budgeted income 
$$\frac{£3,150 \times 20}{100}$$
 = £630 + £3,150 = £3,780

Budgeted expenditure 
$$\frac{£2,250 \times 20}{100}$$
 = £450 + £2,250 = **£2,700**

Budgeted profit £3,780 - £2,700 = £1,080 A

Income variance £3,780 - £3,600 = £180 A

Expenditure variance £2,700 - £2,500 (£2)

Profit variance £1,080

2 mark

Cet formula and answers

correctly stating whether the variance is adverse or favourable

Total of 15 marks available

- 2. The benefits of an international chain of florists, such as Interflora British Unit, of set
  - as a large organisation it will have a broad range of costs that run into millions. See
    management team to have better control of the spending, as the budget can be co
    thus allowing overspends and underspends to be identified and remedial action in
  - the above allows the management team and/or budget holders to know who is makes it easier to identify who is accountable for the performance of certain are
  - in some organisations managers can feel demotivated if the control of the budge Interflora Business Unit managers could feel motivated if they have budgetary of for how it is used. This responsibility indicates they are trusted, thereby making important part of the organisation, which should make them feel good about the
  - it can provide a means to measure the success of the bis ness
  - it allows the florist to monitor targets and highlighter remedial action might

- if the budget holders are r in the budget setting process, they may rethus do not commit everenent. This is a possibility for an organisation where eci is not be made at head office level.
- in To or salisation it may be difficult to promptly amend the budgets if man to have on people that may need to be involved in the process. This form resources not being used to the optimum level for the needs of the business, the being maximised.
- Interflora British Unit is a large organisation and will have a wealth of data and setting budgets. This could result in the process being overlong and market op appropriate resources are not in place at such times.

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In conclusion, a budget should be of benefit to a large organisation such as Interflora mechanism to review the needs of each business area and allocate sufficient resource work successfully towards achieving their objectives. However, the extent to which ability of the group to amend the budgets in light of changing market conditions. Tall resources in accordance with these changes may result in some business areas not having the necessary resources.

See Activity 13 Q5 answer for guidance on allocating marks

### Activity 13

See <b>Activity 13 Q5</b> answer for guidance o	n allocating marks	
Total of <b>16 marks</b> available	COL	
ivity 13		
	Budget	Actual
Incon 799		
Bakery Education ffee shop sales	£220,500	£234,480
Catering service sales	£24,500	£25,020
Total income	£245,000	£259,500
Expenditure		
Materials	£73,500	£85,050
Wages	£130,400	£136,920
Rent	£12,000	£12,000
Marketing	£13,500	£17,600
Total expenditure	£229,400	£251,570
Profit/loss	£15,600	£7,930

2 marks each correct formula and answer

1 mark each stating whether the variance is adverse or favourable correctly

Total of 15 marks available

The owners have been concerned a he swick costs were too high, but without a know exactly how much the producing a budget, actual expetargets, thus allowed the purposes to monitor its spending. It will highlight if stock of it will b an graent to determine whether it is justifiable or not; for example and is higher, thus warranting the use of more materials than planne expecte<sup>1</sup>

See Activity 9 Q3 c) answer for guidance on allocating marks

Total of 3 marks available

- 3. Possible answers:
  - The owners may be concerned as spending on materials is higher than budgete sales being higher than expected, thus requiring more expenditure on stock that
  - The owners may be equally concerned that wages are higher than targeted, but higher level of sales, as employees could have been required to work longer ho
  - The owners may also have been concerned that marketing expenditure was high due to the expansion of the business and more promotions being required to service for special occasions.
  - Overall, the owners should be concerned to some extent as although sales were profit was £7,670 lower than expected, suggesting in the additional costs can demand. The profit target would have here we exed to be bettered in these are higher than they should be to investigate the ma whether this is solely in the levels of demand or possibly due to increase

# 



# Activity 14

1.

Financial item	Cash	Profit
Customer cash sales	✓	<b>√</b>
Suppliers' trade credit – invoice not paid	and a	<b>√</b>
Suppliers' trade credit – invoice paid		<b>√</b>
Capital raised from share issue	2015	
Rent payment to landlord	$\supset \nearrow$	<b>\</b>
Sale of a fixed asset	✓	<b>√</b>
Bank loan	✓	

Allocat

k j lear correct answer up to a maximum of **11 marks** 

## Explana

- Customer cash sales this provides an immediate injection of cash into the bus activities of the business, thus increasing revenue, which should increase the pr the revenue is higher than the costs associated with the sale.
- Suppliers' trade credit (invoice not paid) this relates to the trading activities impact on the profits earned. It will not have an effect on the cash position of that not been paid.
- Suppliers' trade credit (invoice paid) this relates to the trading activities of the buprofits earned. It will have an effect on the cash position of the business, as the arm
- Capital raised from a share issue this does not relate to the trading activities impact on the profits earned. This will improve the cash balance of the busines into the business.
- Rent payment to landlord this will reduce the cash in the business, as a bill is
  to the trading activities of the business and will affect profits.
- Sale of a fixed asset this will increase the cash inflow into the business, and he considered to be an extraordinary item of income, achieved outside the normal
- Bank loan this is an inflow of cash into the busing will not have an effect acquired as part of its trading activities.
- 2.  $\frac{1,480,054}{63.017.141} \times 100 = 49.1\% \text{ GPM}$

See **Activity 5 Q.1** Sr Jaidance on allocating marks

Total o, 709 s vailable

3.  $\frac{£176,694}{£3,244,431} \times 100 = 5.4\% \text{ OPM}$ 

See Activity 6 Q1 answer for guidance on allocating marks

Total of 3 marks available

4.  $\frac{£99,711}{£3,017,141} \times 100 = 3.3\% PYM$ 

See Activity 6 Q1 answer for guidance on allocating marks

Total of 3 marks available

### 5. Possible answers:

- Based on the financial data alone, the board of directors would not appear to about the financial performance of the business, as all profit measures show be
- The gross profit margin suggests the business was a ficient at managing it revenue there was an improvement of annual first \$\infty\$ \( \xi0.02 \) (51.4% 49.1%) of
- The operating profit margin also in the pasiness was more efficient, but the for every £1 of revenue the value in the profit for the value is also suggests the business was more efficient either the profit for the value in th
- The profit for the anso suggests the business was more efficient eit charge on and/or at generating profits from non-trading activities, no 05 profit for the year 2014 was earned, in comparison to approximate
- Tale consideration the difficult trading conditions, with consumers more essential items, it would appear the performance of the business has been most improved at a time when consumers are being more cautious regarding their specific provides the second consumers.
- However, the business may consider the improved performance not satisfactor

See Activity 10 Q1 d) answer for guidance on allocating marks

Total of 9 marks available

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- Although Precision is a profitable business it has embarked on an expansion stra
  which could have impacted on its cash position. Setting up new retail branches
  balance being reduced, as some of the costs associated with this growth could
- As the business sets up its operations in the Asian region it will incur cash outgoinitially, as it will take time before each branch is ready to start trading.
- The business will need to hold a certain amount of stock in its retail branches, in purchases, resulting in some of its cash being tied up in less items.

See Activity 19 Q3 answer for guidance on allocating has

Total of 6 marks available

## Activity 15

1.  $\frac{£180.4m}{£619.4m}$ 

ge **Act.** 109 answer for guidance on allocating marks

Total of 3 marks available

2.  $\frac{£76.0 \text{m}}{£619.4 \text{m}} \times 100 = 12.3\% \text{ NPM}$ 

See Activity 6 Q1 answer for guidance on allocating marks

Total of 3 marks available

3.  $\frac{£54.5m}{£619.4m} \times 100 = 8.8\% PYM$ 

See Activity 6 Q1 answer for guidance on allocating marks

Total of 3 marks available

### 4. Possible answers:

- The performance of Cineworld between 2013 and 2014 has been very successful against all indicators.
- The gross profit margin has increased by 1.3% (2014) 2 .8%) indicating that the managing its costs of sales, as a greater property or ingress profit is being achieved.
- The operating profit margin has in by 5.1% (12.3% 9.2%); for each £1 approximately £0.03 more profit being generated, thus suggesting the managing its over-
- The posit formargin has increased by 3.6% (8.8% 5.2%), which means the formal formal
- Overall the business seems to be in a strong position, as revenues have increase
  fall in cinema attendance between 2013 and 2014. This could be partly due to
  'Superscreens' it provides that differentiate it from competitors, thus allowing i
  rivals whose services may not be judged to be as good by consumers.
- Lastly, the business has been able to embark on a successful programme of exp market leader, indicating a successful trading period.

See Activity 10 Q1 d) answer for guidance on allocating marks

Total of **9 marks** available

### 5. Possible answers:

- Increase the number of ticket sales this will spread the fixed costs of the busined reducing the unit costs and allowing a higher profit many in Some strategies us such as offering discounts or an advertising came to ild increase costs, but effect profit margins will fall rather than increase.
- Increase prices the business has been sessful at charging higher prices for 3D fill example, possibly due to be engaged as unique and of sufficient value in consumers consider the increase not worthwhile. If the last of the last o
- Runger st the business will have little flexibility on the costs associated will will contain significant control over these. It may be able to negotiate improve source new ones for the food and drink items they sell. The lower costs could rif quality standards are compromised or suppliers cannot be guaranteed to delist switch to an alternative cinema, resulting in profits falling.

See Activity 19 Q3 answer for guidance on allocating marks

Total of **6 marks** available

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# **Section 10: Liquidity**

### Activity 16

Business name	Current ratio	
Alpha	$\frac{£46,400,000}{£36,540,000} = 1.27:1$	£46,400,0 £3
Beta	£1,698,230,000 £941,000 COC 1 1 00	£1,698,230 £94
Charlie	5,8 ( ±-,023,000 = 2.45 : 1	£9,870,0
Del Zig Zog Education	$\frac{£2,568,000}{£952,000} = 2.70:1$	£2,568,

## Section 11: Production, productivity and efficiency

## Activity 17

1. Capacity utilisation  $\frac{20 \times 100}{35}$  = **57.1**% during low season

See Activity 4 Q1 answer for guidance on allocating marks

Total of 3 marks available

2. Capacity utilisation  $\frac{32 \times 100}{35} = 91.4\%$  during high season

See Activity 4 Q1 answer for guidance on allocating marks

Total of 3 marks available

3. Low season  $\frac{\text{£400}}{20}$  = £20.00 unit converge confer occupancy level)

High season f460 in cost (32-customer occupancy level)

£14.38 (1000 cm) = £5.62 lower unit cost during high season

1 mark each
 1 mark each
 2 correct unit cost formula for each year
 3 correct unit cost data for each year
 4 mark each
 5 correct unit cost answer for each year

1 mark correct formula/data for calculating the difference

1 mark correct difference answer

Total of 8 marks available

### 4. Possible answer:

The main problem faced by the business is the fixed costs associated with the perma Although their skills are probably fully utilised during high season, this is unlikely in demand. The employee has insufficient work to keep them busy, with the danger the completing work not to their full potential. This could dange the reputation of Bresser

Brenda should look to hire staff on a fixed-tor not not consist during the high season demand to justify an additional mergin of a son a longer-term basis. During low shired as and when needed to be a paid only when their services are required. The employee may recommend to the business and may leave as soon as a ballowing portion and the employee may recommend to the business and may leave as soon. Further full pot

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

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## Activity 18

Unit cost  $\frac{£575}{25}$  = £23 at 25 customers Capacity utilisation  $\frac{25 \times 100}{49}$  = 51.0% at 25 customers

See Activity 3 Q4 answer for guidance on allocating marks

Total of 6 marks available

Unit cost  $\frac{£800}{40}$  = **£20** at 40 customers

Capacity utilisation  $\frac{40 \times 100}{30} = 81.50$ 

or Jaidance on allocating marks

### 3. Possible answers:

- A higher capacity utilisation results in the business having a lower unit cost. If nightclub service the unit costs will be £3 higher (£23) than if 40 customers us a higher profit margin with a higher level of capacity utilisation.
- A higher capacity utilisation may not be advantageous if it does not provide ade breaks or coaches to be serviced. The well-being of customers could be threate accident, which damages the reputation of the business beyond repair.

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

### Possible answers: 4

- The coach firm could use a promotional offer to encourage increased usage of may be in the form of advertising, offering a discourtishew customers or run ones. This may encourage more customers, A et awareness could be created to offer better value. The drawback is the fumber of customers gained many associated with the promotion of the base.
- The coach firm could a price of the service, which could encourage me in the profit of \$1.00 ping lowered to such an extent that it does not make the
- firm could provide a drinks service and play dance music during the customers feel that the nightclub experience commences as soon as they get on increased usage or new customers, but this could add to the costs of the service required to provide this new element of the product. The profit margin on the may not be sufficient to cover the cost of an additional employee.

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

### 5. Possible answers include:

- The service could be subcontracted to another coach firm, with Universal Trave profits that would be earned. This would allow it to focus on its existing service respond to the demand for a new one. However, Universal Travel's reputation firm provides a lower standard of service, which could be died to a loss of custome
- Employees could be asked to work longer hr and by vertime payments could
- The firm could hire a coachie fit. The business and use one of its existing er additional costs 200 and this may make the provision financially not wo
- If the sin ( ) he staff hired on a flexible basis, their working hours can ess wes not have employees employed on such a basis, this option is

See Activity 1 Q2 answer for guidance on allocating marks

Total of 6 marks available

# 

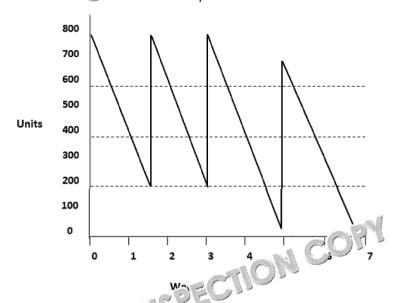


### Section 12: Stock control

## Activity 19

- 1. 200 units 1 mark available
- 2. 600 units 1 mark available
- 3. 400 units 1 mark available
- 4. 3.5 days (the order is placed in week 1 ceived midway between week 1 and 1 mark for the correct argument 1 mark for reasoning/calculation

5. Discuss reduction the inventory control of the business has been effective.



Possible so la laion:

• In to 3 the inventory control appears to have been effective, as the bus its control appears to have been effective and the bus its control appears to have been effective.

- Partway through week 4 leading to week 5, the business might have been constock to meet its customers' orders. This might be due to an unexpected rise in
- By week 7 the business would have been extremely concerned, as it experience stock available to meet its customers' orders. This could have harmed its reput deemed them unreliable and sought a new supplier. This could have resulted it demand, revenue and subsequently profits.
- The fact that the business started to use its buffer stock partway through week making the next order might not have taken this into account, as the business eappears they ordered the usual quantity of stock rather than a higher amount t stock being used, as when the stock arrived it was not restored to its 800 unit approximately 700 units. The business appears to have ordered 100 units fewer
- Overall, the business should consider its inventory control effective for most of surges in unexpected demand it is not as effective as a bull be. Stock should maximum level and not below this when recalls.

0–4 marks 5–8 marks 9–12 marks 13–16 r limited response will not seem on the demands of the question reasonal seem of the demands of the go overall that focuses on many of the demands of the ent response that is fully focused on the key demands of the

Total of Education ks available

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## Activity 20

- 1. 1.200 units 1 mark available
- 2. 800 units 1 mark available
- 3. 400 units 1 mark available
- 4. One week. For example, stock was reordered at the stock one week.

1 mark for the correct answer and the correct and the correct answer and the correct answer

- 5. Points 19 iss include:
  - Be weeks 0 and 2 the lead time for an order was one week. The business
    when the stock arrived at the start of week 2 the stock level had reached the m
    to 1,200 units once the delivery was taken into account.
  - The reorder in week 3, which arrived at the start of week 4, appears to have be than normal. When it arrived the stock level was at the minimum level of 400 to 1.800 units.
  - In week 5 another order was placed and once again this appeared to be for 1,40 increased from 600 units to 2,000 units.
  - Part of the difficulties experienced by the business is that it seems to be ordering.
     This might be because it expected a higher level of demand, but this appears not subsequent orders should have been for a much smaller amount to restore it to hold, which is 1,200 units. By week 6 it is 800 units above this.
  - The business has had to pay for this stock, but would not have generated any
    holding. This would have increased its costs, but not resulted in any increase in
    have decreased assuming all other factors remain the same.
  - As the business has money tied up in stock it is rotated all le for use elsewhere detrimental if opportunities that could have not used profits could not be take
  - The business is in the fashion in try perefore, some items of stock might be out of date. This stock to longer of use to the business, which means the mobe sold onto any angular mess. If so, this is likely to be at a lower price to the or
  - H 79 xc s 1/2 amounts of stock could have increased the storage costs of the be 200 l. This increases costs, which subsequently reduces profits.
  - It is unficult to comment on whether the inventory stock control is the only real the business at present. However, there it has a part to play, as in recent week stock, resulting in stock being above the maximum level the business wanted to

See Activity 13 Q5 answer for quidance on allocating marks

Total of 16 marks available

## **Section 13: Economic factors**

### Activity 21

.. Possible answers:

### GDP

- France experienced growth in the output of services between 2011
- 2011 was its highest rate of GDP at 2.
- 2012 was its lowest, when the I. GDP occurred.
- The growth rate by 1 and 2015 is 0.9% (2.1% 1.2%) lower, although
- Ho decide as the GDP is at a lower rate than 2011, both businesses and consumwith spending, in terms of investments for the former and spending for the latt.
- Rospeer Footwear might find that demand for its products decreases slightly if businesses and consumers about the state of the economy.

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### Inflation

- The rate of inflation fell from 2.3% in 2011 to 0.1% in 2015.
- A declining inflation rate indicates the average price of goods and services is incorprevious periods.
- This means the spending power of both businesses and consumers is not erode assuming all other factors remain the same, thus providing confidence in invest
- It also helps to ensure the supplies sourced from France remain relatively unaff thus allowing costs to remain relatively stable, which as to profit margins rem However, this is dependent on all other fact as a lining the same.

### **Exchange rate**

- The value of the pound institute euro fell by €0.19 between 2011 and 2015
- Fewer euros ard a all tor each pound.
- The jes and pay more to obtain its French supplies.
- The means accepting a lower profit margin or passing the increased cost but order for revenue not to be detrimentally affected the products must have
- It will be cheaper for the firm's products to be exported to France, thus making demand is price elastic this could result in the firm's revenue from this market is

### **Corporation tax**

- Corporation tax remained unchanged between 2011 and 2015 at 33.33%.
- As it did not change, there is no direct effect on the business.

### Income tax rate

- Between 2011 and 2015, the French personal income tax rate increased by 3.79
- This meant from 2012 onwards French citizens were required to pay a greater pastate in tax.
- Assuming all other factors remain the same this leaves them with less disposable
- Less disposable income could result in French consumers reducing their spendir
- Rospeer Footwear could experience a fall in demand if French consumers reduce so However, this will very much depend on the income elasticity of its products. As the footwear, its products might be considered more so a see tial rather than a luxure

0–3 marks limited response with limited resp

Total of 19 ks

# 2. Possible Education

# Arguments for entering a new market

- Growth in the French economy has slowed, which could lead to lower demand
- A greater proportion of income tax is payable, reducing the disposable income lead to lower demand.

# Arguments for not entering a new market

- French inflation is increasing at a lower rate; therefore, there is a degree of price encourage consumers and businesses to continue spending to some extent.
- Although the French economy's growth is slowed it is still increasing, indicating businesses to invest and consumers to continue spending on non-essential item
- The income tax rate has remained unchanged for the last four years; therefore, their spending habits in response to the 2012 change, so no further change sho
- Corporation tax has remained unchanged over the last five years, encouraging thus inspiring investments.
- Although supplies are more expensive die to the bund weakening against the
  Footwear's products being chestral in the neck consumers, which could stimulat
  have price elastic democratical actions.

Conclusion

Based in the French economic data it would appear that although growth has remains tive market for the firm. The data on its own does not suggest the buinto new markets.

1 mark stating whether the firm should enter a new market or not

1 mark an explanation not explicitly referring to the data 2–3 marks judgement is firmly linked to the earlier analysis

Total of 4 marks available

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### Activity 22

### 1. Possible answers:

### **GDP**

- France experienced growth in the output of goods and services between 2011
- 2011 was its highest rate of GDP at 9.5%.
- 2015 was its lowest at 6.9%.
- The growth rate between 2011 and 2015 is 2.6% (9.5% 9.9%) lower, although
- Although growth is at a slower rate in 2015 com a. to 2011 it still indicates a confidence with business and consumer be dip, throughout it has been at a Footwear's main markets, Francisco
- However, as the GDP is a love rate than 2011, both businesses and consumwith spending it.
   Investments for the former and spending for the latt
- H 19 the with rate is significantly higher than the French GDP growth rather the French GDP growth rather the French GDP growth rather than the French GDP growth rather th

### Inflation

- The rate of inflation fell from 4.1% in 2011 to 1.7% in 2015.
- The average price of goods and services is increasing at a slower rate than previous
- The spending power of businesses and consumers is still eroded to some extent
  other factors are remaining the same. However, the declining rate might encount
  Chinese economies by these groups, if prices are stabilising. This will encourage
  consumer spending.

## **Exchange rate**

- The value of the pound against the yuan increased by ¥0.22 between 2011 and
- More yuan is available for each pound.
- It will be more expensive for the firm's products to be imported to China. The i will depend on the price elasticity of the firm's products.

### Corporation tax

- Corporation tax remained unchanged between . 11 and 2015 at 25%.
- As it has not changed there is no classification the business at this moment.

### Income tax rate

- The personal in taxrate remained unchanged between 2011 and 2015 at
- A: 19 not anged there is no direct effect on the business at this moment.

See **Activation Q1** answer for guidance on allocating marks

Total of 9 marks available

## 2. Possible answers:

## **Arguments for entering the Chinese market**

- The economy may be growing at a slower rate than 2011, but its growth rate is 2015.
- Potentially more growth potential in China than France.
- Inflation has fallen by more than 50%, encouraging confidence in both business stability within the economy.
- As both corporation and personal income tax rates remained unchanged between and businesses will have greater confidence regarding spending.

### Argument for not entering a new market

As the pound has become stronger against 'hy yu 'n jour potentially could make the for potential Chinese consumers if it is a does launch in this market and the continues.

Conclus

Based the Chinese economic data, it would appear that although growth h still remaining at a faster rate than the this could be a good market to enter, while still remaining within the French market.

See Activity 3 Q2 answer for guidance on allocating marks

Total of 4 marks available

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# SUGGESTED ANSWERS TO AS ASSESSMENT

# Multiple-choice topic review

- 1.
- 2. D
- 3. D
- 4. C
- 5. В
- 6. Α
- 7. C
- 8. D
- С
- 10. A
- 11. B
- 12. C
- 13. C
- 14. D
- 15. C
- 16. B
- 17. A
- 18. C
- 19. A
- 20. B
- 21. A
- 22. B
- 23. C
- 24. C

# Paper A

# Marking criteria for Sections A-Com

Use the following marking control and marks. Please note guidance on awarding ma some suggestes

M-COBA

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## 4 marks

Level	Typical candidate response
3	Good knowledge and understanding demonstrated and is applied in the cont
2	Reasonable knowledge and understanding demonstrated and some application
1	Limited knowledge and understanding demonstrated but lacking application

### 5 marks

Level	Typical candidate response
3	Good response that focuses on the demands of the question with well-development of the development of the question with well-development of the question with the question with the question of the question with the question of the question with the question of the question o
2	Reasonable response that focuses on some of the demands of the question wanalysis and is applied in context.
1	Limited response with little focus on the dr and ds the question with limited analysis and descriptive application in an analysis and descriptive application and descriptive applica

## 6 marks

Level	Typical candidate response
3	ponse that focuses on the demands of the question with well-development applied in context.
2	Reasonable response that focuses on some of the demands of the question wanalysis and is applied in context.
1	Limited response with little focus on the demands of the question with limited analysis and descriptive application in context.

# NSPECTION COPY



### 16 marks

Level	Typical candidate response
4	Excellent key response that focuses on the demands of the question with effethroughout. The response is consistently in context. The judgement is consistently in context analysis with a balanced response, which focuses on the question throughout
3	Good response that focuses on the demands of the question with well-development linked to siss, which is balanced the question as a whole.
2	Reasonable response that focuse new the demands of the question wanalysis and is applied in an algorithm and the demands of the question was analysis and is applied in an algorithm.
1	Limited respons A ocus on the demands of the question with limited and a civil application in context. Judgement made but limited

### Section A

1. Fixed costs are costs that do not change as the level of production/activity varies.

2 marks available

2. £23.50 (selling price per unit) – £11.50 (total variable costs per unit) = £12 contribut of

 $\frac{£42,000.00 \text{ (fixed costs)}}{£12.00} = 3,500 \text{ units per quarter to break even (1,167 units on average)}$ 

1–2 marks correct contribution per customer formula and data
 1 mark correct answer for contribution per customer
 1 mark correct break-even formula and data

1 mark correct break-even answer

Total of 4 marks available

3. Possible answers include:

- Informs a business of the minital (I) of sales to ensure all costs are covered
- Allows the business to will scher its current level of sales is sufficient to coimplement row income to turn the situation around
- Ca 19 or a financing application

4 marks available

- 4. Possible answers include:
  - Break-even is based on predictions which may not be accurate
  - External factors are not considered, e.g. changes in the economy which may imp
  - The data only applied to a single product and not a range of different products
  - If one of the variables changes, e.g. sales revenue, the whole calculation will nee

4 marks available

### Section B

- 5. Possible answers regarding why Drovers Engineering Stock
  - Up until week 3 there were no issection
     ding inventory control, as inventory arrived about 3½ days
  - The business error is a rock out in week 5, indicating that either the business would still in arriving a week later rather than the usual 3½ days.
  - The disconness has experienced another stock out midway through weeks 6 and appear to have taken account of the buffer stock being used to meet orders where the stock being used to meet orders.
  - The business has not ordered sufficient stock since this occurrence to restore it
     160 units. It appears to have ordered 100 units in week 5 rather than the requi

10 marks available

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- Change supplier the business has had problems with inventory control over a therefore, does this warrant changing supplier? If so, it is presumed the supplier business has lost trust in them supplying the business in accordance with the te contract. However, changing supplier is not automatic, as time will be required them and put measures in place to ensure they can supply the inventory as expoccurred with the existing supplier(s) can be resolved by working more closely to finding new ones, as this should require the legical ont of time and effort.
- Review and amend the existing inventory ( into ) scem where possible altered down by suppliers delivering to each of the wrong quantity, it does not approximately in the wrong quantity, it does not approximately into the business to respond a conditional to the possible altered wrong quantity, it does not approximately into the business to respond a conditional to the possible altered wrong quantity, it does not approximately into the business to respond a conditional to the business to respond accordingly if similar inverted again.
- Introduce an electronic system for managing inventory assuming staff scan t received from suppliers and also scan goods sent to customers, this should allow record of each type of inventory it holds at any moment in time. If this is linked remove the need for a person to manually place an order when inventory reach automatic order will be triggered. This is more likely to be completed in a time the latter might require inventory levels to be physically checked before an order when initial cost and time associated with introducing an electronic system some firms, but, if completed successfully, it could reduce the need for the just-in-time system could be used. Nevertheless, this will depend on having reliable to the successful to the system could be used.

8 marks available

### Section C

- Possible answers
  - Average prices of goods and series is a notice that the UK increased each year between
  - 2011 had the highest a ge is imprices at 4.2% with 2015 having the lowest
  - By 2015 the rati on was 4.0% lower than 2011 (1 mark)
  - The lige is cause in prices of goods and services occurred at a lower rate ea
  - The properties of the properties of
  - Supermarkets actively reducing prices to maintain their competitiveness agains contributed to lower UK inflation increasing at a lower rate (1 mark)

4 marks available

8. £177.4bn × 
$$\frac{3.9}{100}$$
 = £6.9bn

1 mark correct formula, 1 mark correct data and 1 mark correct answer

3 marks available

- 9. Possible answers:
  - The volume of smartphone users has grown by 17.8% between 2011 and 2015
  - This provides increased convenience in the method used of access online retails providers
  - This increases the level of demand for vi in stapping
  - A greater proportion of 55-+, 1 e2 lus purchase items online, as the numb 2011 and 2015 (figure
  - This increase the demand for our control of the contr
  - A 70 pr Lordion of female consumers than male consumers prefer to make Federal , but there is still a significant percentage who make online purchase online grocery shopping
  - Although changing consumer trends and innovations (e.g. smartphones) have online grocery market, it should not be forgotten that as new retailers have introduced to this growth (Aldi, Amazon Prime, etc.)

10 marks available

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- As a result of increased inflation Marks & Spencer may decide to either increase keep prices the same but reduce its profit margin
- Increased inflation is likely to have a negative impact on the retailer's sales
  - increased prices may lead to reduced sales as customers may no longer fe value for money. The impact of this mindset may be impounded by consu to the inflation rise. However, other retailers are likely to also increase pr be reduced if the company only acts in line was 5 (and the market as reduced profit margins will impact neg tive in the company. The company
  - the business for future develop. ) , and/or may need to pay shareholder

### 10 marks available

# 11. Possibl

### Enter th Educ e grocery market

- As the business is experiencing falling sales in clothing and homeware, entering attract new customers and help to improve sales
- The market is expected to grow by 77.0% by 2020; therefore, it offers good pot which could improve sales and profits
- Online grocery sales is the fastest-growing sales channel and is expected to be by 2021, while consumers using the supermarket channel is expected to fall by Spencer relies purely on customers making use of its food halls, it could face a switch over to purchasing online.
- The UK average online weekly spend on food via the Internet has grown from 2012 to nearly £140m in June 2016, indicating this is a growing channel for sud
- All market leaders offer online sales, which places Marks & Spencer possibly at consumers have alternatives to choose from
- This could attract new consumers to the business, which broadens its customer greater sales
- The business already has an online presence for a schill g and home range. and the infrastructure to some extent in the extent in the
- The food business has a strong it hold be, which could help it to attract customers.

### It should Mine grocery market

- ly competitive market with many firms already established within it a s, so Marks & Spencer might find it difficult to attract customers away
- the food business is already a success in its current format, so why change the
- although the infrastructure is already in place to some extent, the business will to develop it to be suitable for the online shopping market
- as clothing and homeware sales have fallen the capital might be better used en are more appealing to consumers

### Overall

- if Marks & Spencer's existing base might desert the company in preference for the firm it has no other choice than to enter the online grocery market
- the business objectives will influence the final decision. If the business is looking model beyond the food hall format, then offering an online grocery service mig

### 20 marks available



# 



## Paper B

## Marking criteria

Use the following marking criteria to award marks. Please note guidance on awarding masome suggested answers.

### 4 marks

- IIIai K3	
Level	Typical cay an it et sponse
3	Good knowledge and understanding 14 nc 15t aced and is applied in the conte
2	Reasonable knowledge and grant (st ) and demonstrated and some application
1	Limited knowledge and had standing demonstrated but lacking application to

# 9 marks

	Education Typical conditions recognize
Level	Typical candidate response
3	Good response that focuses on the demands of the question with well-develor effectively applied in context.
2	Reasonable response that focuses on some of the demands of the question wand is applied in context.
1	Limited response with little focus on the demands of the question with limited analysis and descriptive application in context.

### 16 marks

Level	Typical candidate response
4	Excellent key response that focuses on the demands of the question with effect hroughout. The response is consistently in context. The judgement is consistently in context analysis with a balanced response, which focuses on the question throughout
3	Good response that focuses on the demands of the guaration with well-development links and sis, which is balance question as a whole.
2	Reasonable response that for (50) the of the demands of the question wand applied in context and applied in context.
1	Limited responsible focus on the demands of the question with limited are a compliant and a supplication in context. Judgement made but limited limite

### 18 marks available

Level	Typical candidate response
5	Excellent key response that focuses on the demands of the question with effe
	throughout. The response is consistently in context. The judgement is consis
	analysis with a balanced response, which focuses on the question throughout
4	Good response that focuses on the demands of the question with well-develop
	effectively applied in context. Judgement linked to analysis, which is balance
	question as a whole.
3	Reasonable response that focuses on some of the demands of the question w
	and is applied in context. Judgement linked to analysis but lacks balance.
2	Limited response with little focus on the demands of the question with limited $oldsymbol{d}$
	and mainly descriptive application in context. Judgement made but limited link t
1	A weak response lacking focus on the demands of work lestion. Descriptive a
	context. Judgements are based on assertions.

### 1. 4 marks available

£0.05 (processing) + £0.26 (ingredients) + £0.14 (packaging) = £0.75

1 mark 19 rec ) mula and 1 mark for correct answer

£3.25 – £ducate £2.50 contribution per litre

1 mark for correct formula and 1 mark for correct answer

 $\frac{£3,500}{£2.50}$  = 1,400 litres per month is the break-even quantity

4 marks for correct answer

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### 2. 4 marks available

Budgeted income - budgeted expenditure = budgeted profit

£4,760 (labour) + £1,200 (stock) + £1,085 (other costs) = £7,045 (budgeted expendituments) for correct formula and 1 mark for correct answer

£9,150 – £7,045 = £2,105 (budgeted profit) **1** mark for correct answer

### 3. Possible answers:

- If the business does need to it. I loan or extend its overdraft to cover broa an ice cream particles. Clear budget statements could support a finance potential level indicates that the business is well planned and managed.
- A: 79 es embarks on expanding costs will be incurred. Setting a budget call the Education pends are avoided.
- Setting a budget allows the business to monitor its performance against budget business is concerned about a downturn in the economy, a budget could assist success and failure, along with the strategies that are needed for future success.
- By setting budgets for the individual sales areas of the business for example, can the budget holders of these areas. They will have control over decision-mak should be spent. This could be motivational as they have been given responsible.

### 8 marks available

4. Puddle Down Farm's ice cream is not particularly sensitive to a change in price. Its prince indicates demand is price inelastic. As the coefficient is negative and less than 1, it might be decrease, but it will be a smaller proportional change than the percentage chabusiness's revenue increasing rather than decreasing. Timothy is correct that the palthough demand will slightly fall revenue will still be increased. Increasing the price

### 4 marks available

### 5. Possible answers:

- Opening balance (QT) ash flows (QTR 2) = closing balance
- -£2,350+ £1.50 7,500 allow up to **3 marks**
- TI The run and work necessary for the product range will lead to the business quitable. This may cause problems for the business if it is not able to meet partially the good reputation of the business and it may not be easily repaired that this is likely to occur, financial arrangements could be put in place to arranging an overdraft, as the negative cash balance is for less than one year; the required. Suppliers could be asked for longer to pay, thus delaying payments of the product range will lead to the business are producted.
- The negative cash balance is short-term, suggesting that it is not a permanent pr
   2 a positive cash balance of £7,900 is predicted. This indicates that any finance likely to be secured, as a potential lender can clearly see this is not a long-term
- The cash flow forecast does not appear to allow for the additional income and ceither opening the ice cream parlour or accepting the supermarket order. The cash flow forecast to have a certain picture of the business's expected cash flow

Award up to **3 marks** for the quarter 2 closing cash balance calculation **1 mark each** for the correct formula, data and answer

Level	Tipi al concate response
4	Detailed response with first, analysis that is 'a' mee! Licear conclusion.
3 719	Good residual actions of the question with well- nd securely applied in context.
2 Educ	asonable response that focuses on some of the demands of the que developed analysis and is applied in context.
1	Limited response with little focus on the demands of the question with development of analysis and descriptive application in context.

Total of 10 marks available

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### Positives of working at full capacity

- The current capacity utilisation is 80%. The business has spare capacity that is
- Increasing the capacity could allow the business to increase its profits.
- If 2,000 litres are sold a month the business makes approximately £1,500 profit
- Operating at 2,500 units provides the business with an additional monthly profile
- Clearly if the capacity of the business is increased through the supermarket ord for the business to increase its profits.
- Working at full capacity so it can service the upplicarket contract provides the and gain a stronger presence 23 (\$1) with its brand of ice creams.

## Drawbacks of working

- The trace are additional costs to maintain and service the machinery of it 700 ate ac full capacity.
- If the description of the business of the busines
- Staff will be required to work to their maximum over a continuous period of the
  detrimental to the way in which they work. Errors could start to creep in which
  produced. This would be a severe problem for the business as quality is an essential.

### Overall

- It is difficult to state whether operating at full capacity will harm the business being available, as the impact on staff and existing customers needs careful con
- However, working at full capacity even for the short term to meet all customer provides the opportunity for the business to improve its profitability and it indicating that at least for the short term it has the potential to provide more business.

### 20 marks available

### 7. Possible answers:

### Negative impact on financial performance

- Less revenue per litre as the superman will paying £0.75 less (£3.25 £2.5)
- As the business will be sur it or or itres, the business will earn £3,000 less usual price.
- Existing but to tomers might consider Puddle Down Farm as disloyal sure the formula of the sure of t
- Fixed costs have to be incurred to take on this order and there is no guarantee continued beyond two years.

# Positive impact on financial performance

- Assuming all other factors remain the same, except the selling price to the suprovides £1.75 contribution per unit (£2.50 £0.75). This is profit, assuming the fixed costs incurred. This is an additional £7,000 profit per month for the busin North West. This is an additional £84,000 of profit available to the business.
- The business currently is budgeting for a quarter 2 profit of £2,105. Accepting the
  quarterly profit of £21,000, which is significantly more than the stated budgeter
- Assuming the supermarket order is expanded to all UK branches it could signific
- The profile of the brand is raised, which in itself can lead to greater brand recog choosing to purchase the brand beyond the supermative as they are familiar was a supermative as the supermative as they are familiar was a supermative as they are familiar was a supermative as the supermative as the supermative as they are familiar was a supermative as the supermati

### Overall

- Clearly the supermarket order of a large cantly improve the profits for Puddle
- However, it all depend the samess's ability to manage the higher level of d so and any neg to be a confrom existing customers to the lower price receive the lower price of this new order not materialising.

# 10 mark Education able

# NSPECTION COPY



### Ice cream parlour

### For

- The ice cream market is growing, suggesting it is a good time to expand.
- Lower long-term fixed costs.
- As the business has price inelastic demand it could increase prices, which would to go towards covering the additional costs.
- There is no need to increase capacity or outsour du tion to a third party
- Less risky than the supermarket order a the business maintains full control.

### **Against**

- It does not provide evel of profit growth as the supermarket order.
- New plot inay be required for this particular venture, which involves st. 7% have increases costs.
- Calculations sometimes operations continue while the ice cream parlour is being will miss out on revenue over the period of time it takes to get it ready. How indicating the subsequent additional revenue will resolve this.

### Supermarket order

### For

- Increased profit of £7,000 per month, £84,000 per annum.
- Potential of far greater profits than the above, if the brand is launched across a
- Improved brand recognition, which in itself can help it to stand out in the mark
- Being associated with the supermarket could make it become the must-have presented.
- Ice cream market is growing.

### **Against**

- Supermarket demanding a lower selling price.
- Response of existing customers to the above.
- What are the possible demands the supermarket will a son the business? W packaging, etc.? Will it want to discount the στο uring special promotions costs associated with this?
- There is no guarantee the supplies the suppl
- Exist are involve outsourcing. This is risky as the business will not have direct or restaurable expected. The brand could be

### Overall

- The final decision will depend on the level of risk that the business is willing to market research conducted by Timothy. If the venture is considered too high ri
- It will also depend on how each option fits in with the corporate objectives.
- Furthermore, the quality of the research carried out will influence the decision
- The supermarket order might be considered riskier, as there is no guarantee it therefore, the business might decide to go with the ice cream parlour, whice certainty. However, it would have to accept the profits will not be at the same order.

## 20 marks available



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