



2015 specification
first exams in 2017 (2016 for AS)

Starters and Plenaries for AS and A Level Edexcel Business

Theme 2: Managing Business Activities

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Teacher's Introduction

This resource has been designed to support the learning and teaching of Edexcel (Managing Business Activities). Students will build on their understanding of key knowledge that is integral to the specification. The tasks offered in this resource are for group or full-class activities.

This resource focuses on businesses, large and small, to help teach the new specification practice of quantitative skills, which are key elements of the new specification.

- QS 1: calculate, use and understand ratios, averages and fractions (Activity 3)
- QS 2: calculate, use and understand percentages (Activity 14)
- QS 3: interpret a range of standard graphical forms (Activities 7, 10 and 23)
- QS 5: calculate cost, revenue, profit and break-even (Activities 8, 10, 11, 13)
- QS 8: use and interpret quantitative and non-quantitative information in order (All activities)
- QS 9: interpret, apply and analyse information in written, graphical and numerical form (All activities)

The starters and plenaries in this resource are designed to help teachers prevent by encouraging them to recap previously studied topics or begin to learn new ones. Each task takes between 10 and 15 minutes to complete.

Teacher's notes, plus an activity-by-activity plan, are provided at the beginning of each section on how to teach the content. Some of this guidance includes additional activities. Each section includes an answer sheet for students and/or teachers to use in marking.

It is hoped that this resource, as well as offering support for teaching the essential for the examination, will help students build on any knowledge they already have. The book is changing one full of fascinating stories. This resource attempts to share some of the best teaching in the most interesting way possible, meanwhile encouraging further study by business analysts!

Happy teaching!

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Plan for Edexcel Business Theme 2: M

Spec Area	Topic	Activity Description	Notes	
2.1. Raising Finance	Internal finance	Activity 1 – Ordering activity with discussion	First tasks can be done as a class while discussion is led by students.	
	External finance	Activity 2 – Role-play activity	Students can complete this task in pairs, with each student being a business partner. The teacher could also open this as a class-wide discussion.	
	External finance: venture capital	Activity 3 – Discussion followed by role play	Parts one and two of this activity could be conducted as a class discussion. Teachers could run part three as <i>Dragon's Den</i> : put students in groups and have one side offer the school to the venture capitalists and the others decide whether they wish to invest.	
	Liability: Implications and appropriate finance	Activity 4 – Matching task with debate	The first part of this activity can be conducted individually or in pairs. The second part works as pair work, group work or a full-class activity.	✓
	Relevance of a business plan	Activity 5 – Speed talking followed by role play	Question 1 can be done on paper or as a speed-talking activity in which students say as much about the topic as they can in a specific time. If students are in pairs, one partner could even write down everything their partner says. Question 2 could be conducted in groups or as a class, either one as a role play.	
	Planning: Cash-flow forecast – interpretation of forecast	Activity 6 – Complete the forecast and discussion	The first part of this task can be completed individually or in pairs. Part two has possibilities for discussion.	✓

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Spec Area	Topic	Activity Description	Notes
2.2. Financial Planning	Sales forecasts – factors affecting them and difficulties of forecasting	Activity 7 – Discussion and graph interpretation	Activities can be conducted as group or full-class discussions.
	Sales, revenue and costs	Activity 8 – Complete-the-equations task followed by application of knowledge	Individual tasks, which can be expanded to a full-class activity.
	Break-even	Activity 9 – Multiple-choice question followed by calculation practice and discussion	Individual work for the first part followed by potential for group activity.
	Break-even: Interpretation and limitations of break-even	Activity 10 – Tasks to apply knowledge of break-even analysis	Possibility for pair or group work throughout.
	Budgets: Historical vs zero-based budgets	Activity 11 – Discussion-led application of knowledge	Possibility for pair or group work throughout.
	Budgets: Variance analysis	Activity 12 – Application of knowledge through calculation and discussion	All questions can be run individually or as full-class activities, especially question 3, which may turn into a larger discussion.

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Spec Area	Topic	Activity Description	Notes
2.3. Managing Finance	Profit: Gross, operating and profit for the year	Activity 13 – Match-up followed by application of knowledge (equations)	Individual activity that can be expanded as pair work.
	Profit: Profitability	Activity 14 – Complete equations followed by calculations and discussion on improvements	Individual/pair activity. The final task can be conducted as a full-class discussion.
	Liquidity: Balance sheet	Activity 15 – Interview plus discussion	This activity helps students create questions to interview their peers (either in pairs or groups). Students can later check these answers with the teacher.
	Working capital and its management	Activity 16 – Rearrange task followed by application of knowledge	These activities can be conducted individually with a full-class discussion at the end with regard to how much cash each business type would need.
	Business failure: Internal and external causes of failure	Activity 17 – Diagram plus case study	Teachers can conduct the first part as a fill-the-board activity and the second as a full-class discussion, group work or an individual task.
2.4. Resource Management	Methods of production	Activity 18 – match-up task followed by application of knowledge	Both parts of the activity can be conducted on paper or as board work to involve the whole class.
	Productivity	Activity 19 – Critical thinking to use knowledge that students already possess	Individual tasks or pair work.
	Efficiency	Activity 20 – Fill the gaps plus discussion	Individual work with potential for presentations to the whole class.

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Spec Area	Topic	Activity Description	Notes	
2.4. Resource Management	Capacity utilisation formula	Activity 21 – Diagram and table with calculations	Examples of under- and over-utilisation. This activity would work best in pairs so that each student has support.	
	Improving capacity utilisation.	Activity 22 – Calculations followed by a speech	Ways to improve capacity utilisation. Students offer methods for an example business. Students could complete this activity in groups and then appoint one speaker each.	
	Stock control diagrams. Buffer stocks and implications of poor stock control.	Activity 23 – Complete the diagram followed by a 'Taboo'-like challenge	Students complete the first part alone and then test the knowledge of their peers with the second part. This could also be done as a class with the teacher eliciting phrases to the board. Each student then reads out their 10-word definition for others to answer.	✓
	JIT and lean production	Activity 24 – Definitions, benefits and drawbacks	Students can complete the worksheet alone or in pairs/groups. When students have completed the table of reasons, the teacher can split the class into groups to play JIT boxing – one student throws a reason to use JIT and the other returns with a counterargument.	✓
	Quality management Continuous improvement: Toyota method	Activity 25 – Sentence completion with diagrams and application of knowledge	Students can work in groups in order to complete the worksheet. The final question, which asks about kaizen in the classroom, could open up a debate or possible presentations of ideas from each group.	
	Quality management: Control vs assurance	Activity 26 – Timeline with discussion	The first part of this activity can be done as a class with the teacher eliciting answers to the board. The rest can be conducted individually and/or as a discussion.	✓

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Spec Area	Topic	Activity Description	Notes
2.5. External Influences	Effect on businesses of changes in inflation, exchange rates, etc.	Activity 27 – Unjumble task followed by descriptions of impacts	The initial activity of unjumbling words can be conducted as a class with the teacher eliciting answers to the board. The rest can be completed individually and/or as a discussion.
	Effect of economic uncertainty on the business environment	Activity 28 – Flow chart	Tasks can be completed individually or in pairs/groups.
	Legislation	Activity 29 – Competition between teams of students	When students have completed the table, put them into groups in order to choose an effect for each legislation type. Groups then work together to test one another on how much they know about each legislation type.
	The competitive environment	Activity 30 – Application of knowledge followed by debate	At the end of the activity, students can cut out the box and use it as a cue card for debates.

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Activities

Activity 1 – Internal finance

Becky Smythe is an artist who paints landscapes using her toes. She has only been painting for a few months and already the paintings have become quite popular, earning her a total of £70,000. She started the business out of her bedroom and is now considering investment in a studio and storage for more paintings and equipment.

Becky will need finance in order to afford the investment, though she is only interested in internal finance.

1. Identify three types of internal finance that are available to most business owners.

One:

Two:

Three:

2. Sort your three types of internal finance in order of most viable for Becky's business.

Explain your decision.

1	
2	
3	

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Activity 2 – External finance

You own a business that hosts music videos online, which users can stream free of charge. You are one of only two employees / business partners.

1. Business costs, such as server rental and musician royalty payments, are increasing. You need to decide on a method of external finance.

Your options are:

Loan	Share Capital	Venture Capital	Overdraft	Leasing
------	---------------	-----------------	-----------	---------

Write a letter to your business partner explaining which method of finance you choose for this situation.

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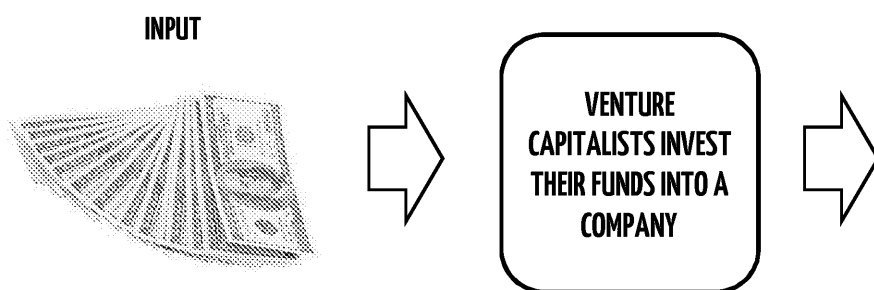
Activity 3 – External finance: venture

'If you would like to know the value of money, try to borrow some.'

1. What do you think Benjamin Franklin meant with this statement? Consider your business.



2. Venture capitalists invest money into companies and expect to get something in return. Use the diagram below to show this.



POSSIBLE OUTPUTS INCLUDE

.....

.....

.....

3. Imagine that a venture capitalist is considering investment in your school. How would you convince them to invest and what could the school deliver in return?

INVESTMENT:

RETURN:

.....

.....

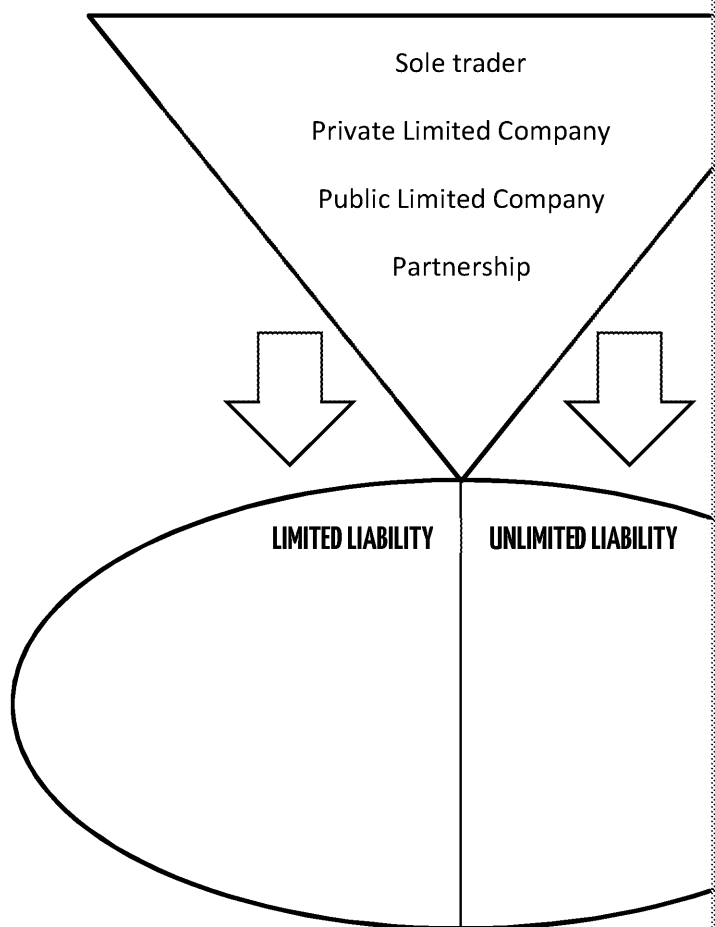
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Activity 4 – Liability: Implications and app

1. Complete the following diagram with the four business types provided.



2. Complete the table below to show which sources of finance suit which type of business.

Sources of finance:			
Peer-to-peer funding	Overdraft	Grant	Bank loan
Retained profit	Venture capital	Share capital	Business angel

LIMITED LIABILITY	UNLIMITED LIABILITY

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Activity 5 – Relevance of a business

1. Fill in the following box with everything you know about 'business plans'.

Business plans show...

2. Explain why a business plan is necessary from the perspective of:

A potential investor:

A bank:

The business owner:

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Activity 6 – Planning: Cash-flow forecast – forecast and use/limitation

1. Complete the following statement with one thing that you know about cash

Cash-flow forecasts

.....

High Stepping Ltd is a manufacturer of ladders and other related equipment
cash-flow forecast for the coming months.

All figures in £000	Jan.	Feb.	Mar.	Apr.
OPENING BALANCE	35	38	39	43
INFLOW				
Sales	36	37	41	53
TOTAL INFLOW	71	75	80	
OUTFLOW				
Raw materials	5	8	9	13
Wages	14	14	14	14
Factory rental	5	5	5	5
Marketing and advertising	2	2	2	10
Other expenses	7	7	7	7
TOTAL OUTFLOW	33	36	37	49
CLOSING BALANCE	38	39	43	

2. (a) Complete the cash-flow forecast for High Stepping Ltd.
- (b) Identify what is predicted to happen with the company's finances over any reasons for this.

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Activity 7 – Sales forecasts – factors affecting sales and the difficulties of forecasting

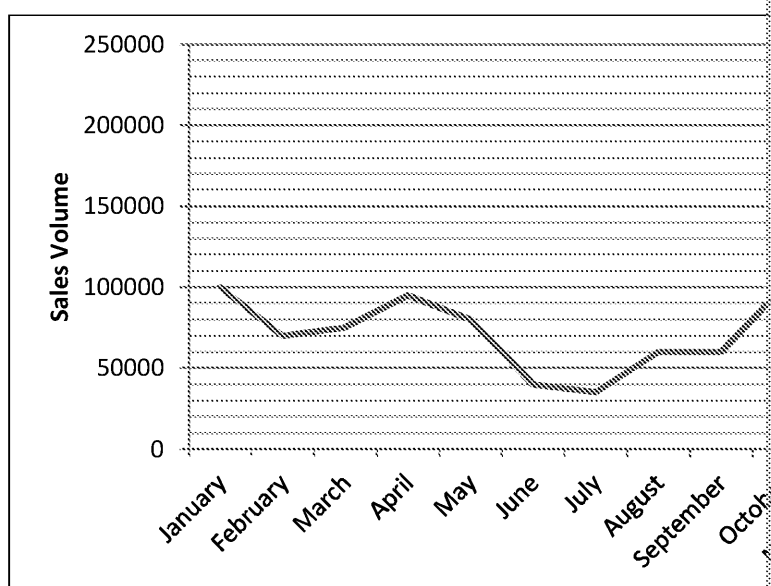
Sales forecasts show businesses how many sales they expect to make over a specified period of time.

1. Why would a business want to predict how many sales it is going to make?

.....

.....

Fun Achievers Ltd is a retailer of toys and games for children. Seeing the popularity of loom bands in the toy market, the company purchased thousands of these in order to grab a share of the market. The following graph shows a sales forecast for Fun Achievers Ltd based on the demand for loom bands.



2. (a) What do you see happening in this graph?

.....

.....

- (b) Do you think that Fun Achievers Ltd's forecasted sales of loom bands have been accurate?

.....

.....

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- ### Selling Price

(b) Sales Revenue = _____

2. Calculate the sales volume of Jack Folder's red woollen skirt.

.....

.....

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3. Time yourself for two minutes and name as many potential fixed and variable costs as you can.

FIXED COSTS FOR JACK FOLDER	VARIABLE

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Activity 9 – Break-even

1. Choose one of the following to complete the sentence:

The term 'contribution' describes the difference between...

- (a) the variable costs of a product and the amount of money a business earns
- (b) the fixed costs of a product and the amount of money a business earns
- (c) the total costs of a product and the amount of money a business earns

2. Cat's Cradle Ltd is a manufacturer of wooden beds for cats. The company sells 1000 beds per year. The variable cost per cat bed is £20.00. The fixed costs for the company are £10,000.

Using the above information and the following equation, calculate the break-even point for Cat's Cradle Ltd selling its beds.

$$\text{Break-even Point} = \frac{\text{Total Fixed Costs}}{\text{Contribution per Unit}}$$

.....

.....

.....

.....

.....

3. Explain what will happen to the break-even point if Cat's Cradle Ltd does either of the following:

- (a) Increases the selling price to £52.00

.....

.....

- (b) Increases its variable cost per unit to £22.00

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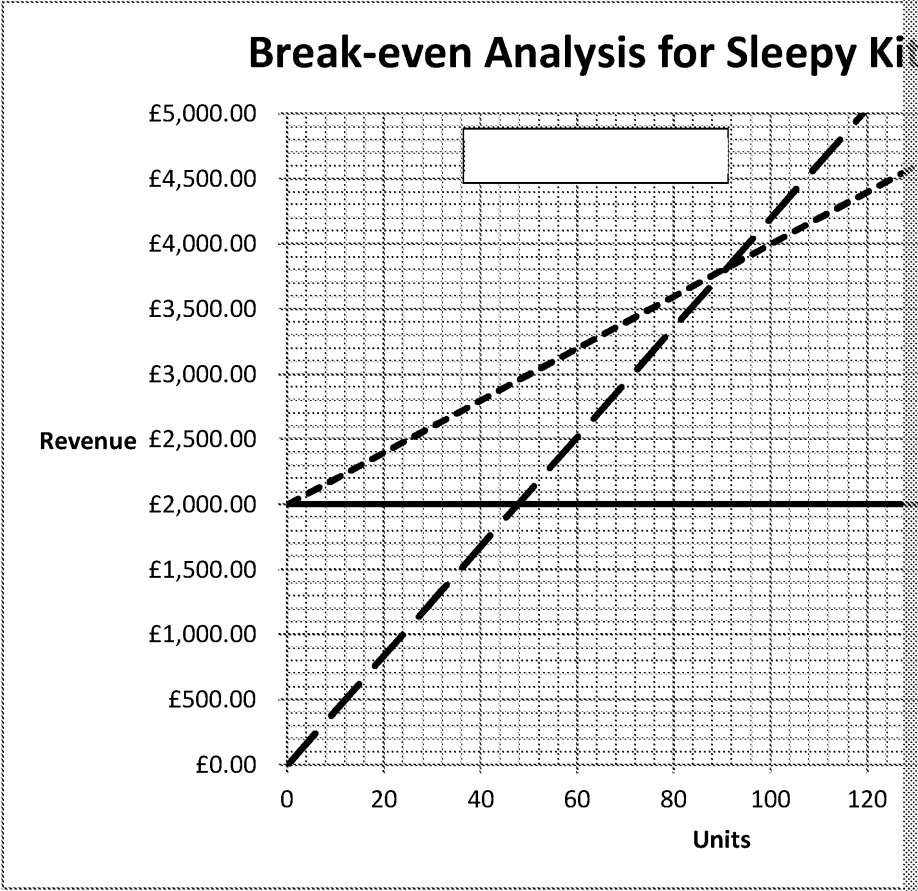
Activity 10 – Break-even: Interpretation of break-even

1. Explain the meaning of ‘break-even point’.

.....

.....

Cat’s Cradle Ltd is a manufacturer of wooden beds for cats. Shown below is for the company’s main product, Sleepy Kitty.



2. Complete the graph for Sleepy Kitty by filling in the three missing labels.

3. Using the graph, roughly identify how many Sleepy Kitty units Cat’s Cradle Ltd break even.

.....

.....

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4. Explain one limitation that Cat’s Cradle Ltd might find from its break-even analysis.

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Activity 11 – Budgets: Historical vs zero-based budgets – difficulties

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1. Use any one of the following four terms to explain why businesses set budgets.

Planning

Forecasting

Communications

2. Budgets can have their difficulties, too. Match the following difficulties with the terms in the box.

DIFFICULTIES	
This method can be extremely time-consuming.	
Departments can feel an expectation to spend a certain amount of money, regardless of what they really need.	
Managers can become complacent with their companies' budgets .	
These budgets can be very tight, especially if managers are interested only in profit.	

3. Coca-Cola is famous around the world not just for its products but also for its marketing. Which type of budget do you think the firm uses with its marketing department?

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Activity 12 – Budgets: Variance analysis

1. Explain one way in which a business department can analyse the success of its budget.

.....

.....

.....

2. Kite-U-Fly Ltd is a successful UK-based kite retailer that specialises in international sales. The company is split into several departments, including operations, human resources, marketing and purchasing.

Using the information from your previous answer, complete the following table for Kite-U-Fly Ltd. The first one (Operations) has been done for you.

Department	Budget	Actual Spend	Variance
Operations	£9,000	£9,650	650
Human Resources	£7,000	£6,200	
Marketing	£5,000	£3,400	
Purchasing	£23,000	£23,000	

3. Identify one difficulty that can arise from a business analysing its departmental budgets.

.....

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Activity 13 – Profit: Gross, operating and p

In order for a business to calculate its net profit, it must first understand its oper cannot calculate its operating profit before figuring out the gross profit.

1. Complete the following three equations using the terms provided below.

Gross Profit

Interest

Revenue

- (a) Gross profit = _____ – Cost of Sales
- (b) Operating Profit = _____ – Other Operating Expenses
- (c) Net Profit = Operating Profit – _____
2. Bessy Richards owns and operates a fancy dress business that specialises in horror genre. The business, called Bessy's Beasts Ltd, made £120,500 in revenue during the financial year of 2013–14. The company's costs included:

Cost of sales: £60,000

Other operating expenses: £41,500

Interest paid: £5,437

Using your answers from question one, calculate the following for Bessy's Be

- (a) Gross Profit

.....
.....

- (b) Operating Profit

.....
.....

- (c) Net Profit

.....
.....

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Activity 14 – Profit: Profitability

Tech Beans Ltd is a company that designs and manufactures coffee machines. Show the profit and loss account for the firm during the year 2013–14.

	Expenses	Income
Sales Revenue (aka Turnover)		251,000
Cost of Sales	82,000	
GROSS PROFIT		169,000
OPERATING PROFIT		118,000
NET PROFIT		<u>£97,431</u>

1. The following calculations are all missing the same thing. What are they missing?

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{.....}} \times 100$$

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{.....}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{.....}} \times 100$$

2. Now, calculate the gross, operating and net profit margins for Tech Beans Ltd.

Gross Profit Margin:

Operating Profit Margin:

Net Profit Margin:

3. Finally, do you think that Tech Beans Ltd's net profit margin could be better than this?

.....

.....

.....

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Activity 15 – Liquidity: Balance

The following diagram shows a statement of financial position for a taxi manufacturer.

	2014–15 (£000)
FIXED ASSETS	
Factory	200
Office	36
Machinery	40
TOTAL FIXED ASSETS	276
CURRENT ASSETS	
Cash	30
Stock	50
Debtors	5
TOTAL CURRENT ASSETS	85
CURRENT LIABILITIES	
Overdraft	(15)
Creditors	(23)
TOTAL CURRENT LIABILITIES	(38)
NET CURRENT ASSETS	47
LONG-TERM LIABILITIES (LTL)	
Bank loan	(60)
Property lease	(25)
TOTAL LTL	(85)
NET ASSETS	238
Owner investment	73
Retained profits	165
TOTAL EQUITY	238

- Using the space below, write four questions that you would like to know the statements of financial position and how they are constructed. You will find questions by interviewing your peers and exchanging knowledge.

I WOULD LIKE TO KNOW...	
1	
2	
3	
4	

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Activity 16 – Working capital and its n

The following shows an incomplete diagram of the working capital cycle.

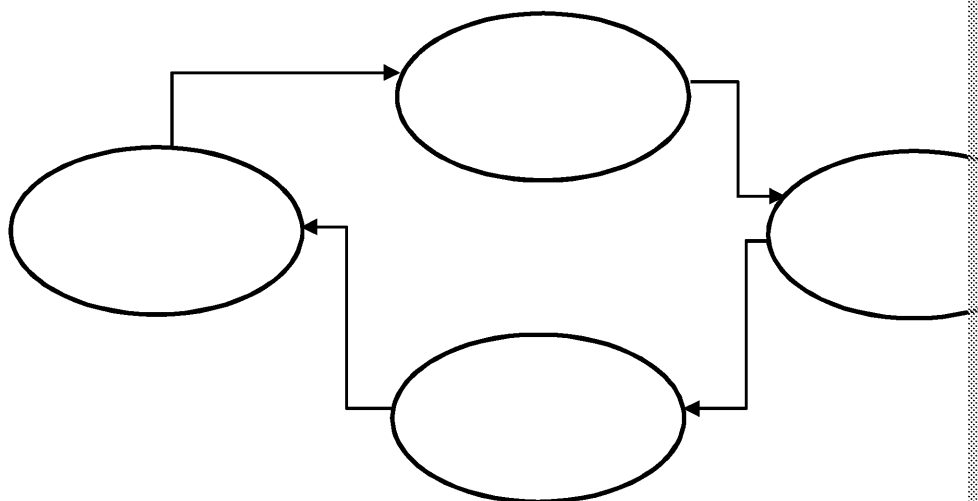
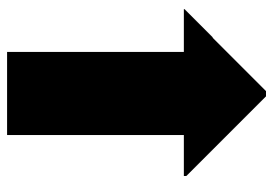


Diagram: The Working Capital Cycle

1. Fill in the four bubbles with the phrases marked 'IN' and 'OUT' to complete the cycle.
2. Cash is essential to the functioning of a business – without this a business cannot buy raw materials or pay its suppliers. Rearrange the following types of business in order of how much cash they need at all times. Business number one will need the most cash and five will need the least.

Business Type
Newsagent
National publisher
Independent greengrocer
Airline
Hotel chain



Reorder point
1
2
3
4
5

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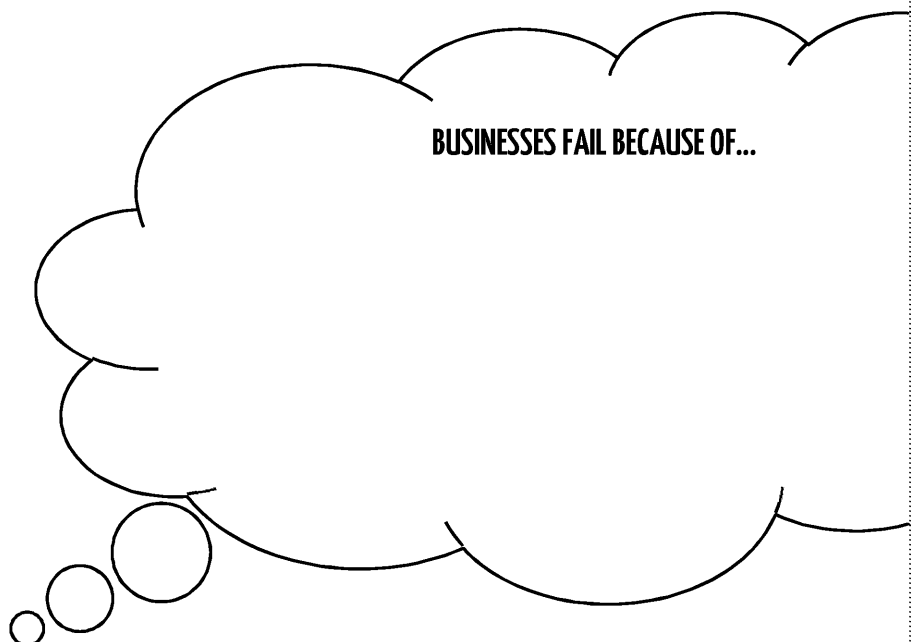
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Activity 17 – Business failure: Internal causes of failure

Businesses fail for all sorts of reasons, both financial and non-financial.

1. Complete the following thought bubble to show causes of business failure.



Commodore International Limited was a home computer and electronics manufacturer. The company is responsible for creating machines such as the Amiga and the Commodore 64, which features in the Guinness Book of World Records as the highest-selling computer model of all time.

A competitive advantage of Commodore International was that it sold its computers at low prices so that anyone could afford them. The business also focused most of its efforts on the home computer market, rather than the business world, which offered millions of potential consumers. Commodore grew significantly during the 1980s to become one of the most successful microcomputer companies in the world. However, by 1994, the company had failed and gone into liquidation.

2. Explain which internal and/or external factors led to Commodore's failure.

.....

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Activity 18 – Methods of production

1. Categorise the following businesses with the method of production they are

Atlas publisher	Breakfast cereal producer
Board-game model painter	Small cheese producer
MP3 player manufacturer	Pasty shop

JOB PRODUCTION	BA
FLOW PRODUCTION	CL

2. Complete the following sentences.

(a) Car manufacturers generally use production because

.....

(b) Bakers generally use production because

.....

(c) A clay artist would generally use production because

.....

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Activity 19 – Productivity

‘Paying good wages is not in opposition to good productivity.’
~ James Sinegal, co-founder of Amazon

1. What does James Sinegal mean to say with this quote?
.....
.....
2. What drawback might occur from a company using good wages as a way to pay its employees?
.....
.....
3. Complete the following table with three other factors that can increase productivity and their potential drawbacks.

FACTORS OF PRODUCTIVITY	POTENTIAL DRAWBACKS

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Activity 20 –Efficiency

'The first rule of any technology used in a business is that automation applied to it must be able to magnify the efficiency.'

~ Bill Gates, founder of Microsoft

1. Name three types of technology that can help magnify the efficiency of a business.

One:

Two:

Three:

2. Complete the following sentences using the words below. One of the words is not used.

efficiency

capital

cost

labour

(a) Microsoft Corporation produces the majority of its goods and services through automated production.

(b) Businesses maximise their by producing units at the minimum cost.

3. Do you agree with Bill Gates' statement? Explain your answer.

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Activity 21 – Capacity utilisation

Phil's Mills Ltd is a food producer based in Chichester. The company, founded by mills a variety of grains, including spelt, rye, quinoa, oats and rice.

The company has two factories to mill its grains. At full capacity, the company can produce 300,000 kg of grain per month.

1. Calculate the capacity utilisation of Phil's Mills Ltd when the factories produce the following amounts of grain per month.

(a) 125,000 kg of grain per month

.....

(b) 200,000 kg of grain per month

.....

(c) 91,000 kg of grain per month

.....

2. The following two statements describe issues that come with either under-utilisation or over-utilisation of capacity. Decide which statement belongs to which category and then include the statement in the appropriate box.

The workforce has little drive to achieve to the best of its ability.

The business is struggling to fulfil demand and is unable to meet higher levels of demand.

ISSUES FROM UNDER-UTILISATION OF CAPACITY	ISSUES FROM OVER-UTILISATION OF CAPACITY
1.	1.
2.	2.
3.	3.

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Activity 22 – Improving capacity utilisation

Phil's Mills Ltd is a food producer based in Chichester. The company, founded by Phil, mills a variety of grains, including spelt, rye, quinoa, oats and rice.

The company has two factories to mill its grains. At full capacity, the company can produce 100,000 kg of grain per month. The company is currently averaging around 81,000 kg per month.

1. (a) Calculate the current capacity utilisation of Phil's Mills Ltd.

.....

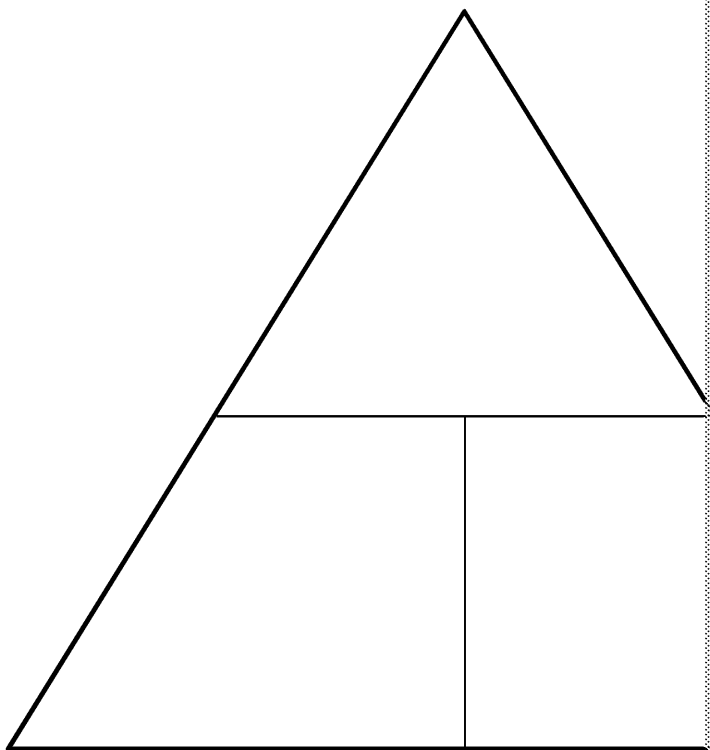
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- (b) Is the company currently at over-utilisation or under-utilisation of capacity?

.....

.....

2. Complete the following diagram with three ways in which a business can improve capacity utilisation.



3. You are the Operations Manager of Phil's Mills Ltd. Prepare an 'elevator pitch' that explains which method of improvement you believe would be best for the company.

.....

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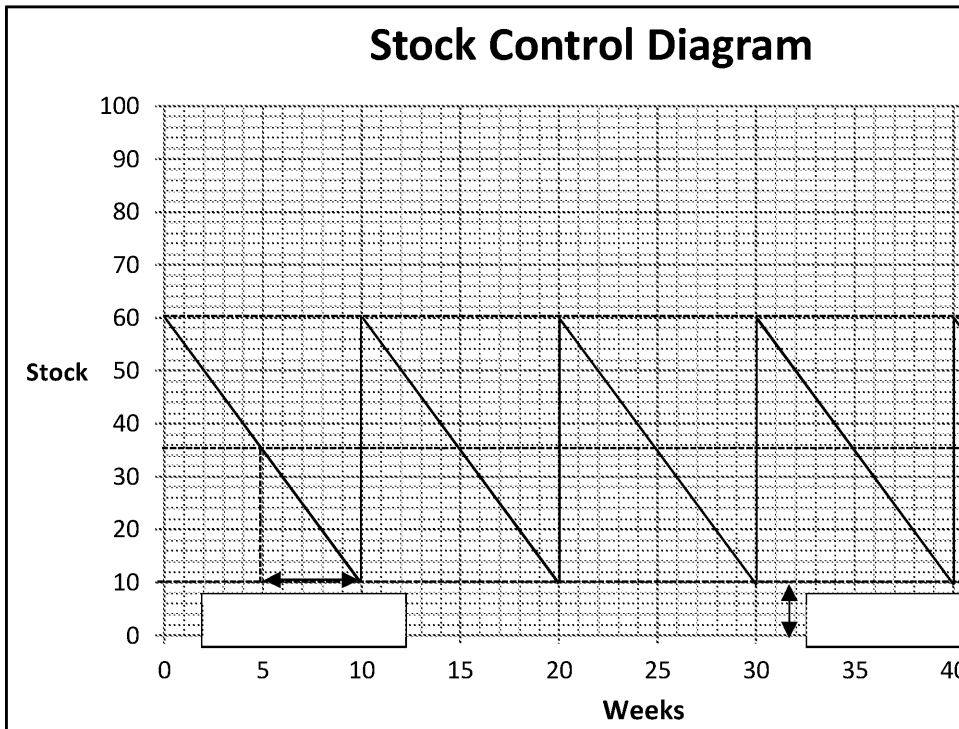
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Activity 23 – Stock control

The following diagram shows the incoming and depletion of stock for a retailer of pushchairs. When the stock is replenished, the company purchases 50 new pushchairs every 10 weeks. The orders come five weeks after that, at which point the process restarts.



- Fill in the blanks on the diagram using the phrases provided.

Buffer Stock	Reorder Time	Minimum Stock Level
Maximum Stock Level	Reorder Point	

- Describe one of the above phrases using 10 words or less. Prepare to share

CHOSEN PHRASE:

FIRST TRY:

.....

.....

SECOND TRY:

.....

.....

FINAL:

.....

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Activity 24 – JIT and lean production

Poor stock control can have strong implications for a business. Stock-in costs, for holding too much of its inventory (an asset that could be sold off) while stock-out costs, for holding enough inventory (and, therefore, being unable to adequately respond to customer demand).

Many businesses respond to their stock-in and stock-out costs by implementing lean production.

- How would you describe 'lean production'?

Lean production is

.....

- JIT is a technique that businesses use in lean production.

(a) What does JIT stand for?

.....

(b) Fill in the following table by identifying reasons why businesses should use JIT and arguments to counter these.

Reasons for Using JIT	Counterarguments
1.	A.
2.	B.
3.	C.

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Activity 25 – Quality management

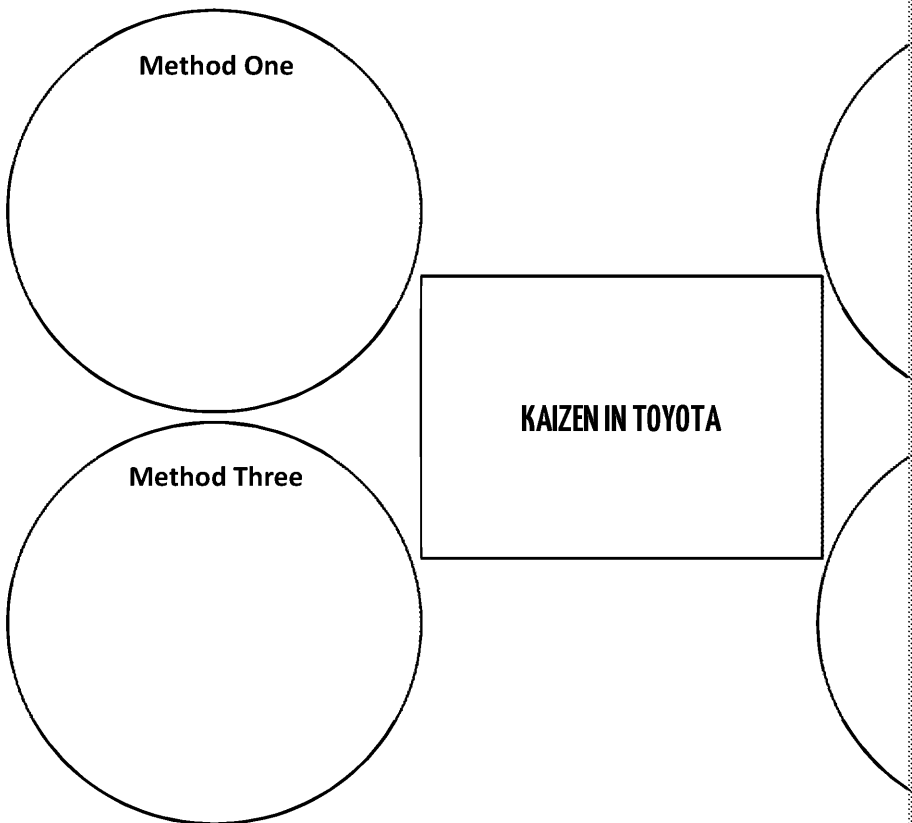
1. Complete the following sentence by choosing one of the three options below.

Kaizen is...

- (a) a philosophy that encourages continuous improvement from the manager
- (b) a philosophy that encourages continuous improvement from the subordinates
- (c) a philosophy that encourages continuous improvement from all areas of the organisation

2. Kaizen focuses on growing a culture of gradual change and employee suggestions made to a business in order to effect grander transformations over time. Japan is well known for using the kaizen method.

In what ways may Toyota have implemented the kaizen method?



3. Finally, in what way would you like to bring kaizen into your Business classes?

.....

.....

.....

.....

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Activity 26 – Quality management: Cont

The following diagram shows the timeline of a product.



Quality assurance (QA) and quality control (QC) are performed at different stages. Quality control (QC) is generally performed once the product is near completion, while quality assurance (QA) considers the entire process in order to prevent any defects from occurring.

1. Add the following two phrases to the timeline, showing how close to its production they would normally perform these processes.

Quality Control

Quality Assurance

2. Using the information from your previous answer, complete the following table.

	Quality Control	
Reactive or Proactive?		
Why Do Businesses Use This?		

3. Quality is important to all businesses, though some businesses focus on this more than others. Can you think of any example businesses?

.....

.....

.....

.....

.....

.....

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Activity 27 – Economic influences: Effect on business exchange rates, etc.

- Complete the following table by unjumbling the economic influences that have an effect on business impact on a business.

JUMBLED	UNJUMBLED
ILOFNINAT	
INSTEETR TSAER	
XATNIATO	
EHT SBISENUS CCLEY	
ACNEXEGH ERSAT	

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Activity 28 – Economic influences: Effect of uncertainty on the business environment

1. In business, what is the difference between macroeconomics and microeconomics?

.....

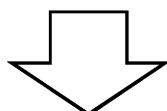
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.....

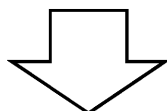
.....

2. If the world's supply of cotton was halved, every clothing business would feel the effects. Complete the following flowchart to show what effects this reduction would have and on whom.

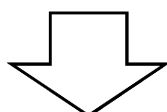
1. If the world's supply of cotton was halved, supplies would dramatically reduce.



2. SUPPLIERS:



3. PRODUCERS:



4. CONSUMERS:

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Activity 29 – Legislation

Below are five key types of government legislation that affect businesses.

Consumer Protection	Employee Protection	Environmental Protection	Competition Policy	Health and Safety
----------------------------	----------------------------	---------------------------------	---------------------------	--------------------------

The brand of a company is improved as it provides a secure working environment

1. To which of the five types of legislation does this sentence relate?

.....

.....

2. Complete the following table by writing how each legislation type can affect

Legislation	Effects
Consumer protection	This type of legislation...
Employee protection	This type of legislation...
Environmental protection	This type of legislation...
Competition policy	This type of legislation...
Health and safety	This type of legislation...

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Activity 30 – The competitive environment

School friends Amelia and Freya opened a bicycle repair shop in 2012. The shop, in a small town, has become established as the place for local people to get their bikes fixed. Since opening, the business has been making a steady profit – nothing too great, but enough to allow them to put the money back into the business, including by purchasing old bikes in order to refurbish them.

Evans, a British chain of bicycle stores, is looking to open a similar outlet in the same town as Amelia and Freya have their shop. Evans is a nationwide chain, which has stronger marketing and a larger budget than Amelia and Freya's business.

1. Do you think that Amelia and Freya's business will need to change? Consider the products/services that they currently offer.

.....

.....

.....

.....

.....

.....

.....

.....

2. Decide which of your proposed changes is the most important for Amelia and Freya's business. Prepare to debate this with your peers!

MOST IMPORTANT CHANGE TO MAKE TO AMELIA AND FREYA'S BUSINESS

.....

QUICK NOTES

-
-
-

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Answers

Activity 1 – Internal finance

- One: Sale of assets
Two: Retained profit
Three: Personal savings / Owner's capital

2.

1	Personal savings
2	Retained profit
3	Sale of assets

In the case of Becky Smythe, who has earned £70,000 in profit since 2013, retained profit would be acceptable as the most viable internal finance. It is an understanding that sale of assets is not much of a possibility for her because of her paintings and artistic equipment. This finance would work better if it was that she is considering investment in.

Activity 2 – External finance

- Students should show understanding of the advantages and disadvantages of external finance, plus their relevance to unlimited liability businesses, such as partnerships.

Loan

- + negotiable payback terms
- + interest rates are lower than overdrafts
- deposit is required
- the amount of business assets may be used as security

Share Capital: unavailable to unlimited liability firms

Venture Capital: this may turn the business from unlimited to limited liability

- + venture capitalists give valuable advice
- + willing to finance even when the business is not profitable
- the investor expects a stake in the profits
- possibility for conflict of interest

Overdraft

- + flexible
- + no proposal required before borrowing
- high interest fees
- overdrafts generally have a high interest rate

Leasing

- + money available, not tied up in assets
- + owner is responsible for maintenance
- continual cost
- if leaser decides to sell, the lessor must agree

Trade Credit

- + frees up cash to pay debts
- + development is also possible
- if the business fails to pay, there are fees
- failure to pay can result in loss of credit

Grant

- + it costs the business very little
- + the provider does not normally expect a return
- the provider often makes a stipulation
- without meeting the stipulation, the business may have to repay

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Activity 3 – External finance: Venture capital

- When a business borrows money from another person or organisation, the lender will expect something in return, such as interest on payback or shares in a business venture.
- POSSIBLE OUTPUTS INCLUDE e.g. shares in the company, percentage of profits through dividends, etc.
- Answers will be individual to each student.

Activity 4 – Liability: Implications and appropriate funding

- The diagram illustrates the relationship between business structures and their liability status. A funnel-shaped container lists four business structures: Sole trader, Private Limited Company, Public Limited Company, and Partnership. Two arrows point downwards from the bottom of the funnel to a large oval. The oval is divided into two sections: 'LIMITED LIABILITY' on the left and 'UNLIMITED LIABILITY' on the right. The 'LIMITED LIABILITY' section lists 'Private Limited Company' and 'Public Limited Company'. The 'UNLIMITED LIABILITY' section lists 'Sole trader' and 'Partnership'.
- | LIMITED LIABILITY | UNLIMITED LIABILITY |
|---|--|
| Peer-to-peer funding / Overdraft / Grant / Bank loan / Personal savings / Retained profit / Venture capital / Share capital / Business angel / Crowdfunding / | Peer-to-peer funding / Bank loan / Personal savings / Crowdfunding / |

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Activity 5 – Relevance of a business

1.

Business plans show...
Example answers might include:
<ul style="list-style-type: none"> • They show how a business plans to earn money • Present the competition • Plans lay out the financial requirements, i.e. methods/sources • Forecast gains/losses in cash flow and profit • The market for the product/service • Potential risk for the investor

2. A potential investor: this stakeholder will want to understand the potential of the business and the funds. The potential investor may also require shares in the company and how many shares they receive.

A bank: this stakeholder will want to see the forecast of cash flow and profit and how long it will take for the business to pay back its loan.

The business owner: needs to know the equipment and capital that is required. The business owner also needs to know how long it will take to build the business into a profitable one and the potential cash flow that will be available to pay expenses.

Activity 6 – Planning: Cash-flow forecast – interpretation and use/limitations

1. Cash-flow forecasts – example statements may include that forecasts predict a company's cash, that they show a firm's ability to pay its bills or that they provide information to potential investors.

2. (a)

All figures in £000	Jan.	Feb.	Mar.	Apr.	
OPENING BALANCE	35	38	39	43	
INFLOW					
Sales	36	37	41	53	
TOTAL INFLOW	71	75	80	96	
OUTFLOW					
Raw materials	5	8	9	13	
Wages	14	14	14	14	
Factory rental	5	5	5	5	
Marketing and advertising	2	2	2	10	
Other expenses	7	7	7	7	
TOTAL OUTFLOW	33	36	37	49	
CLOSING BALANCE	38	39	43	47	

2. (b) Students should show understanding that the business is predicted to be profitable over the next 12 months roll on. This is likely because, as the weather improves in the summer, more people are likely to be interested in purchasing DIY equipment, such as ladders.

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Activity 7 – Sales forecasting

- Students should show understanding that companies forecast their sales to inform business decisions, such as recruiting the right number of staff to cope with the level of production.
- There will be a few peaks in the winter and spring months, followed by a dip, and finally, a spike of sales in December. This spike will most likely be due to families buying toys for their children and grandchildren.
 - Students should show knowledge of at least one factor that can affect sales trends, economic variables or actions of competitors. In this case, competition could be responsible for the eventual drop in popularity of loom bands and Achievers Ltd.

Activity 8 – Sales volume and sales revenue, fixed costs

- $\text{Sales Volume} = \frac{\text{Sales Revenue}}{\text{Selling Price}}$
 - $\text{Sales Revenue} = \text{Selling Price} \times \text{Sales Volume}$
- $\text{Sales Volume} = \frac{330,000}{30.00}$
 $\text{Sales Volume} = 11,000 \text{ units}$

FIXED COSTS FOR JACK FOLDER	VARIABLE COSTS FOR JACK FOLDER
Examples might include: <ul style="list-style-type: none"> - Rent of premises - Utilities - Interest on loans - Staff salaries 	Examples might include: <ul style="list-style-type: none"> - Materials for producing sales - Transport costs - Temporary labour

Activity 9 – Break-even

- The difference between the variable costs of a product and the amount received from selling it.
- $\text{Break-even Point} = \frac{\text{Total Fixed Costs}}{\text{Contribution per Unit}}$
 Contribution: £22.00
 $\text{BE Point} = 2,000 / 22$
 $\text{BE Point} = 90.91 \text{ (to 2 dp)}$
- Increases the selling price to £52.00
 Contribution = £32.00
 $\text{BE Point} = 62.5$
 - Increases its variable cost per unit to £22.00
 Contribution = £20.00
 $\text{BE Point} = 100$

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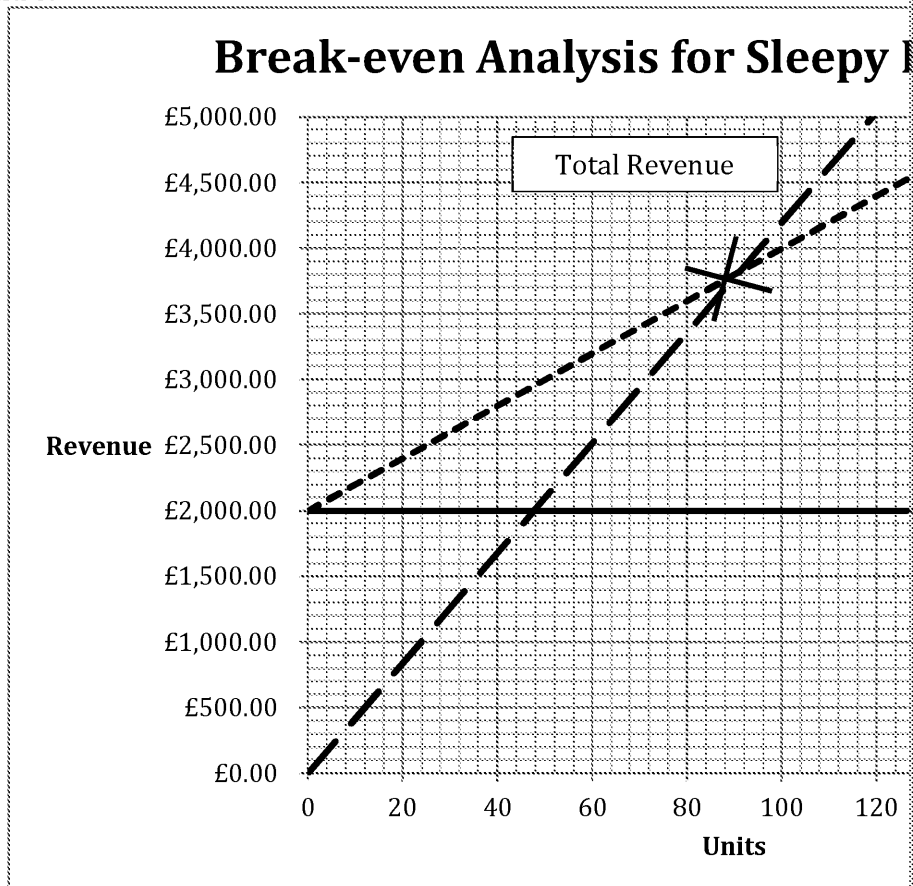
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Activity 10 – Break-even: Interpretation and limits

- Students should show understanding that break-even represents the point where the total cost of producing a good and the revenue earned by selling it are equal. An increase in price leads to a higher break-even point equals profit while a decrease equals loss.

2. and 3.



- Answers might include:

- break-even works best if the product is always sold at one price;
- break-even only includes those costs that Cat's Cradle Ltd can plan for;
- similarly, break-even does not account for external factors;
- the fact that Cat's Cradle Ltd produces its goods is not a guarantee that it will sell them;
- if Cat's Cradle Ltd buys its next stock in bulk, the variable costs are likely to fall;
- break-even shows that revenue always increases with price; however, a price increase may also reduce demand and, therefore, revenue.

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Activity 11 – Budgets: Historical vs zero-based budgets

- Examples might include:
Budgets are a forecast of what the firm will spend. Budgets fall in line with the firm's strategy.
Budgets help firms communicate their targets. Budgets motivate employees.

- | DIFFICULTIES | |
|--|--|
| This method can be extremely time-consuming. | |
| Departments can feel an expectation to spend a certain amount of money, regardless of what they really need. | |
| Managers can become complacent with their companies' budgets. | |
| These budgets can be very tight, especially if managers are interested only in profit. | |

- Either budget is acceptable with adequate explanation.

Students could show understanding that, since Coca-Cola is a giant multi-national company would most likely opt for historical budgeting. This also gives them fewer worries and so it can focus on creating exceptional marketing campaigns.

On the other hand, students may argue that Coca-Cola would not have got its costs down. Therefore, the firm may be likely to evaluate all budgets. If no part of the company becomes complacent.

Activity 12 – Budgets: Variance analysis

- Students should make mention of variance analysis and whether a budget is favourable or unfavourable.

- | Department | Budget | Actual Spend | Variance |
|-----------------|---------|--------------|----------|
| Operations | £9,000 | £9,650 | 650 |
| Human Resources | £7,000 | £6,200 | 800 |
| Marketing | £5,000 | £3,400 | 1,600 |
| Purchasing | £23,000 | £23,000 | 0 |

- An example difficulty may be that the business decides to decrease the budget because it had such a favourable year. However, what worked last year may not work this year because of unforeseen factors, costs or trends.

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Activity 13 – Profit: Gross, operating and profit

- Gross profit = *Revenue* – Cost of Sales
 - Operating Profit = *Gross Profit* – Other Operating Expenses
 - Net profit = Operating Profit – *Interest*
- Gross profit = 120,500 – 60,000 = **£60,500**
 - Operating Profit = 60,500 – 41,500 = **£19,000**
 - Net profit = 19,000 – 5,437 = **£13,563**

Activity 14 – Profit: Profitability

- Revenue
- $$\text{Gross Profit Margin} = \frac{169,000}{251,000} \times 100 = \mathbf{67.33 \text{ per cent (to 2 dp)}}$$

$$\text{Operating Profit Margin} = \frac{118,000}{251,000} \times 100 = \mathbf{47.01 \text{ per cent (to 2 dp)}}$$

$$\text{Net Profit Margin} = \frac{97,431}{251,000} \times 100 = \mathbf{38.82 \text{ per cent (to 2 dp)}}$$
- Students should show understanding of how to improve profitability, such as reducing the amount of raw materials required per product, increasing the efficiency of the work force, or increasing the price of goods if there is demand for it.

Activity 15 – Liquidity: Balance sheet

Questions will be individual to each student, e.g. 'Do Net Assets and Total Equity balance?' to which the answer is 'yes, since the balance sheet needs to balance'.

Activity 16 – Working capital and its management

1.

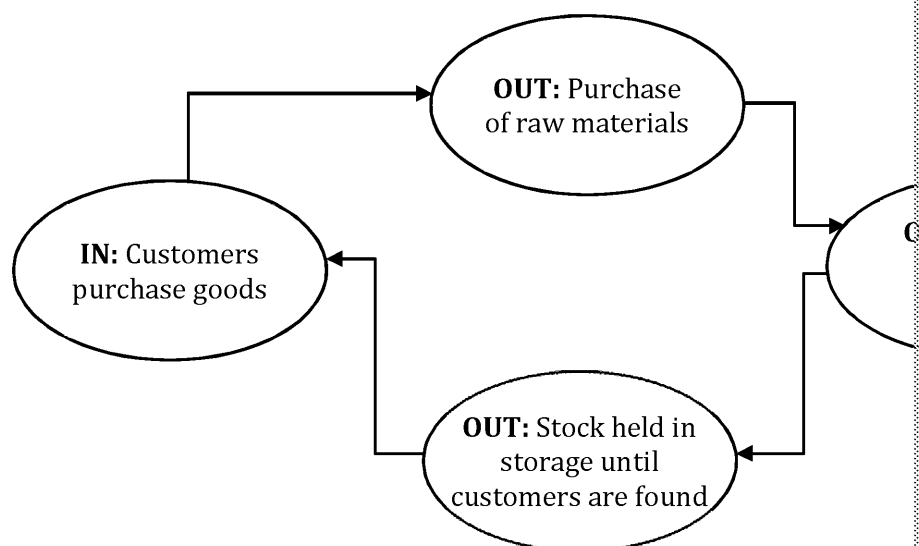


Diagram: The Working Capital Cycle

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2.

Business Type	Reordered List	
Newsagent	1	Al
National publisher	2	Hot
Independent greengrocer	3	Nationa
Airline	4	Greengroce
Hotel chain	5	Newsagent

Activity 17 – Business failure: Internal and external

1.

BUSINESSES FAIL BECAUSE OF...

Example answers might include:

Efficiency, planning, motivation, innovation, marketing, state market, exchange rates, currency strength, oblivious to fashion external shocks, export/import demand.

2. Students should show understanding of the market. The computer market that, in the 1980s, saw large corporations such as Microsoft and Apple in perhaps did not innovate in order to compete – or perhaps the firm cut to offer low prices. Consumer tastes change and Commodore's cheap image few people wanted.

Activity 18 – Production, productivity and

1. Example answers below, though some businesses can exist in more than

JOB PRODUCTION	BATCH
Board-game model painter, Housebuilding firm	Luxury boat manufacturer, Dog toy producer
FLOW PRODUCTION	CELL
Breakfast cereal producer	Atlas publisher, MP

2. (a) Car manufacturers generally use *FLOW* production because *they produce large scale and so often dedicate entire factories to the production of*
- (b) Bakers generally use *BATCH* production because *the business can't bake enough to sustain all potential orders, before switching to the*
- (c) A clay artist would generally use *JOB* production because *artwork is that an artist can only respond to product demand as and when it comes*

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Activity 19 – Production, productivity and

- Students should show understanding that James Sinegal believes by offering high wages will motivate its employees enough in to increase productivity.
- One drawback may be that not every employee receives the high wages, a less productive workforce. Another drawback may be that, after a period of high wages, employees may demand even higher wages. In order to keep up with inflation, the business may continually increase this rate. Another drawback is that a business that focuses on wages and nothing else may appear to care about money over anything else, which is not a motivator for many workers.

FACTORS OF PRODUCTIVITY	POTENTIAL
Purchase new equipment	Training may be involved
Increase the amount of employee training	Some employees may be lost
Increase the number of working hours	Most employees will not work longer hours

Activity 20 – Production, productivity and

- One: e.g. database of items bought and sold
Two: e.g. further digitisation of internal communications
Three: e.g. replacing labour-intensive processes with technology, such as automation.
- (a) Microsoft Corporation produces the majority of its goods and services through service production.
(b) Businesses maximise their *efficiency* by producing units at the minimum cost.
- Students should show understanding of the benefits of technology with reference to the fact that it can help businesses speed up their processes and produce more goods and services. Drawbacks could also be mentioned, such as a firm bringing technology in that does not fit with the overall functioning of the business.

Activity 21 – Capacity utilisation

- (a) 125,000 kg of grain per month
Capacity Utilisation = $\frac{125,000}{150,000} \times 100 = 83.33$ per cent
(b) 200,000 kg of grain per month: 133.33 per cent
(c) 91,000 kg of grain per month: 60.67 per cent

ISSUES FROM UNDER-UTILISATION OF CAPACITY	ISSUES FROM OVER-UTILISATION OF CAPACITY
1. The workforce has little drive to achieve to the best of its ability.	1. The business may not meet demand if it is not anticipated.
2. For example: Fixed costs are higher per unit the fewer goods/services a firm produces.	2. For example: The business may become overloaded.
3. For example: Competitor with better capacity utilisation may have a competitive advantage.	3. For example: The business may have higher costs.

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Activity 22 – Capacity utilisation

1. (a) Capacity utilisation = $\frac{81,000}{150,000} \times 100 = 54$ per cent
 (b) Phil's Mills Ltd is currently at under-utilisation of capacity.

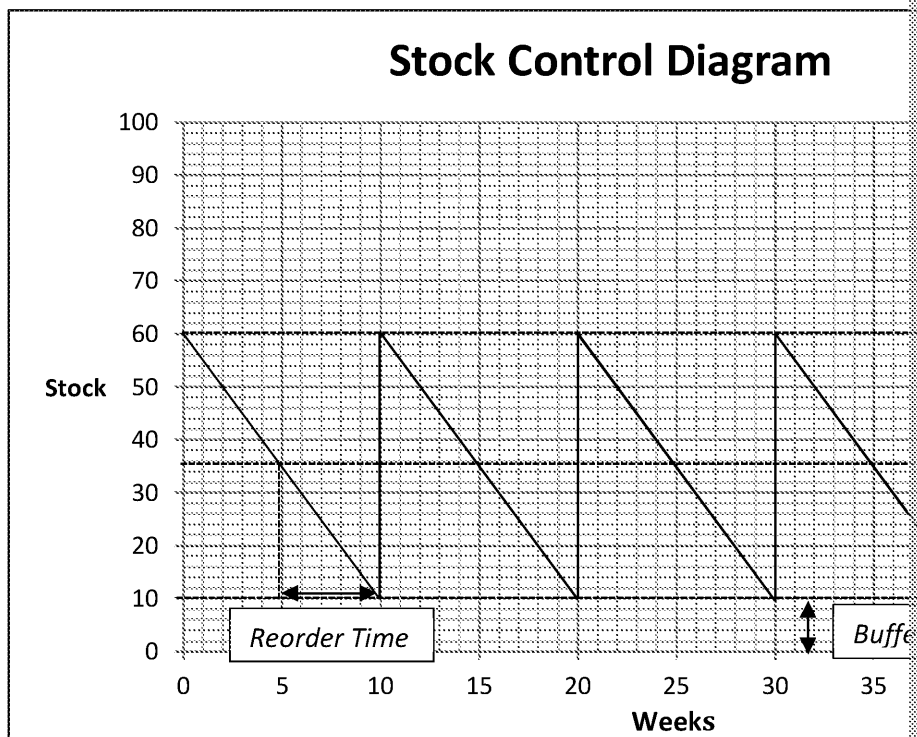
2.



3. Students should show understanding of the methods that can help improve capacity utilisation, which ones in particular relate to Philippa's case. If her factory is able to produce 150,000 kg, for example, but she is only putting out 81,000 kg, it might be time to sell off assets.

Activity 23 – Stock control

1.



2. Students should be able to describe each phrase without repetition, e.g. 'the optimum amount of inventory a company can hold' or 'reorder point'. The important point is that an answer is given for each phrase and the student must guess the term from its description.

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Activity 24 – JIT and lean production

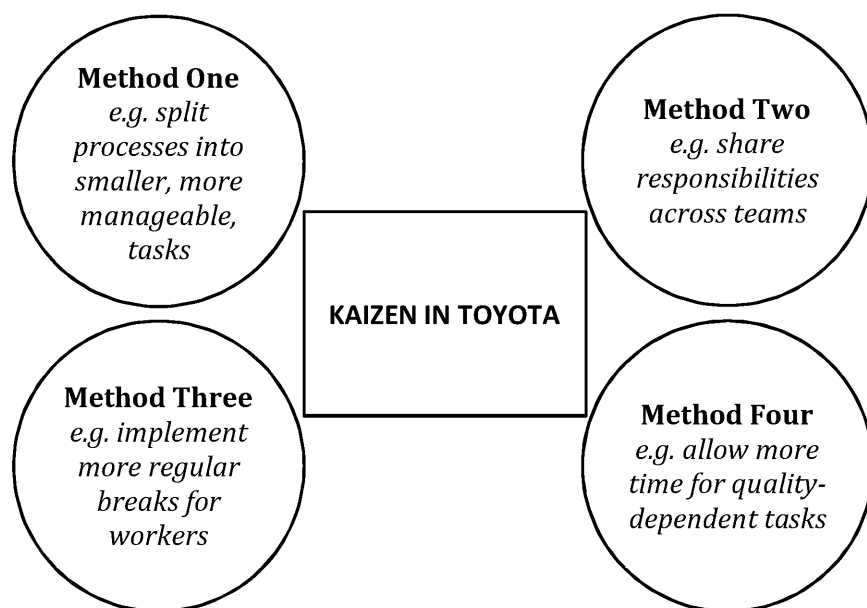
- Lean production is a form of production that focuses on waste minimisation and maximum efficiency.
- (a) Just-In-Time (management)
(b)

Reasons for Using JIT	Counterarguments
1. It's a time saver since stock does not need to stay on the shelves for months on end.	A. The supplies may not be reliable. It may be difficult to achieve.
2. With fewer supplies in stock, the business can focus on efficiency.	B. It is difficult to manage if they suddenly change their requirements.
3. It's a money saver since the company will only purchase stock when necessary.	C. JIT can be expensive as it needs a lot of planning and data.

Activity 25 – Quality management

- Kaizen is...
(c) a philosophy that encourages continuous improvement from all areas of the business.

2.



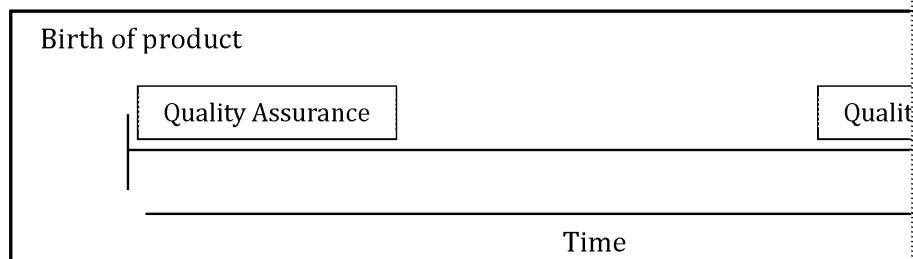
- Students should show understanding of what objectives businesses try to achieve. They should be able to motivate employees, increase productivity, reduce wasteful practice and relate this to their class. An example of this may be for the teacher to flip the classroom and have students do their classwork at home and then discuss it in the next lesson. It is a larger transformation, such as motivating students who are more suited to learning in a different way.

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Activity 26 – Quality management: Control

1.



Students may also wish to mention that quality assurance is an ongoing process that happens once at the beginning of the production process.

2.

	Quality Control	
Reactive or Proactive?	Reactive	
Why Do Businesses Use This?	Firms use QC in order to fix any issues in a product before it is released.	Firms use QC in order to fix any issues in a product before it is released.

3. Students should show understanding that business aims affect how much quality. A company that sells low-value furniture, for instance, may consider quality a lower priority than someone like John Lewis.

Activity 27 – Economic influences: Effect on businesses exchange rates, etc.

1.

JUMBLED	UNJUMBLED	IMPACT
ILOFNINAT	Inflation	e.g. raises the value of money, customers become more price sensitive
INSTEETR TSAER	Interest rates	e.g. loan repayment costs decrease, businesses can borrow more cheaply
XATNIATO	Taxation	e.g. increase in VAT, income tax allows businesses to keep more profit
EHT SBISENUS CCLEY	The business cycle	e.g. a recession where consumers are worried about the future
ACNEXEGH ERSAT	Exchange rates	e.g. a strong local currency means the price at which foreign goods are sold is high

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Activity 28 – Economic influences: Effect of economic business environment

1. Microeconomics indicates the factors that lay within a business's immediate environment, on the other hand, describes the factors that are out of a business's immediate environment.

2.

1. If the world's supply of cotton was halved, supplies would be scarce.



2. SUPPLIERS: Cotton becomes a precious commodity and so suppliers charge higher prices.



3. PRODUCERS: The charge from suppliers means that producers must increase prices to cover the costs.



4. CONSUMERS: Cotton products become luxury items and so the price increases.

Activity 29 – Legislation

1. The answer is 'health and safety', though students could argue for 'employment protection'.

2.

Legislation	Effects
Consumer protection	This type of legislation... e.g. can increase competition that the company reduces its waste.
Employee protection	This type of legislation...e.g. can increase productivity as working conditions improve.
Environmental protection	This type of legislation... e.g. can reduce the cost of production for the business and, therefore, save money.
Competition policy	This type of legislation... e.g. can lead to price fixing or collusion.
Health and safety	This type of legislation... e.g. can promote productivity by being worker-focused.

Activity 30 – The competitive environ

1. Students should show understanding of how pricing, marketing and product development can be used to gain a competitive advantage. Amelia and Freya may feel pressure to lower their prices or offer more discounts, but they could also be inclined to increase the number of products and services that they offer. Evans Cycles has more assets than Amelia and Freya. The firm has a strong brand and Amelia and Freya may need to come up with something that gives them obvious advantages over Evans, such as providing one-to-one classes on bicycle repair or partnering with a local business to provide transportation to people in developing countries. The pair could also provide services for only two people, and a single, independent store, rather than a countrywide chain.
2. Decide which of your proposed changes is the most important for Amelia and Freya's business. Prepare to debate this with your peers!

MOST IMPORTANT CHANGE TO MAKE TO AMELIA AND FREYA'S BUSINESS

QUICK NOTES

Students can argue any change they deem necessary, but must provide information to back up their claims

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