

COMPONENT 3 SYNOPTIC 1

START

1 **State** two examples of inflows for a business.

2 **State** three examples of running costs for the business.

3 **State** three examples of start up costs for the business.

4 **Define** what is meant by external finance.

14 **Explain** how increasing the product range will affect Rowan's break-even.

BUSINESS PROFILE

Rowan has recently set up a toy shop in his local town. He manufactures and sells wooden toys, along with traditional games, within his shop. He uses his business van to pick up supplies each week and manufactures the toys in a specialist engineering workshop at the back of his shop.

Rowan's financial data:

	Toys		Games	
	Year 1	Year 2	Year 1	Year 2
Items sold	5,000	1,000	6,000	8,000
Selling price per item	£5	£8	£6	£6
Total revenue	£25,000	£8,000	£36,000	£48,000
Fixed costs	£6,000	£7,500	£8,000	£10,000
Variable costs	£10,000	£2,000	£24,000	£16,000
Breakeven point	2,000	1,250	4,000	2,500



12 **Explain** why knowing the margin of safety will help Rowan's business.

11 **Outline** the key benefits of Rowan using break-even analysis.

10 **Discuss** the impact of changes in costs and revenue for Rowan's business.

9 **Explain** why not having enough cash to pay his bills would be a risk to Rowan's business.

5 **Identify** three examples of external finance.

6 **Calculate** the variable cost per unit for Toys for Year 1 and Year 2.

7 **Identify** three examples of cash outflows for Rowan's business.

8 **Explain** two risks if Rowan decides not to produce a cash flow forecast.

COMPONENT 3 SYNOPTIC 1 SUGGESTED ANSWERS

1 State two examples of inflows for a business.

Sales/revenue, sale of assets, sources of finance.

2 State three examples of running costs for the business.

Electricity, fuel for van, insurance, business rates.

3 State three examples of start up costs for the business.

Premises, van, fixtures and fixtures, engineering equipment/resources.

4 Define what is meant by external finance.

External finance is money that is sought from outside the business.

14 Explain how increasing the product range will affect Rowan's break-even.

Reach breakeven point sooner as fixed costs are spread over more sales/new stock might be cheaper. However, break-even point will be higher as new stock may be more expensive.

13 Justify whether Rowan should lower his prices to improve his profits.

Likely to sell more/earn more revenue, if he increases his sales by a large enough amount, especially in the highly competitive toy market. However, lowering his prices may not attract anymore customers and therefore could lose sales and decrease profits.

12 Explain why knowing the margin of safety will help Rowan's business.

The margin of safety helps to know how many sales/output he can lose before he starts to make a loss. This will allow planning to maintain/increase sales.

11 Outline the key benefits of Rowan using break-even analysis.

It shows Rowan his margin of safety. Identifies output level/sales a business needs to make a profit. Calculates the profit/loss at a given level of output. Can help with what price to charge/level of output required to cover all costs. Shows the levels of profit/loss made when costs change.

10 Discuss the impact of changes in costs and revenue for Rowan's business.

Toys: Variable cost per unit has remained unchanged between Year 1 and Year 2 at £2 per unit. Sales and revenues have fallen between the two years. Breakeven point is lower for toys now. Not enough toys are being sold to cover the breakeven level of output. Profit levels have fallen to the point that toys now make a loss due to high price rise. Although total costs are lower, the revenue has fallen drastically due to a fall in sales and the higher selling price.

Games: Selling price remains unchanged. Variable costs have been lowered from £4 to £2 per game made. Fixed costs increased between Year 1 and Year 2. Number of games sold increased (could be for quality reasons for example). Variable cost reduction has led to a fall in breakeven output. Margin of safety increased as a consequence. Profit levels have greatly increased as a result of the cost reduction.

5 Identify three examples of external finance.

Any from: loan, mortgage, lease, hire purchase, credit cards, grants, trade credit, venture capital.

6 Calculate the variable cost per unit for Toys for Year 1 and Year 2.

Year 1: £10,000/5,000 = £2.00

Year 2: £2,000/1,000 = £2.00

7 Identify three examples of cash outflows for Rowan's business.

Insurance, raw materials, equipment, fuel, rent/mortgage, utility bills.

8 Explain two risks if Rowan decides not to produce a cash flow forecast.

Any from: Might overspend. Might set other budgets incorrectly. Might overestimate/underestimate costs/revenues. Might raise unnecessary finance. May forget payment(s).

9 Explain why not having enough cash to pay his bills would be a risk to Rowan's business.

Rowan may have bad relationships with his suppliers meaning they wouldn't supply his business in the future. Rowan's suppliers might take steps to recover their money/Rowan may face legal action, which may lead to Rowan becoming insolvent. Rowan may end up in debt, which may threaten the survival of the business.

TIME TO REVIEW YOUR LEARNING...
List three content points that you are confident with and three that require some attention.

Confident with	Requires attention
1	1
2	2
3	3