

COMPONENT 3 LEARNING AIM B

START

1 State four types of financial documents businesses use.

2 Outline the purpose of the following documents: invoice, delivery note, statement of account.

3 Outline one reason why it is important that these documents are completed accurately.

4 State four types of payment methods.

14 Explain the difference between liquidity and profitability.

BUSINESS PROFILE

Statement of Comprehensive Income

Two coffee enterprises are competing for business: Business A offers simple, basic coffee, whilst Business B is an upmarket coffee shop, offering a wide range of coffee options.

	Business A	Business B
Expenses	Year 1: £400 Year 2: £500	Year 1: £500 Year 2: £600
Cost of sales	Year 1: £400 Year 2: £300	Year 1: £350 Year 2: £400
Turnover	Year 1: £750 Year 2: £900	Year 1: £1,100 Year 2: £1,200



Figures obtained from Business B's accounts (£)

Trade Creditors	18 000
Dividends	12 500
Stock	34 000
Vehicles	45 000
Debtors	26 000
Land & Buildings	110 000
Bank	12 000
Machinery	150 000
Taxation	19 500
Long term loan	75 000
Capital	130 000
Share Premium Account	40 000
Profit & Loss Account	82 000

13 Using the Statement of Financial Position, **calculate** the total assets and liabilities of the business.

12 Outline how both businesses can improve their Gross and Net Profit Margins %.

6 Give the **formula** for how to calculate turnover (net sales).

7 Based on Business A producing 300 coffees in Year 1, **calculate** the average selling price.

11 Calculate the Net Profit Margin % of both businesses in both years

Business A	Business B
Year 1:	Year 1:
Year 2:	Year 2:

10 Calculate the Gross Profit Margin % of both businesses in both years

Business A	Business B
Year 1:	Year 1:
Year 2:	Year 2:

9 Calculate the Net Profit of both businesses in both years.

Business A	Business B
Year 1:	Year 1:
Year 2:	Year 2:

8 Calculate the Gross Profit of both businesses in both years.

Business A	Business B
Year 1:	Year 1:
Year 2:	Year 2:

COMPONENT 3 LEARNING AIM B SUGGESTED ANSWERS

1 State four types of financial documents businesses use.

Any from: invoice, delivery notes, purchase orders, credit notes, receipts, statement of account.

2 Outline the purpose of the following documents: invoice, delivery note, statement of account.

Invoice: to keep a record of a sale. **Delivery note:** description of a shipment and proof of delivery. **Statement of account:** statement showing billings to and payments from a customer.

3 Outline one reason why it is important that these documents are completed accurately.

Any from: financial transparency, tax liability, mitigate errors, builds trust, improves payment times, better decision making and forecasting.

4 State four types of payment methods.

Any from: cash, credit cards, debit cards, direct debit, payment technologies.

14 Explain the difference between liquidity and profitability.

Profitability refers to profits which the business has made during the year, whereas liquidity refers to the availability of cash within a business at any point in time. A profitable business may not be a liquid one because it may not have taken receipt of funds due to it.

13 Using the Statement of Financial Position, calculate the total assets and liabilities of the business.

Assets: Land and buildings (110,000) + machinery (150,000) + Vehicles (45,000) + Stock (34,000) + Debtors (26,000) + Bank (12,000) = £377,000

Liabilities: Trade creditors (£18,000) + Taxation (19,500) + Dividends (12,500) + Long term loan (75,000) = £125,000.

12 Outline how both businesses can improve their Gross and Net Profit Margins %.

Improve GPM: reduce cost of sales i.e. bulk buying supplies, sourcing cheaper suppliers increase turnover i.e. more advertising, sales promotions, change the price.

Improve NPM%: reduce expenses i.e. cutting back on unnecessary expenditure, finding alternative suppliers, increase revenue e.g. more advertising, sales promotions, change price - being careful that any increase in costs is not greater than any subsequent increase in turnover.

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

Confident with

1

2

3

11 Calculate the Net Profit Margin % of both businesses in both years.

Business A

Year 1: $(50/750) \times 100 = -6.67\%$

Business A

Year 2: $100/900 \times 100 = 11.11\%$

Business B

Year 1: $250/1100 \times 100 = 22.73\%$

Business B

Year 2: $200/1200 \times 100 = 16.67\%$

Requires attention

1

2

3

10 Calculate the Gross Profit Margin % of both businesses in both years.

Business A

Year 1: $350/750 \times 100 = 46.67\%$

Business A

Year 2: $600/900 \times 100 = 66.67\%$

Business B

Year 1: $750/1,100 \times 100 = 68.18\%$

Business B

Year 2: $800/1,200 \times 100 = 66.67\%$

5 Identify which of the following are start up and running costs: machinery, electricity, premises purchase, broadband charges, raw materials, business rates, equipment, van.

Start up: machinery, premises purchase, van, equipment.

Running costs: electricity, broadband charges, raw materials, business rates.

6 Give the formula for how to calculate turnover (net sales).

Selling price x number sold.

7 Based on Business A producing 300 coffees in Year 1, calculate the average selling price.

£750/300 = £2.50.

8 Calculate the Gross Profit of both businesses in both years.

Business A

Year 1: $750 - 400 = £350$

Business A

Year 2: $900 - 300 = £600$

Business B

Year 1: $1,100 - 350 = £750$

Business B

Year 2: $1,200 - 400 = £800$

9 Calculate the Net Profit of both businesses in both years.

Business A

Year 1: $350 - 400 = (£50)$

Business A

Year 2: $600 - 500 = £100$

Business B

Year 1: $750 - 500 = £250$

Business B

Year 2: $800 - 600 = £200$