COMPONENT 3 SYNOPTIC 3

tutor2u

START

1 Define the meaning of each term: variable costs, loss.

2 Carol's total costs three years ago were £87,927 and her total revenue £134,259. Calculate the profit Carol made.

3 State two examples of cash inflows.

4 Identify which section of the statement of financial position the following items fit into: vans, premises, stock, loan, debtors, cash, suppliers (creditors).

BUSINESS PROFILE

Carol is a gardener, who grows fruit and veg to sell at the local market. She has to pay rent on an allotment and has to buy all the plants and seeds to grow the produce. She is currently making a loss and is considering whether to open a shop in her local town. She knows she has to understand a variety of financial documents to ensure she starts to make a profit.

	Year 1	Year 2	Year 3	Year 4
Selling price	£20	£20	£30	£35
No. of sales	500	500	500	500
Variable costs				
Packaging	£1,000	£1,200	£1,500	£2,500
Seeds	£3,000	£3,800	£7,500	£10,000
Fixed costs				
Water	£600	£600	£750	£1,000
Business rates	£600	£600	£750	£1,000
Equipment	£1,200	£1,200	£1,500	£2,000
Breakeven point	200	240	250	400

5 Identify two elements of the promotional mix and define what they mean.

6 Give the formula for total costs.

7 Calculate the total costs for Years 1, 2, 3 and 4.

8 Assess the effects of changing costs and revenues for Carol's business.

9 Explain two ways Carol can improve her gross profit.

10 Explain why opening a shop might not increase Carol's net profit.

11 State two internal sources of finance.

12 Carol is considering a mortgage to purchase the property. Explain one benefit of using a mortgage to purchase the property.

13 Explain the purpose of creating a cash flow forecast.

14 Explain why being able to forecast the net cash flow would be helpful to the survival of Carol's business.

COMPONENT 3 SYNOPTIC 3 SUGGESTED ANSWERS

1 *Define the meaning of each term: variable costs, loss.*

Variable costs: costs that change with output.

Loss: when costs are higher than revenue.

2 *Carol's total costs three years ago were £87,927 and her total revenue £134,259. Calculate the profit Carol made.*

£134,259 - £87,927 = £46,332

3 *State two examples of cash inflows.*

Sales, sources of finance eg: loan, owner capital, sale of assets, leasing funds.

4 *Identify which section of the statement of financial position the following items fit into: vans, premises, stock, loan, debtors, cash, suppliers (creditors).*

Vans (fixed assets), premises (fixed assets), stock (current assets), loan (long term liabilities), debtors (current assets), cash (current assets) suppliers (current liabilities).

5 *Identify two elements of the promotional mix and define what they mean.*

Any from:

- Advertising methods: moving image, print, ambient, digital, audio.
- Sales promotion: providing incentives to customers.
- Methods: coupons, competitions, money off, loyalty incentives, 'buy one get one free' discounts.
- Personal selling: face-to-face, by telephone, via email, through video or web conferencing.
- Public relations activities: promoting a product/ service, brand or enterprise by placing information about it in the media without paying for the time or media space directly: methods: exhibitions, sponsorship, press releases.
- Direct marketing to establish an individual relationship between the enterprise and the customer: methods: direct mail (junk mail), mail order catalogues, magazines, telemarketing.

6 *Give the formula for total costs.*

Fixed costs + variable costs.

7 *Calculate the total costs for Years 1, 2, 3 and 4.*

Year 1: (£1,000 + £3,000) + (£600 + £600 + £1,200) = £6,400

Year 2: (£1,200 + £3,800) + (£600 + £600 + £1,200) = £7,400

Year 3: (£1,500 + £7,500) + (£750 + £750 + £1,500) = £12,000

Year 4: (£2,500 + £10,000) + (£1,000 + £1,000 +£2,000) = £16,500

8 *Assess the effects of changing costs and revenues for Carol's business.*

Positive: Turnover from sales has increased year on year; each year is profitable; break-even point is increasing.

Negative: Sales constant at 500 units, packaging costs have increased, raw material costs have increased, fixed costs have increased, margin of safety has decreased, has to produce more to cover costs.

9 *Explain two ways Carol can improve her gross profit.*

Reduce the cost of sales raw materials/buy cheaper seeds. Change the selling price to stimulate more sales and generate a higher turnover.

10 *Explain why opening a shop might not increase Carol's net profit.*

Increase in costs, does not guarantee an increase in revenue, might increase competition.

11 *State two internal sources of finance.*

Retained profits, sale of assets, owner's funds.

12 *Carol is considering a mortgage to purchase the property. Explain one benefit of using a mortgage to purchase the property.*

Pay in monthly instalments, counts as an asset for the business, lower initial cost for the business.

13 *Explain the purpose of creating a cash flow forecast.*

Any from: Predict/forecast cash inflows for a business. Predict/forecast cash outflows for a business.

Identify where liquidity problems/ surpluses/deficits may arise.

14 *Explain why being able to forecast the net cash flow would be helpful to the survival of Carol's business.*

It would allow Carol to identify any shortfalls and therefore she can model solutions/improve cash inflows/reduce cash outflows. It would allow Carol to identify any surplus and therefore use cash more effectively in 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