



OCR GCSE Business Studies

Knowledge Organisers

Paper 2







Operations, finance and influences on business

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<b>Job production</b> 	Is the process of production where products are made individually
<b>Batch production</b> 	Is the process of production where one type of product is made and then production is switched to make a different product
<b>Flow production</b> 	Is production of one product that takes place continuously using a production or assembly line. This is sometimes called mass production.
<b>Automation</b> 	Is a production process involving machinery that is not controlled by a person but usually controlled by a computer
<b>Robotics</b> 	Is the use of robots in the process of production
<b>Production processes</b> 	Are the three methods or processes of production - job, batch and flow

Advantages of technology in the production process	Disadvantages of technology in the production process
<ul style="list-style-type: none"> <li>• <b>Costs are reduced</b> as the <b>number of workers required is reduced</b></li> <li>• Machines can be more <b>accurate - improving quality</b></li> <li>• Machines <b>can work 24/7</b></li> <li>• Production can be more <b>flexible</b> because the machine can be programmed to make different products</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Workers may be redundant</b> adding to the short term costs to a business</li> <li>• <b>New, skilled workers</b> may need to be recruited</li> <li>• Workers may need <b>training</b> which can be <b>expensive</b></li> <li>• Machines can <b>break down</b> and this will <b>disrupt</b> production</li> <li>• It can be <b>expensive</b> to buy and finance</li> </ul>

	<b>Job production</b> e.g. a bridge, piece of art work, item of furniture	<b>Batch production</b> e.g. loaves of bread, paint	<b>Flow production</b> e.g. motor car assembly
<b>Advantages</b>	<b>High-quality products</b> Can be made to <b>meet the needs</b> of customers	Batches are made to <b>meet specific orders</b> from customers <b>Costs can be reduced</b> by using some specialist machinery	<b>Large amounts</b> can be made <b>Unit costs are lower</b> Products are made with <b>accuracy</b>
<b>Disadvantages</b>	<b>Costs of production will be high</b> <b>Labour costs may be high</b> -skilled labour	It takes <b>time to switch production</b> It may be necessary to <b>keep stocks of materials</b> to be able to switch production Tasks may be <b>repetitive</b> and <b>boring</b>	<b>Very expensive</b> to set up a production line If the <b>production line stops</b> this will be <b>very costly</b> Jobs can be <b>repetitive</b> and <b>boring</b>





## Knowledge Recall

Practice the definitions for the key terms given above by using the **look, say, cover, write, check technique**.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Key term</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
Job production				
Batch production				
Flow production				
Automation				
Robotics				
Production processes				
Job production				

### Exam questions

'Delicious Cakes' is a successful business employing 10 employees. They focus on making unique, tailor made cakes to meet specific customer needs and have strong customer loyalty. They are renowned for their spectacular wedding cakes that are decorated with intricately designed flowers. The minimum price for one of their wedding cakes is £700.

### Knowledge

1. What is meant by the term 'job production'? (1 mark)

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2. What is meant by the term 'batch production'? (1 mark)

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### Analysis

3. Analyse one benefit of 'Delicious Cakes' using job production (3 marks)

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4. Analyse one drawback of 'Delicious Cakes' using batch production (3 marks)

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**U** – what does job production/batch production mean

**APP** – apply your understanding to 'Delicious Cakes' (use the case study)

**AN** – what is an **advantage** of using **job production** for 'Delicious Cakes'

- What is a **drawback** of using **batch production** for Delicious Cakes?



# knowledge and understanding

## 4.2 Quality of goods and services



<b>Quality</b>	Is about a product being fit for purpose
<b>Quality assurance</b>	Is an approach that involves the whole business focusing on quality, aiming to prevent quality problems arising
<b>Quality control</b>	Is a system for inspecting the quality of the goods or services produced and they are of a good standard
<b>Returns</b>	Are goods which customers take back to the shop because there are problems with the quality of them
<b>Recalls</b>	Are when a fault occurs with a product and the business asks for the product to be brought back so it can be repaired or replaced

### The importance of providing quality goods and services

- It avoids waste, which will reduce costs
- It avoids recalls, which will reduce costs
- It will affect the reputation and sales of a business. If a customer receives poor quality products, they may decide to buy from a competitor in the future
- Customers will continue to buy from the business in the future - repeat customers

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Quality control</b>	<ul style="list-style-type: none"> <li>• It can help to <b>prevent faulty goods</b> and services being sold</li> <li>• It is <b>not disruptive to production</b> - workers continue working and inspectors do the checking</li> <li>• May benefit from an <b>improved reputation</b> which may <b>increase sales</b></li> </ul>	<ul style="list-style-type: none"> <li>• It <b>does not prevent waste</b> of resources when products are faulty</li> <li>• The process of inspecting costs money e.g. wages of inspectors</li> <li>• It <b>does not encourage all workers to be responsible</b> for quality</li> </ul>
<b>Quality assurance</b>	<ul style="list-style-type: none"> <li>• There may be <b>less wastage</b> and this will <b>reduce production costs</b></li> <li>• <b>Workers may feel valued</b> because they have been given responsibility for quality and this may motivate them to work harder</li> <li>• A <b>better reputation</b> which may <b>increase sales</b></li> </ul>	<ul style="list-style-type: none"> <li>• It may <b>disrupt production</b> because workers are stopping to check the quality of what they have produced</li> <li>• It may <b>cost a lot to train workers</b></li> <li>• Workers may <b>worry about the extra responsibility</b> and may resist the introduction of quality assurance methods</li> </ul>





## Knowledge Recall

Practice the definitions for the key terms given above by using the **look, say, cover, write, check technique**.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Key term</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
Quality				
Quality assurance				
Quality control				
Returns				
Recalls				

**Activity:** Recall as many advantages and disadvantages of quality control and quality assurance as you can below. Ensure you learn these from the Knowledge organiser before attempting this.

	Advantages	Disadvantages
Quality control		
Quality assurance		



## Exam Questions

ABC Bicycles Ltd have been producing bikes for over 20 years and have recently introduced new machines to their production line to ensure that their bikes are produced to the highest standard. The machines check that all parts have been fitted accurately. Each employee is also responsible for checking each bike at each stage of the process. They also have to wear white gloves and clothing to ensure that the bikes do not get dirty during the production of the bikes. The business used to check the quality of their bikes using a quality control system. Two specially trained employees were responsible to check the quality of each bike. However, they found that this resulted in too many bikes not meeting the required standard and therefore classed as waste.

### Knowledge

1. What is meant by the term 'quality control'? (1 mark)

2. What is meant by the term 'quality assurance'? (1 mark)

### Explanation

3. Explain two possible reasons why ABC Bicycles Ltd uses quality control (4 marks)

**U** - 2 separate reasons why they use quality control

**APP** - apply each of these reasons to ABC Ltd (use the case study)

### Analysis






3. Analyse one benefit of the business using quality assurance (3 marks)

4. Analyse one drawback of the business using quality control (3 marks)

**U**

**APP**

**AN**

<b>E-commerce</b> 	Is the bringing together of buying and selling electronically
<b>Customer service</b> 	Is the name given to an area of business that deals with customer enquiries
<b>Customer engagement</b>	Is the contact between the business and customer
<b>Face to face selling</b> 	Is usually completed in a shop where there is direct contact between buyer and seller
<b>Telesales</b> 	Is sales completed over the telephone
<b>After-sales service</b>  After Sales Service Ensuring Customer Satisfaction	Is advice and help given to a customer after they bought a product or service
<b>Product knowledge</b>	Is the detailed knowledge of a product or service that staff within a business use to help persuade a customer to buy

### How a business might provide good customer service

**After-sales service is important because...**

It ensures customers are satisfied and encourages customer loyalty

**Good product knowledge is important because...**

It encourages the customer to make a purchase

**Customer engagement is important because...**

It encourages the customer to return to your business and increases customer satisfaction

Advantages to customers of using e-commerce	Disadvantages to customers of using e-commerce
<b>Price comparison</b> - customers can use these to find the best deal making their purchase cheaper <b>Seven-day availability</b> - the customer can buy whenever is convenient <b>Wide range of products</b> - customers have greater choice	<b>Lack of personal contact</b> <b>Security</b> - risk of having details stolen <b>Methods of payment</b> - customers are not able to use cash <b>Technology</b> - some customers may not be comfortable using the internet or have access to it <b>Only images of goods seen</b>
Advantages to businesses using e-commerce	Disadvantages to businesses using e-commerce
<b>Sell world wide</b> - bigger target audience <b>Open all the time</b> <b>Lower operating costs</b> - business often do not need a physical location now so do not need to pay these costs <b>Professional look at little cost</b>	<b>Worldwide competition</b> <b>Problems of delivering goods and accepting returns</b> <b>Online security</b> - they must keep data safe <b>Advances in technology</b> - the business must keep up to date with technology which can be costly



## Knowledge Recall

Practice the definitions for the key terms given above by using the **look, say, cover, write, check** technique.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Key term</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
E-commerce				
Customer service				
Customer engagement				
Face to face selling				
Telesales				

**Activity:** Decide whether the statements given below are an advantage or a disadvantage of e-commerce and who they are an advantage or disadvantage for, customers or the business. The first one has been completed as an example for you.

Statement	Advantage	Disadvantage	Who for?
Able to sell worldwide so more customers available	✓		Business
Online security			
Seven day availability			
Lower operating costs			
Advances in technology			
Lack of personal contact			

### Exam questions

JC Motors Ltd have been trading for 10 years. They specialise in selling high-end bespoke cars that start from £50,000 and can be as expensive as £300,000. They are renowned for their excellent customer service as they are always willing to go the extra mile to make customers feel special. Customers are offered a wide range of hot drinks and snacks on arrival that is served to them in the luxurious seating area. Children can be kept entertained with miniature electric cars that they can drive around the specially designed track. The staff have excellent knowledge about each car and are always available following the purchase of the car to answer any queries. JC Motors Ltd have also sold several cars to customers worldwide owing to their website that offers to ship their cars around the globe.

### Knowledge

1. Face-to-face selling involves:

- [a] advertising good on a website
- [b] a buyer meeting with a seller
- [c] a seller telephoning buyers to ask them if they want to buy
- [d] using a website to take orders from customers

Your answer

[1]

2. State three methods of selling (3 marks)

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### Explanation

3. Explain two possible ways JC Motors Ltd can provide good customer service (4 marks)

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### Analysis

4. Analyse one benefit of JC Motors selling their Cars online (3 marks)

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**U** - 2 separate ways to provide customer service

**APP** - apply each of these reasons to ABC Ltd (use the case study)



Fit for purpose	Means that goods must do what they are meant to do
As described	Means that goods must be as the business described them
Consumer law	Is the area of law that protects the customers of a business. This is mainly through the Consumer Rights Act 2015
Satisfactory quality of goods	Means that how the goods are made will reflect the price. A high-priced product must be of high quality
Reputation	Of a business is what customers say and feel about a business.

The Consumer Rights Act 2015 gives customer's protection when they buy goods and services.

It states they must be:

- Of satisfactory quality
- Fit for purpose
- As described



#### What these mean for a business using examples:

Of satisfactory quality	Goods must not be damaged or faulty when you buy them. The quality expected in different products should be taken into account. Cheaper 'bargains' should be expected to have a lower quality than luxury goods,
Fit for purpose	Goods must do what they are meant to do. If the seller claims that a product does a particular function, then it must be able to do that.
As described	Goods must be as you describe them. If you order orange trainers, then you should receive orange ones not blue ones.

#### The impact of consumer law on business

Advantages of consumer law for a business	Disadvantages of consumer law for a business
<ul style="list-style-type: none"> <li>• Improves business' reputation which could increase sales</li> <li>• Help to reduce recalls/ returns which will lower costs</li> </ul>	<ul style="list-style-type: none"> <li>• Can be expensive to provide training for employees to ensure they are producing satisfactory quality goods</li> <li>• If a business does not provide 'of satisfactory goods, customers may demand a refund which will increase costs and reduce profits</li> <li>• Customers can claim compensation of goods are not safe</li> <li>• They may also lose their reputation</li> </ul>





## Knowledge Recall

Match the definition to the key term by writing the right letter in the spaces beside the correct definition.  
Use the **look, say, cover, write, check technique** to learn the definitions first.

<b>A. Reputation</b>	[    ] Means that goods must be as the business described them
<b>B. Consumer law</b>	[    ] Of a business is what customers say and feel about a business.
<b>C. Satisfactory quality of goods</b>	[    ] Means that goods must be as the business described them
<b>D. As described</b>	[    ] Is the area of law that protects the customers of a business. This is mainly through the Consumer Rights Act 2015
<b>E. Fit for purpose</b>	[    ] Means that how the goods are made will reflect the price. A high-priced product must be of high quality

**Activity:** For each scenario given decide which part of the Consumer Protection Act has been broken and why.

<u>Scenario</u>	<u>Part of the law which has been broken and why</u>
Lisa buys a new washing machine but when she tries to use it for the first time she realises the start button does not work	
Mandy bought a new face cream that said it would eliminate wrinkles in weeks. Two months later she still has wrinkles.	
Tim bought a new top online which stated it was blue but when it arrives it is actually green.	
Oliver bought a jumper in the Next sale but when he gets it home he realises the seam is ripped.	

## Exam Questions

Delicious Cakes is family run business and has been running for 10 years. They have an excellent reputation with customers describing their cakes as 'excellent value for money'. They have only recently had an inspection in to how the business is run. The findings outlined that all of the equipment they use is up to date and they only use the freshest of ingredients with their fridge being checked daily. They also have clearly on display all of their ingredients that are found in the cakes so customers can check in connection to any allergies.

## Knowledge

1. State the three parts of consumer law that businesses must meet (3 marks)

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

### Discuss

Discuss the implications on Delicious Cakes of complying with Consumer Law (7 marks)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.

Use the advantages and disadvantages of complying with consumer law

**AP (2)-** use 2 pieces of information from the case study

**AN (2)-** analyse each piece of information ensuring you are discussing the implication for the business

**EV (3)-** is it more or less beneficial for them to comply with Consumer Law - why?



## 4.5 Business Location

**Location** - refers to the place where a business is sited.

**Proximity** - means 'nearness to' or how close something is

### Costs

- Locating in an area where the cost of land, premises or labour is low enables a business to save on costs
- Businesses need to transport raw materials and finished goods, so areas with good road, rail, sea or air links will keep transport costs low
- Access to reliable and cheap ICT communication, such as fast broadband.

### Proximity to the market

- Service businesses must locate near their customers i.e. a hairdresser will locate near to where consumers live
- Manufacturing businesses may locate near their customers for easier communication, i.e. a business that makes car components may locate near to the company that purchases them, to enable them to respond quickly to orders
- A business located near its customers may be able to reduce the cost of transporting products to this market i.e. a local bakery will not transport bread to

## Factors influencing business location

### Government

- The government may give businesses grants towards start-up costs, or it may reduce corporation tax for those businesses locating to an area of high unemployment, which may encourage firms to locate in enterprise zones, such as in South Wales

### Proximity to materials

- A business may locate near to a source of raw materials to save on transportation costs
- E.g. a cheese manufacturer may locate near to dairy farms so milk does not need to be transported a long distance.
- Shorter transport journeys are good for the environment as this minimises carbon emissions and enables the business to be more environmentally friendly. This also helps to reduce business costs.

### Proximity to labour

- A business needs a supply of skilled workers. 'Silicon Fen' is an area near Cambridge where many ICT firms and skilled workers are located, so an ICT business might wish to locate here
- A business that needs a lot of unskilled workers might locate in an area of high population and/or high unemployment







## Knowledge Recall

Using the words below, fill in the gaps to complete the paragraph

\_\_\_\_\_ to the market remains a very important \_\_\_\_\_ for many businesses. However, the growth of \_\_\_\_\_ selling and the reduction in \_\_\_\_\_ and shipping costs has made it possible for more and more \_\_\_\_\_ to compete, even when they are not \_\_\_\_\_ near to their customers. A business like \_\_\_\_\_ would be an example of a retailer which has competed effectively by being able to sell vast quantities at \_\_\_\_\_ prices.

proximity  
Factor

internet  
Low

Businesses  
Located

Amazon  
transport

**Activity:** For each of the situations suggest a reason why the business may have chosen these locations. Ensure you explain these.

Scenario	Reason why this location has been chosen
A dentist in the city of Birmingham	
A pea processing factory in an area of farmland	
Asda warehouse near the junction of several motorways	
A specialist bank in the financial district in London	
A small manufacturing business in an enterprise zone in South Yorkshire	

The Wool Warehouse was set up in 2012 in response to Holly and Andy not being able to get hold of the yarn Holly needed for a knitted blanket. They deliberately chose to set up their business in a warehouse instead of a high street shop as they felt that they could enter the online market easily as there were only 2 or 3 yarn suppliers online. The business grew quickly as online sales took off and in 2014 they doubled their warehouse space as their range expanded.

1. State three factors Holly and Andy would have considered when deciding their business location (3 marks)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Evaluate the decision by Holly and Andy to set up a business as an online only business. (7 marks)

of information for  
the case study

**AN (2)**- analyse  
piece of information  
ensuring you are  
discussing the  
implication for  
business

**EV (3)**- Do you think  
it was best to be  
online business or  
- why?

**EV (3)-** Do you think it was best to be an online business or not - why?



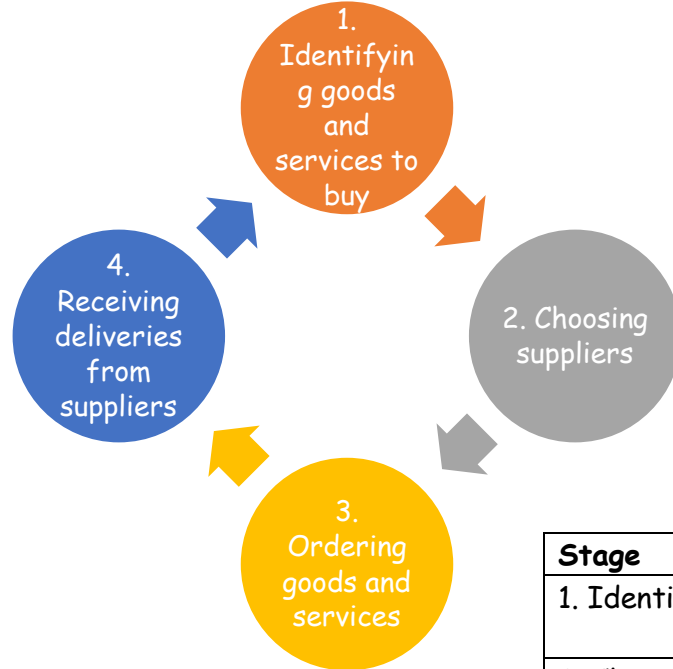
## 4.6 Working with suppliers

**Procurement** - the management of purchasing within a business

**Logistics** - the process of organising the transport of goods from the seller to the buyer

**Supply chain** - the chain of businesses involved in the production of a product and its delivery to the user.

Stages of the procurement process



knowledge  
and understanding

Issue	Explanation	Potential problem
Time	Supplier must be able to deliver the goods on time	Supplier may be short of materials or components which may delay its production of goods and services = lose sales and revenue
Reliability	Supplier must be able to supply the quantity and quality of goods needed by the customer	If the supplier is short of materials or they are not of sufficient quality, it may have to delay or stop production = lose sale and revenue
Length of the supply chain	A long supply chain (one with a large number of businesses) has an increased risk of problems occurring along the chain	Business which makes a component may not get the materials it needs and so cannot produce the components its customer needs to assemble its product
Costs	Customers will want delivery costs to be as low as possible but this must not be at the expense of reliability	High delivery costs may make the total production costs too high and the firm may not be able to sell its goods at a profit
Customer service	A supplier will need to provide customer service to deal with problems and enquiries from its potential and actual customers	The business may lose customers if businesses that buy from it are not happy with the service they receive.

Stage	Definitions
1. Identify goods and services to buy	What to buy can be influenced by the time of the year, fashion or technology
2. Choosing suppliers	Who can you buy from? What do they charge?
3. Ordering goods and services	The actual process of ordering and procuring goods.
4. Receiving deliveries from suppliers	When will the goods be delivered? Where will they be stored?



## Knowledge Recall

Practice the definitions for the key terms given above by using the **look, say, cover, write, check technique**.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Key term</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
Procurement				
Logistics				
Supply chain				

### **Activity:**

First put the 4 stages of procurement into the correct order then match the definitions to the stages.

### **Stages:**

1. Choosing suppliers
2. Receiving goods
3. Identify goods to buy
4. Ordering goods.

### **Definitions:**

- A. Who can you buy from? What do they charge?
- B. What to buy can be influenced by the time of the year, fashion or technology.
- C. When will the goods be delivered? Where will they be stored?
- D. The actual process of ordering and procuring goods.

<b>Stage</b>	<b>Definition</b>
1.	
2.	
3.	
4.	

### Exam Questions

In 2016, supermarkets such as Tesco were unable to buy enough custard cream biscuits to meet demand. The biscuits were made by Crawford's Biscuits at its factory in Carlisle. The factory was damaged during winter floods and this led to production being halted while the factory was refurbished. Once production re-started, fuel prices rose in the UK, leading to a rise in the cost of transporting goods.

### Knowledge

1. Explain what is meant by logistics (1 mark)

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2. Explain how logistics is involved in the production of custard creams (2 marks)

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3. Analyse the impact on Tesco of the problems with the supply chain of custard creams (3 marks)

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4. Analyse how the rise in fuel prices might affect sales of custard creams at Tesco (3 marks)

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**Identify** how  
logistics is  
used

**Apply** it to  
custard  
creams

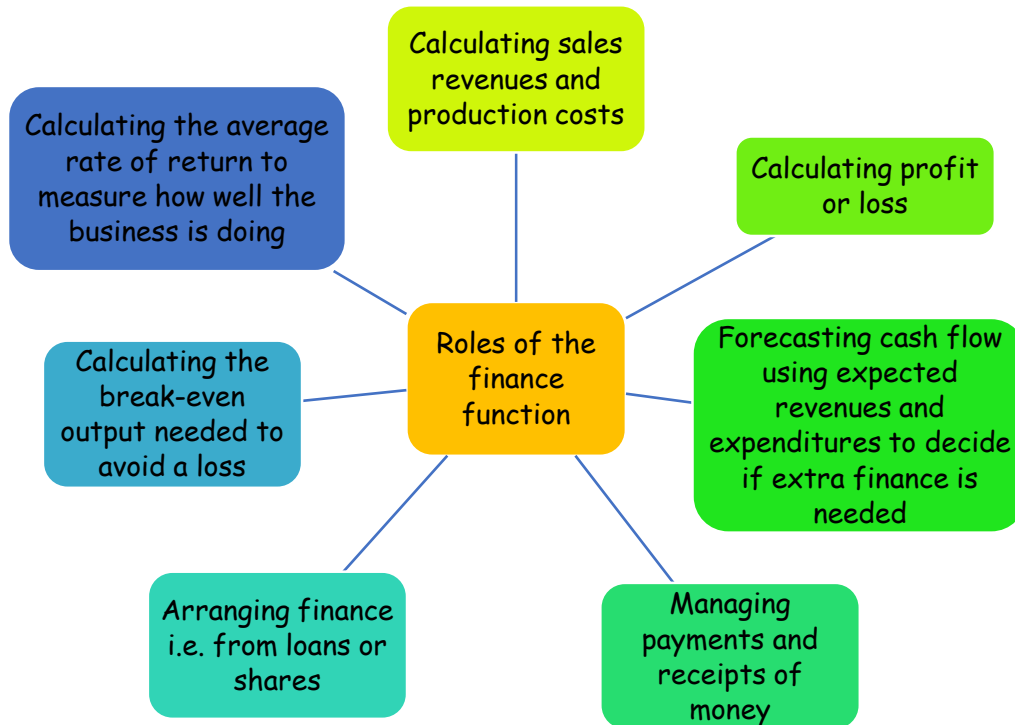
**U**

**APP**

**AN**



Role	The jobs that are done
Forecast	Is an estimate or prediction of what is to come
Finance	Money raised and used by a business
Finance function	Refers to the finance department, which is usually only found in larger businesses. Small businesses usually employ a firm of accountants to help them.
Financial information	Includes details of profit, loss, cash flow, break-even, profit margin and average rate of return. This information is used in business decision making



## 5.1 The role of the finance function

### Finance function and decision making

Example: Apple wants to bring out a new product. function would:



- create a cash flow,
- provide information on spending on marketing,
- create a break-even chart,
- provide information on production costs,
- provide information on potential profits
- compare the costs of different types of selling, such as online or through a shop.

### Supporting business decisions

Businesses may require financial information relating to many different issues and decisions. These may include:

- **A marketing campaign** - the finance function may set a budget to ensure that it does not spend money that the business cannot afford. During and after the campaign, the finance function may provide sales and profit information to review whether it was a success.
- **Business growth** - when making decisions about how to expand, managers will rely upon the finance function to provide information such as sources of finance, costs, break-even point and any forecasted changes in sales.
- **Economic change** - a change in the external environment, such as a recession, may require advice from the finance function about how the business can reduce its costs or improve its cash flow to ensure that it is able to survive.

These illustrates how departments in a business are interdependent (they are linked together)



## Knowledge Recall

Complete the multiple choice answers

1. Which of the following tasks is part of the role of the finance function?

- A Choosing which pricing method to use
- B Ordering raw materials from suppliers
- C Paying the wages and salaries of the employees
- D Providing cash flow information to management

Your answer

☐

2. Which of the following is the finance function of a business most likely to be concerned about?

- A The communication methods used by the business
- B The cost of running the business
- C The ethical profile of the business
- D The reputation of the business

Your answer

☐

**Activity:** For each of the business decisions listed below state the influence the finance function would have.

Business decision	Influence of the finance function
Being environmentally friendly	
Making staff redundant	
A business wants to expand production by building a new factory	
A business wants to change supplier to one with better quality goods	

## Exam Questions

Cheeseman Publishers produces guide books for particular geographic areas. The finance department has told the business owners that profits are likely to fall. Currently, books are designed in the UK and printed in Italy. The owners have asked the manager to look at ways of reducing costs. They also want to know if it would help if the prices they charge for the books were increase, and if new guide books on different areas would be useful.

## Evaluation

1. Evaluate the importance of the finance department in helping Cheeseman Publishers to be successful (9 marks)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

**Knowledge (1) -**  
define the role of the  
finance department

## Understanding (1) - of how finance is needed for success

**AP (2)- 2 ways**  
finance can support in  
their current  
situation (functions)

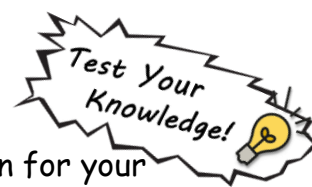
**AN (2)-** benefits of the 2 ways they can support

**EV (3)-** Do you think the finance department is that important to their success? - state why





	Short/medium/long term? Type of business available to	Advantages	Disadvantages
<b>Owners capital</b> – owners savings invested	Short, medium or long term, sole traders and partnerships	No need to repay the money <b>No interest</b> has to be paid No cost to raise the finance	<b>Limited to amount of savings they have</b>
<b>Retained profit</b> – money not given out as profit and kept within the business	Medium/ long term All businesses	<b>No interest</b> has to be paid <b>No need to repay money</b> <b>No cost to raise the finance</b>	Only available to businesses that have made a profit
<b>Sale of assets</b> – goods etc. owned are sold to raise money	Short, medium or long term All businesses	<b>Can raise large amounts of capital</b> depending how much the asset is worth Good if asset is no longer used	Can <b>take time to sell the asset</b> May not be possible to find a buyer
<b>Overdraft</b> – bank makes available more money than they have in their account	Short term All businesses	Can meet <b>short-term cash flow problems</b> Can <b>continue trading</b> in the short term	<b>Interest is charged</b> – it can be expensive
<b>Trade credit</b> – business sells goods after agreeing to pay for them at a later date	Short term All businesses	Allows the business buying the goods to sell them on to a customer before payment is made to the supplier Period of credit is <b>usually interest free</b>	<b>Interest is charged</b> if the credit is not repaid within the time limit
<b>Taking on a new partner</b> – the new partner invests their own money into the business	Long term, partnerships only or sole traders who become partnerships	May <b>bring new skills/ ideas</b> to the business <b>No cost to raise the finance</b>	The new partner will <b>have a say in the running of the business</b> The new partner will be <b>entitled to a share of any profits</b>
<b>Loan</b> – set amount of money borrowed for a set period of time	Medium or long term All businesses	Repayment is <b>spread over a period of time</b> Paying in instalments can help with <b>budgeting</b>	<b>Interest has to be paid</b> Business may need to risk an asset as security
<b>Share issue</b> – new shares are sold to raise more money	Long term, limited companies only	<b>A lot of finance can be raised</b> from many investors Money does not have to be paid back <b>No interest</b> has to be paid	<b>Dividends may have to be paid</b> <b>Shareholders are entitled to have a say</b> in the running of the business The business <b>may be taken over</b> (PLCs)
<b>Crowdfunding</b> – money raised through an appeal to the public who are supporters of the business	Medium or long term All businesses	<b>A lot of money can be raised</b> from a lot of contributors Used for start-up or expansion	<b>Interest will need to be paid</b> on loans <b>Profits may need to be shared</b> if equities are sold



### Knowledge Recall

For each scenario given below decide what you think is the most suitable source of finance and then give a reason for your choice. Remember there may be more than one choice for each scenario

Scenario	Most suitable source of finance	Reason for your choice
A medium sized company wishes to obtain five new cars for its sales representatives		
A small business needs short-term help to buy extra inventory		
A limited company wishes to expand its market and needs more long-term capital		
A large company needs to up-date its machinery but does not have enough money available immediately		

**Activity:** Complete the multiple choice questions below by circling the correct answer

**1. An overdraft is:**

- A. A long term, external source of finance
- B. A short term, external source of finance
- C. Uses the businesses own money
- D. A short term, internal source of finance

**2. Trade credit is:**

- A. a non-financial factor which affects the success of a business
- B. A short-term source of finance
- C. Money paid to the government
- D. Only available

**3. Which is an advantage of using the owner's capital?**

- A. There will be little or no interest
- B. It will take a long time to arrange
- C. You can pay in smaller instalments
- D. You don't have to pay it back

**4. Which of the following is a disadvantage of issuing shares?**

- A. Interest is charged
- B. Large sums of money can be raised
- C. The business may be taken over
- D. Limited to a certain amount of money

### Exam questions

Anne and Martin opened Café Freshly Made (CFM) as a partnership two years ago. It sells sandwiches and fruit juice cocktails direct to the public as well as providing a delivery service. Martin wants to open another café but Anne is concerned about CFM's cash flow (see Table 2). She knows they will need to buy a new property and the fixtures and fittings to go in it, as well as pay for staff training. Anne has suggested to Martin that they could finance the purchase of the new shop by either using CFM's retained profit or by becoming a private limited company and issuing shares.

1. Analyse **one** benefit to CFM of using retained profit to finance the new café. [3 marks]

	U
	APP
	AN

2. Analyse **one** benefit to CFM of using a share issue to finance the new cafe. [3 marks]

	U
	APP
	AN

3. Recommend whether Martin and Anne should use retained profit or a share issue to finance the opening of the new cafe. [3 marks]

	<u>Evaluation</u>
	1 - retained profit good or not?
	1 - share issue good or not
	1 - which one with app to business

### 5.3 Revenue, costs, profit and loss

<b>Revenue</b>	The money received from sales. <b>Total Revenue = Quantity (Q) × Price (P)</b>
<b>Fixed Costs</b>	Costs that stay the same regardless of a change in output e.g. rent, salaries, business tax, insurance and advertising etc.
<b>Variable Costs</b>	Costs that change as output changes e.g. wages, raw material costs, energy used in production, advertising etc.
<b>Total Costs</b>	The addition of total fixed costs and total variable costs <b>TC = TFC + TVC</b>
<b>Profit</b>	<b>Profit = Revenue - total costs</b>
<b>Cost of sales</b>	The cost to the business of producing good to sell e.g. buying materials, buying stock to sell, employing workers to make a product
<b>Expenses</b>	The costs of operating the business e.g. rent or mortgage, wages and salaries, insurance, heating and lighting and advertising
<b>Gross Profit</b>	<b>Sales - costs of sales</b> Sales refers to sales income which is the same as total revenue
<b>Loss</b>	When the costs of the business are greater than the revenue made
<b>Net Profit</b>	<b>Gross Profit - Expenses</b>
<b>Gross Profit Margin</b>	Gross Profit divided by sales (or total revenue) × 100
<b>Net Profit Margin</b>	Net Profit divided by sales (or total revenue) × 100

How to increase revenue	How to reduce costs
Increase the price of the product	Employ new technology instead of workers
Reduce the price to increase sales	Find a cheaper supplier
Increase sales by increasing advertising	Ask a supplier to reduce their prices
Produce more by having a new factory or shop or buying a competitor	Ask workers to take a pay cut
Sell a wider range of products	



#### Gross Profit example

A business with a sales revenue of £35,000 and a cost of sales of £15,000  
 $GP = \text{Sales (TR)} - \text{Cost of sales}$   
 $= £35,000 - £15,000$   
**GP = £20,000**

#### Net Profit example

Gross Profit from above and expenses of £12,000  
 $NP = \text{Gross Profit} - \text{Expenses}$   
 $= £20,000 - £12,000$   
**NP = £8,000**

#### Revenue example

A business sell 25 cars sold at £7,500 each  
 $TR = Q \times P$   
 $TR = 25 \times 7,500$   
**TR = £187,500**

#### Profit example

Total revenue for a business is £22m and total costs is £12m  
 $P = TR - TC$   
**P = £10m**

#### Costs example

##### Total variable costs:

Number of workers × Wage paid to each  
 10 workers × £400 = £4000

Cost of materials per product × number of products sold  
 £3 per product × 6,000 = £18,000  
 Total variable cost = £4000 + £18,000 = £22,000

##### Total cost:

$TC = TFC + TVC$   
 $= £12,000 + £22,000 = £34,000$

## Calculation and interpretation of profitability ratios

### Example

Gross profit margin is calculated by:

$$\frac{\text{Gross profit} \times 100}{\text{Total revenue}} = \text{Gross profit margin}$$

$$\frac{£20,000 \times 100}{£35,000} = 57.1\%$$

### Example

Net profit is calculated by:

$$\frac{\text{Net profit} \times 100}{\text{Total revenue}} = \text{Net profit margin}$$

$$\frac{£8,000 \times 100}{£35,000} = 22.8\%$$

The **gross profit margin** compares the total revenue earned with the cost of the sales it makes.

The **net profit margin** compares the gross profit the business earns with its expenses.

Although profit and loss figures are useful, gross and net profit margins give a better indication of how well a business is performing.

They can help the business to know where its performance can be improved and whether action needs to be taken. Gross and net profit margins are discussed in the table below.

Performance	Gross profit margin	Net profit margin
<b>Improving performance</b>	Gross profit margin rises: 2017 = 44% 2018 = 57.1%	Net profit margin rises: 2017 = 18% 2018 = 22.8%
Reasons for improvement	<ul style="list-style-type: none"> <li>Total revenue rose faster than cost of sales</li> <li>Total revenue fell but costs of sales fell more</li> <li>Total revenue rose and cost of sales fell</li> </ul>	<ul style="list-style-type: none"> <li>Gross profit rose faster than expenses</li> <li>Gross profit has fallen but expenses fell more</li> <li>Gross profit rose and expenses fell</li> </ul>
Performance	Gross profit margin	Net profit margin
<b>Worsening performance</b>	Gross profit margin falls: 2017 = 64% 2018 = 57.1%	Net profit margin falls: 2017 = 18% 2018 = 12.8%
Reasons for worsening performance	<ul style="list-style-type: none"> <li>A fall in total revenue and a rise in the cost of sales</li> <li>A rise in total revenue but a bigger rise in cost of sales</li> <li>A fall in total revenue but a smaller fall in cost of sales</li> </ul>	<ul style="list-style-type: none"> <li>A fall in gross profit and a rise in expenses</li> <li>A rise in gross profit but a bigger rise in expenses</li> <li>A fall in gross profit but a smaller fall in expenses</li> </ul>
Possible actions	<ul style="list-style-type: none"> <li>Increase total revenue by better marketing, for example: <ul style="list-style-type: none"> <li>Raise (or reduce) price</li> <li>Increase advertising</li> <li>Sell in new markets i.e. abroad</li> <li>Increase the range of products sold</li> </ul> </li> <li>Reduce cost of sales by, for example: <ul style="list-style-type: none"> <li>Negotiating a lower price from suppliers</li> <li>Buy from cheaper suppliers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Increase total revenue by better marketing, for example - see strategies to the left</li> <li>Reduce expenses by, for example: <ul style="list-style-type: none"> <li>Reducing the wage bill (reducing hours, cutting hourly pay, replacing labour with machines)</li> <li>Saving on heating and lighting bills</li> </ul> </li> </ul>





## Knowledge Recall

What is the equation for:

- Revenue =
- Total costs =
- Profit =
- Gross Profit =
- Net Profit =
- Gross Profit Margin =
- Net Profit Margin =

BW Trains Ltd makes toy steam trains. The following information is taken from the business accounts of the company:

Total revenue: £8m

Cost of sales: £5m

Total costs: £6m

Expenses: £1m

Calculate the company's:

1. Profit or loss

2. Gross profit

3. Net profit

Activity: Tick whether the cost listed is fixed or variable

Cost	Fixed	Variable
Insurance		
Wages		
Rent		
Heating		
Business rates		
Raw materials		

Test Your Knowledge!



The table shows some financial information relating to a business in April.

	April
Fixed costs	£18,000
Variable cost per unit	£2.75
Number of units sold	5,450

Using the information in the table, calculate the total costs of the business for April

Show your workings.

Answer £ ..... [2]

Food4U is a restaurant selling Chinese takeaway food. The figures below are taken from its accounts:

	Year 1	Year 2
Total revenue	£240,000	£250,000
Gross Profit	£76,800	£85,000
Net Profit	£36,000	£30,000

1. Calculate the gross profit margin in Year 1 and Year 2

2. Calculate the net profit margin in Year 1 and Year 2

**How to calculate ARR**

**Step 1:** Calculate the total profit from the investment over the life of the investment

**Total revenue (from the investment) - cost of the investment = Profit over the life of the investment**

**Step 2:** Calculate the annual average profit per year

$$\frac{\text{Total Profit}}{\text{Life of the investment (years)}} = \text{average annual profit}$$

**Step 3:** Calculate the ARR

$$\frac{\text{Average annual profit}}{\text{Cost of investment}} \times 100$$

**ARR is always recorded as a %**

**Average rate of return (ARR)** is used to judge whether investment in the business by its owners is worthwhile - will it give a good enough return?

ARR is a forecast - it is based on the *expected* profit the investment will make, compared with the cost of the investment.

**Worked example ARR**

A business makes an investment in a piece of machinery costs £300,000, used over a period of 3 years. It earns a total revenue of £570,000

**Step 1:** TR - cost of the investment

$$£570,000 - £300,000 = £270,000$$

**Step 2:**

$$\frac{\text{Total Profit}}{\text{Life of the investment (years)}} = \text{average annual profit}$$

$$\frac{£270,000}{3} = £90,000$$

**Step 3:**

$$\frac{\text{Average annual profit}}{\text{Cost of investment}} \times 100$$

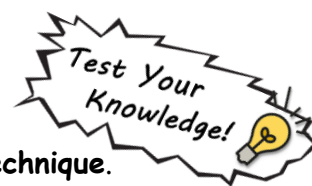
$$\frac{£90,000}{£300,000} \times 100 = 30\%$$

Business use ARR to:

- Compare different investment e.g. machine A or machine B
- Compare an investment with a saving - is it better to invest or save the money?

Advantages	Disadvantages
ARR provides a percentage return which can be compared with a target return or other projects	Does not take into account cash flows - only profits (they may not be the same thing)
ARR focuses on profitability - key issue for shareholder/investors	Takes no account of the time value of money (how the value of money changes over time)
Easy to work out the calculation and percentages are easily understood by financial managers	Treats profits arising late in the project in the same way as those which might arise early





## Knowledge Recall

Practice the steps in working out the ARR, use the information given above by using the **look, say, cover, write, check technique**.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Step</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
Step 1				
Step 2				
Step 3				

Initial investment	£15 000
Length of investment	5 years
Income per year	£10 000
ARR	

Initial investment	£20 000
Length of investment	6 years
Income year 1	£6000
Income year 2	£6000
Income year 3	£6000
Income year 4	£5000
Income year 5	£4500
Income year 6	£3500
ARR	

Table 1 contains information about a business investment:

Total profit from the investment	£84,000
Number of years	10
Cost of investment	£35,000

Using the information in table 1, calculate the ARR for this investment.

Show your workings.



### Exam questions

Carly is opening up a hairdressers in Birmingham. Here are a list of her estimated costs:

Rent per month	£500
Gas and electric	£70 per month
Insurance	£10
Wages	£200
Variable cost per unit	£6

1. Calculate the gross and net profit he will make per month if she serves 200 customers a month, with a selling price of £60.

Show your working out

Answer £..... [2]

Show your working out

Answer £..... [2]

Farmer Bill's Adventure Farm offers attractions and activities for families. Farmer Bill's has £200,000 of retained profit in the bank which earns 5 per cent interest. The manager of Farmer Bill's is considering investing in a reptile house to show snakes and lizards to visitors. It will cost £200,000. He has estimated that over a period of 10 years, the reptile house will add £500,000 to the profits of the business.

1. Calculate the average rate of return Farmer Bill's will make from the reptile house over the period of 10 years

Show your working out

Answer .....% [3]

2. Recommend whether Farmer Bill's should invest in the reptile house. (3 marks)

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## 5.4 Break-even

# knowledge and understanding

### Definitions

**Break-even quantity:** the amount a business must sell to earn enough revenue to just cover its costs so it does not make a profit or loss.

**Margin of safety:** **actual sales - breakeven sales.** The amount a business' actual output is greater than its break-even level of output

**Total revenue:** selling price x quantity

**Fixed costs:** costs that do not change depending on output

**Variable costs:** costs that change depending on the level of output

**Total costs:** total fixed costs + total variable costs

**Formula:** 
$$\frac{\text{Total fixed costs}}{\text{Contribution (Selling price - variable cost per unit)}}$$

Break-even is always recorded in units not £



### Calculation example:

A toy manufacturer has total fixed costs of £50,000 per year

Variable costs per product sold are £2

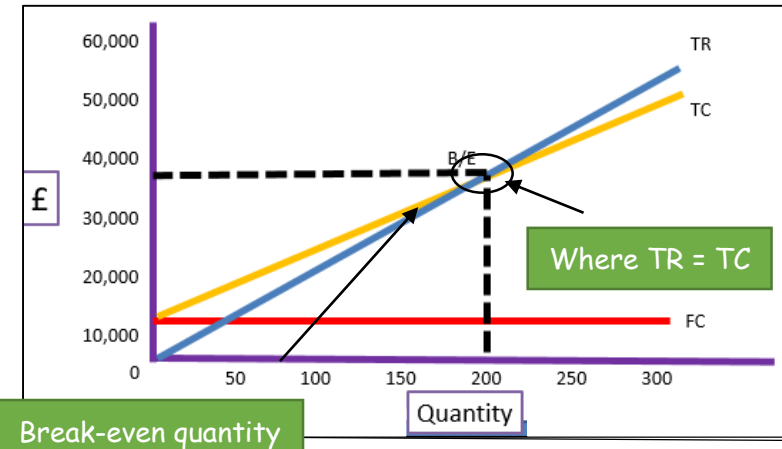
The selling price of the toy is £6 each

Using the formula, calculate the break-even level of output

$$\text{Formula: } \frac{\text{Total fixed costs}}{\text{Contribution (Selling price - variable cost per unit)}}$$

= 12,500 units

$$\frac{\pounds 50,000}{\pounds 6 - \pounds 2} = \frac{\pounds 50,000}{\pounds 4}$$



### Benefits of Break-even analysis:

- Helps with **planning** how much the business needs to sell in order to make a profit
- Helps the business to **secure a loan from the bank** because it shows the owner has a **clear plan** and is **less risky** for the bank to give out the loan
- Can be used **to make judgments about prices** and costs. For example, if the business needs to increase the price in order to raise revenue
- Can be used to find the **expected level of profit for a certain level of output**

### Limitations of break-even analysis

- It is **only a prediction**, the forecast figures may be different to actual figures
- The **cost of materials may change**. If the cost falls, the break-even level of output will decrease
- It is **difficult for businesses to calculate** if they sell a variety of products
- The **number of competitors in the market may change**. For example, if a new competitor entered the market, they may have to lower their price which would mean they would have to sell more to break-even

## Knowledge Recall

What is the formula for breakeven?

**Evaluation:** predict what will happen to the breakeven point if...

- Selling price increases
- Fixed costs decrease
- Variable cost increases

Work out the breakeven point in each of these examples:



1. Fixed costs £20 000  
Selling price £60  
Variable cost per unit £30  
Breakeven =
2. Fixed costs £25 000  
Selling price £40  
Variable cost per unit £25  
Breakeven =
3. Fixed costs £5500  
Selling price £20  
Variable cost per unit £12  
Breakeven =

Draw an example of a breakeven graph with annotations included

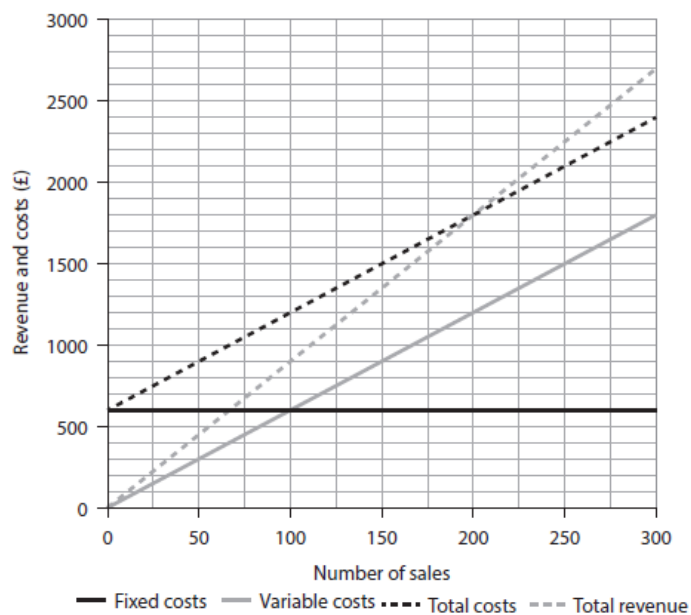
**Exam Questions**  
**Knowledge**

1. Which statement about break-even forecasts is false?
- [a] A break-even forecast is a prediction
  - [b] By completing a break-even forecast
  - [c] A break-even forecast can help a business decide if it should reduce its costs.
  - [d] A break-even forecast can help a business decide if it should reduce the price it charges for a product.

Your answer  [1]

Neil and Sue Chatterton own and run Meringue bakery and cafe. This is located close to a town centre and has lots of passing trade. Meringue produces high-quality bread and pastries using traditional methods and high-quality ingredients. Since opening 12 months ago sales have grown strongly. At busy times a queue builds up at the counter as customers wait to pay. Online reviews indicate that this is something that needs to improve.

Neil and Sue have produced the following break even diagram, showing the costs and revenue for their business.



- 1. Identify the total number of sales that Neil and Sue will need to breakeven (1)  
\_\_\_\_\_
- 2. Identify the profit made by Meringue, by shading the correct region of the graph (1)  
\_\_\_\_\_
- 3. Analyse the benefits to Neil and Sue of completing a Break-Even Analysis (3)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- 4.. Analyse the drawbacks to Neil and Sue of completing a Break-Even Analysis (3)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

U  
APP  
AN

<b>Cash flow forecast</b>	Is a statement showing the expected flow of money into and out of a business over a period of time
<b>Net cash flow</b>	Is total inflow minus total outflow
<b>Opening balance</b>	Is the amount of cash available at the beginning of the month that was closing balance at the end of the previous month
<b>Closing balance</b>	Is the amount of cash left at the end of the month. This becomes the opening balance at the start of the next month
<b>Total inflow</b>	Is the total amount of cash flowing into a business
<b>Total outflow</b>	Is the total amount of cash flowing out of a business
<b>Negative cash flow</b>	Is when during one month, more cash is flowing out of the business than is flowing into it.
<b>Positive cash flow</b>	Is when during one month, more cash is flowing into the business than is flowing out of it.
<b>Income</b>	Is money that the business receives
<b>Expenditure</b>	Is money that the business pays out
<b>Liquidity</b>	Is the ability of a business to pay its short-term debts which must be paid in the near future
<b>Expenses</b>	Are the bills that a business has to pay in the near future, for example electricity
<b>Cash</b>	Is not simply notes and coins but money held in the bank
<b>Profit</b>	Is the revenue received by a business minus the costs of running a business

### Importance of cash to a business

A business needs to pay its expenses. For example, Wages and salaries, rent, suppliers, heating and lighting bills

### What is the difference between cash and profit?

**Cash** is the money held in bank accounts and used to pay short-term debts.

**Profit** is calculated by subtracting total costs away from total revenue. A business could be short of cash one month but still make a good profit. For example, if they are waiting for a big order to be paid by the customer.



### Advantages of a cash flow forecast

- A **planning tool kit** can be shown to banks to help them to **secure a loan**
- **Anticipates periods of cash shortage** - they can then come up with a **solution** e.g. short-term sources of finance
- **Provides targets** - they may target reducing specific parts of spending to make sure that they have sufficient

### Limitations of a cash flow forecast

- It is **only a forecast** and circumstances may change
- **Suppliers may change their prices**
- A **new competitor** may enter the market

	Jan	Feb	Mar	Apr	May	Jun
Opening Balance	£150	-£50	£50	£450	£1450	£1250
<b>Inflows</b>						
Sales	£1000	£1000	£1500	£1200	£1200	£1500
Loan				£1000		
<b>Total Inflow</b>	£1000	£1000	£1500	£2200	£1200	£1500
<b>Outflows</b>						
Wages	£500	£500	£500	£500	£500	£500
Stock	£500	£400	£600	£500	£900	£400
Bills	£200			£200		
<b>Total Outflows</b>	£1200	£900	£1100	£1200	£1400	£900
<b>Net Cash flow</b>	-£200	£100	£400	£1000	-£200	£600
<b>Closing Balance</b>	-£50	£50	£450	£1450	£1250	£1850

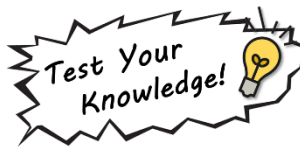
Example Cash Flow Forecast

## Knowledge Recall

What is the formula for:

Net cash flow

Closing balance



Fill in the gaps in the following passage using the correct words from the list on the right.

A business's cash ..... is the amount of money that it receives, for example through ..... products. The cash ..... is the amount of money it spends, for example, through ..... employees. When the ..... cash flow is ....., there is more inflow than outflow.

buying  
selling  
outflow  
negative  
inflow  
net  
positive  
paying

Yoo Too Sunglasses Ltd. gives its customers 2 months credit to pay.  
**Figure 1** shows an incomplete cash flow statement for Yoo Too Sunglasses Ltd.

Cash Flow Statement — Yoo Too Sunglasses Ltd.							
£	Apr	May	Jun	Jul	Aug	Sep	Oct
Total orders this month (for payment in 2 months)	1000	1300	1400	1500	1300	400	300
Cash inflow	300	350	1000	1300	.....	1500	1300
Cash outflow	1000	1200	1300	.....	1250	300	200
Net cash flow	(700)	.....	(300)	(50)	150	1200	1100
Opening balance	1300	600	.....	(550)	(600)	(450)	750
Closing balance	600	(250)	(550)	(600)	(450)	750	.....

What can a business do to improve their cash flow position if it is negative?

	June	July	August
<b>Sales</b>	1000	1500	1500
<b>Total inflows</b>	1000	1500	1500
<b>Wages</b>	300	200	200
<b>Rent</b>	400	400	400
<b>Stock</b>	400	200	200
<b>Total outflows</b>	1100	800	800
<b>Net cash flow</b>			
<b>Opening balance</b>	100		
<b>Closing balance</b>			

## Exam Questions

The cash flow forecast below is for Bowton Garage Ltd for the first three months of the year.

<b>Cash flow forecast - Bowton Garage Ltd</b>			
	<b>January</b>	<b>February</b>	<b>March</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b><u>Cash inflow</u></b>			
Sales	35,000	25,000	30,000
<b>Total inflows</b>	35,000	25,000	30,000
<b><u>Cash outflows</u></b>			
Materials	8,000	8,000	6,000
Electricity and gas	1,000	1,000	1,000
Rent paid for premises	2,000	2,000	2,000
Wages	14,000	<b>B</b>	14,000
<b>Total outflow</b>	25,000	22,000	23,000
<b>Net cash flow</b>	<b>A</b>	3,000	7,000
<b>Opening balance</b>	5,000	<b>C</b>	18,000
<b>Closing balance</b>	15,000	18,000	<b>D</b>

1. Calculate the missing figure in the cash flow for Bowton Garage Ltd. (A, B, C, D) (4 marks)

2. State one reason why drawing up a cash flow forecast is useful for Bowton Garage Ltd.

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3. Explain the difference between cash and profit (2 marks)

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4. If Bowton Garage had a negative cash flow, explain two ways in which the business could deal with it (4 marks)

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**U** - 2 separate ways to deal with a negative cash flow











**APP** - use evidence from the actual cash flow forecast alongside your suggestion





## 6.1 Ethical and environmental considerations

### Ethical

<b>Ethics</b>	Is about what is right and wrong	
<b>Child labour</b>	Is the use of young children, below the legal age for employment, in order to achieve low-cost production	
<b>Fairtrade</b> 	Is a movement that encourages businesses to pay a fair price to suppliers in developing countries and consumers to buy Fairtrade goods	
<b>Environmentally friendly</b> 	Describes consumers and businesses that act to make production sustainable	
<b>Sustainable production</b>	Is when production does not lead to the depletion (using up) of natural resources	
<b>Renewable resources</b>	Are resources that can be used more than once, such as wind or water power.	
<b>Non-renewable resources</b>	Are resources that can only be used once, such as oil	 
<b>Recycling</b> 	Is when resources are reused to produce something	
<b>Global warming</b>	Is the rise in average temperatures that scientists say is taking place	
<b>Waste disposal</b>	Is the process of getting rid of unwanted materials	
<b>Pollution</b> 	Is causing harm to the environment including air, land and water	
<b>Climate change</b> 	Is the process when average temperatures rise or fall and patterns of weather change	

### Ethical considerations in business

**Treatment of workers** – no child labour, fair wage, fair hours, safe working conditions, no discrimination.

**Treatment of suppliers** – avoid late payment, pay fair prices

**Treatment of customers and marketing decisions** – no overcharging, no false claims, not putting customers in danger

**Sourcing of materials** – do not buy from businesses with child labour, do not buy from anyone who does not produce sustainably

### Impact of ethics on businesses

- **Higher costs** because they may be using more using **more expensive materials** that have been sourced locally and are a better quality
- **Reduced profits** because they may be paying employees **higher wages** which **increases their costs and decreases their profits**

### Benefits of a business being ethical

- **Improved reputation** because more customers are willing to buy from a business who is treating their employees/ suppliers/ customers well.
- **Increased sales** because they will attract more customers.
- **Workers may feel more motivated** because they will trust their employer therefore may increase productivity and reduce labour turnover which will **reduce recruitment costs**

## Environmental

### Sustainability

Use of renewable resources rather than scarce resources

### Waste disposal










Business should reduce, reuse or recycle its waste

### Pollution

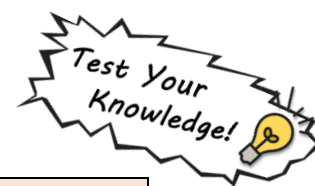
Introducing something harmful into the environment e.g. noise, air etc.

### Climate Change

Change in weather patterns or average temperatures.

Benefits of a business being environmentally friendly	Drawbacks of a business being environmentally friendly
<p><b>Increased sales</b> - consumers are becoming increasingly aware of the negative effects that businesses can have on their environment.</p> 	<p><b>Raw material costs</b> - raw materials that have been produced in an environmentally friendly way often cost more.</p> 
<p><b>Reduced costs</b> - for example, by using energy saving light bulbs, generating their own energy through solar panels, reducing the amount of packaging and buying locally to reduce transport distances and CO2 emissions.</p> 	<p><b>Capital costs</b> - investing in the capital equipment needed to introduce environmentally friendly production processes. For example, the costs of buying and installing solar panels may exceed the money from saving them.</p>  
<p><b>Reduced tax bills</b> - businesses can face a reduction in the taxes that they pay if they reduce their negative impact on the environment.</p> 	<p><b>Production methods may be more expensive</b> - for example, growing food organically is more expensive than using fertilisers and pesticides.</p> 
<p><b>Getting subsidies</b> - governments may offer subsidies to businesses to help them introduce environmentally friendly products and production processes.</p> 	

## Knowledge Recall



Statement	Ethical (✓ or ✗)	Statement	Ethical (✓ or ✗)
A football manager takes a bribe because other managers do the same.		Buy goods from poor countries, to help their businesses develop	
To employ very young children as long as they are paid a fair wage.		Make false claims for its products because it helps to create jobs for people.	
A businesses to delay paying their bills to suppliers		Save money by reducing health and safety measures	
Copy films because the producers make a lot of money from them.		Sell arms to political leaders who might use them to cause war	

Using the words below, fill in the gaps to complete the paragraph

For the fashion industry, there are many difficulties in being \_\_\_\_\_ friendly. Chemical \_\_\_\_\_ are often used to help to grow cotton. \_\_\_\_\_ are used to dye clothing. Clothing often needs to be \_\_\_\_\_ long distances from where it is made to where it is sold. Transport uses up \_\_\_\_\_ fuels and causes CO2 emissions contributing to \_\_\_\_\_ warming. \_\_\_\_\_ production involves making goods and services using \_\_\_\_\_ resources.

recycled    fossil    sustainable    chemicals    fertilisers  
transports    landfill    global    environmental

Using the words below, fill in the gaps to complete the paragraph

Ethics is about \_\_\_\_\_ and wrong. An example of an unethical business activity is when a firm buys products made using \_\_\_\_\_ labour. Another unethical practice would be a firm that does not provide its workers with a \_\_\_\_\_ working environment. A business that sells arms to the political leaders of a country who do not give proper \_\_\_\_\_ to their citizens may not be ethical. Sometimes it saves a business \_\_\_\_\_ by not being ethical. This may be important if the business is in a very \_\_\_\_\_ market. Some of the competitors may not be ethical and so they can charge \_\_\_\_\_ for their products. The result might be that the ethical business cannot \_\_\_\_\_. However, many customers are now prepared to pay for products that are sold by ethical producers.

right    child    competitive    less  
money    safe    human rights    survive

### Exam questions

Woody's Caravan Park is a forward-thinking business who are constantly looking for new methods in order to limit their damage to the environment. They have managed to decrease their carbon emissions by 50% over the past three years as they have switched to using electric vehicles on their sites and installing solar panels to power all accommodation. They also ensure that all waste is recycled. Their employees love working for the business as they are allowed to take as many breaks as they wish and receive a wage above that of the national minimum wage. Customers are always satisfied as they always feel they receive good value for money and accommodation is always cleaned to a high standard.

### Knowledge

1. What is meant by the term 'sustainable'? (1 mark)

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2. What is meant by the term 'ethics'? (1 mark)

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3. State four ethical considerations in business (4 marks)

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### Analysis

3. Analyse one reason why Woody's Caravan Park should be environmentally friendly (3 marks)

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4. Analyse one reason why Woody's Caravan Park should be ethical (3 marks)

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U  
APP  
AN



<b>Economic climate</b>	Refers to how well the country is doing in terms of the levels of income and employment
<b>Income</b>	Is the amount of money that people receive from work and assets they own, such as shares and property
<b>Customers</b>	Are buyers who buy goods and services
<b>Consumer income</b>	Is the total amount of income that all customers in the country receive and which they have available to spend
<b>Level of unemployment</b>	Is the numbers of people in work in a country
<b>Level of income</b>	Is the average income of people in a country
<b>Economic growth</b>	Is a period when income and employment is rising
<b>Recession</b>	Is a period when income and employment is falling
<b>Distribution on income</b>	Refers to how the income is shared amongst different people in the community
<b>International economic climate</b>	Refers to what is happening to income and employment in different parts of the world

### The impact of changes in income

An increase in income would lead to...

- Increased sales, increasing revenue and profit
- Businesses may need to employ more workers
- Businesses may expand by opening new shops

### How much a business will be affected by a change in income will be influenced by:

- How much income changes
- The type of product the business sells
- How a business responds to the change in income



### The impact of changes in employment

A decrease in employment (an increase in unemployment) could lead to:

- Firms finding it easier to recruit new workers as there is an increase in available workers
- Production costs may be cheaper as wages may fall as the competition for jobs is greater

### Possible changes to business strategy when income and employment

#### How much a business will be affected by a change in employment will be influenced by:

- How much employment changes
- The change in the type of employment. If there is a rise in the demand for skilled workers, this may be more difficult to deal with than a rise in the demand for unskilled workers.

#### **Production**

The business may try to reduce costs by:

- Reducing waste
- Improving worker productivity

#### **HR**

The business may try to reduce costs by:

- Improving worker productivity
- Laying off workers to reduce the wage bill

#### **Finance**

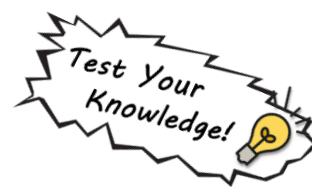
The business may try to reduce costs by:

- Taking out cheaper loans
- Reducing its overdraft

#### **Marketing**

The business may try to increase sales

- by increasing advertising
- producing a cheaper product
- lowering prices



## Knowledge Recall

Practice the definitions for the key terms given above by using the **look, say, cover, write, check** technique.

Use the boxes below to write out your answers, then correct these adding anything you are missing. Attempt each at least 4 times.

<u>Key term</u>	<u>Attempt 1</u>	<u>Attempt 2</u>	<u>Attempt 3</u>	<u>Attempt 4</u>
Economic climate				
Income				
Consumer income				
Level of unemployment				
Level of income				
Economic growth				
Recession				
Distribution on income				
International economic climate				



## Exam questions

JC Motors Ltd have been trading for 20 years. They specialise in selling high-end bespoke cars that start from £50,000 and can be as expensive as £300,000. Owing to the recent, downturn in the economy that has led to falling consumer incomes and an increase in unemployment from 2 million to 2.2 million people, they have started to diversify and have a small range of second hand cars on sale that start at £15,000 and go up to £80,000.

## Knowledge

1. Which of the following statements is true?

- [a] the sales of a business will always increase when incomes rise  
[b] rising incomes often lead to an increase in the sales of luxury goods  
[c] a rise in unemployment will make all consumer worse off  
[d] a fall in consumer income will always cause a business to sell less

### Your answer

**[1]**

## Evaluation

2. Evaluate how a fall in consumer incomes and an increase in unemployment might impact on JC Motors Ltd. [9 marks]

Knowledge
Understand
(1)
AP (2)
AN (3)
EV (3)

## Knowledge (1)

## Understanding (1)

**AP (2)**




## AN (2)




### EV (3)





<b>Globalisation</b>	Is the process of how business activity around the world has become increasingly interconnected
<b>International branding</b>	Is creating an image or values that are communicated in countries around the world
<b>Capital</b>	Is the money or assets such as machines, buildings, vehicles
<b>Free trade</b>	Is the absence of restrictions on trade between countries
<b>Trade</b>	Is the import and export of goods and services
<b>Tariff</b>	Is a tax on a good or service that is imported
<b>Quota</b>	Is a limit in terms of weight or value on the amount of goods that can be imported
<b>Regulations</b>	Are rules about the goods and services that can be sold in a country
<b>Multinational companies</b>	Are businesses that operate in different countries around the world
<b>Unit cost</b>	Is the cost per unit produced. The greater the productivity of workers, the lower the unit cost of production
<b>Productivity</b>	Is a measure of the output of each worker on average

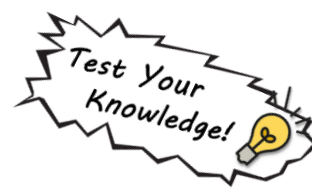
Analysis	Advantages	Disadvantages
<b>To a business of being a multinational company</b>  	<ul style="list-style-type: none"> <li>• <b>Increasing sales</b></li> <li>• <b>Spreading risk</b> - if one market loses sales the company may be able to compensate by selling extra products in a country that is experiencing a boom</li> <li>• <b>Lower costs</b> - production costs may be reduced</li> <li>• <b>Tax avoidance</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>May experience diseconomies of scale</b> - as they become bigger they may become <b>less efficient and more difficult to control</b></li> </ul> 
<b>To a country of hosting a multinational company</b>  	<ul style="list-style-type: none"> <li>• <b>Creating demand</b> for host country businesses - they may employ local people and increase incomes.</li> <li>• <b>Taxes and public services</b> - help provide improved healthcare/ education services</li> <li>• <b>Lower prices</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Business closures</b> - <b>local business</b> may not be able to compete in terms of price and quality</li> <li>• Outflows of money - they <b>move profits out of the host country</b> to where they have their headquarters</li> </ul>

How each factor has encouraged globalisation	
<b>Transport</b> 	Transport costs have reduced as ships and planes have become bigger. The development of containers has reduced costs.
<b>Telecommunications and the internet</b> 	Communication has become faster and cheaper. Firms can research materials from suppliers all over the world.
<b>Free trade arrangements</b> 	When there are no barriers to trade. Countries can easily buy and sell products to each other.



## Knowledge Recall

For each of the statements given in the table below, identify whether they are true or false.



Statement	True	False	Statement	True	False
Globalisation has increased because countries have set up free trade arrangements with each other			The movement of goods has increased because of better transport		
The movement of people has increased because of better transport			Improved telecommunications have made it easier for businesses to deal with businesses in other countries		
The EU made it more difficult for people to move from one European country to another			Tariffs are taxes on imported goods designed to reduce the amount of imports into a country		

**Activity:** Decide whether the statements given below are an advantage or a disadvantage of globalisation and who they are an advantage or disadvantage for, the business or the country hosting. The first one has been completed as an example for you.

Statement	Advantage	Disadvantage	Who for?
Increased sales	✓		Business
Possible local business closures			
Money earned from taxes			
Lower costs			
Possible diseconomies of scale			
Profits given back to country with headquarters			

**Activity:** Explain how each factor has encouraged globalisation

Transport	
Telecommunications and the internet	
Free trade arrangements	

## Exam Questions

Spanish retailer Zara sells a range of fashion clothing in what is a very competitive market. Zara is a multinational company which sells through around 2,100 shops and online in 88 different countries, including Spain, UK, USA, Canada, China, South Korea, South Africa and India. Zara produces clothes in its Spanish factories, in the nearby countries of Portugal, Morocco and Turkey and in Asia where there are many low-paid workers. Locating in Spain and nearby countries makes communications between its headquarters and its factories easy. This means Zara is good at meeting changing consumer needs, introducing new designs which can be manufactured and available to buy within about four weeks. If these are not quite what consumer wants, further design changes are possible within two to three weeks.

## Knowledge

1. What is meant by a 'multinational company'? (1 mark)

## Explanation

Explain one advantage to Zara of being a multinational company (2 marks)

**Identify the advantage and apply it to Zara using the case study**

## Analysis

Analyse why, as a multinational company selling in many different countries, it is important to Zara to be able to change designs quickly (3 marks)

Analyse how a rise in the value of the euro (currency used in Spain) against the pound would affect the price and sales of clothes made in Spain but which are exported to the UK. (3 marks)

<b>Interdependent nature of business</b>	refers to the links between different areas of business that affect decision making, the risks and rewards of business activity and the use of financial information to aid business decision making
<b>Financial information</b>	Includes information about revenues, costs, profit, rates of return, break-even and cash flow. These help the business to make decisions
<b>Non-financial rewards</b>	To owners, this includes the satisfaction of running a successful business, being in charge, being independent and having an impact on what consumers buy
<b>Non-financial risk</b>	To business owners this includes their health due to stress and strained relationships with family and friends
<b>Business performance</b>	A measure of how well a business is doing. Key measures are sales, profits and rates of return
<b>Financial reward</b>	The profit made by the business
<b>Financial risk</b>	The possibility the business will lose money from decisions it makes. Owners may lose money they invested

How well the functional areas of a business work together can have a significant impact on the decisions that a business makes. If they cannot work well together this may result in the business not making the correct decisions, resulting ultimately in losses and possible closure. (See risks on the next sheet)

	How it would work on a new product launch with:	How it would work on a new product launch with:	How it would work on a new product launch with:	How it would work on a new product launch with:
Functional area	Marketing	Human resources	Operations	Finance
Marketing		Will liaise with human resources if additional staff are required for market research or marketing activity for the new product.	Will work closely with operations to provide market research that tells operations what features the product needs to have.	Will request budgets from finance so as to be able to plan a marketing campaign for the new product that stays within budget.
Human resources	Will recruit new staff if needed, or provide training for marketing staff about the new product.		Will organise training for any new production equipment, and ensure that the production process adheres to employment regulations (eg health and safety laws).	Will seek a budget for the training and development of staff involved in the production of the new product, or the costs of any redundancies.
Operations	Will liaise with marketing on the expected sales of the new product, to ensure that enough can be produced for the launch.	Will ask for new staff to be hired. Or, if new technology will be used and staff must be made redundant, will ask human resources to ensure that relevant employment laws are complied with.		Will set production targets based on break-even information and provide supplier payment information.
Finance	Will monitor marketing budgets and set sales targets to ensure that break-even levels are achievable.	Will monitor training and development budgets, and advise on redundancy payments if required.	Will identify suitable sources of finance for any new equipment that is required, and control payments to suppliers as part of cash flow.	

## Risk and Reward

Risk		Reward	
<b>Financial loss</b>	When the business starts the owners/shareholders invest either their own money or borrowed money. The need to make a profit to pay this back. If the business isn't profitable then the entrepreneur/lenders risk losing money that has been used in the business.	<b>Profit</b>	Making money is the driving force behind many start-ups. Money can be put back into the business to help it grow. It can also provide an incentive, if they believe they can earn more money than working for someone else.
<b>Lack of security</b>	Entrepreneurs often give up previous jobs to pursue their business idea, along with the security of regular income. They also have to work long, irregular hours and it may be difficult to take holidays.	<b>Business success</b>	This can mean different things, for some its simply seeing their idea become popular. Others see it in the form of; growing a business, positive reputation, winning business awards and becoming well-known.
<b>Business failure</b>	This is the biggest risk. If they do not make enough money to survive they will be forced to close.	<b>Independence</b>	Some entrepreneurs set up as they don't want to work for someone else. This gives them full control and can be a reward.

### Minimising risks:

1. Carrying out market research
2. Write a business plan
3. Ensure there is sufficient money available



When making decisions it is important any information used is:

1. Accurate - needs to be correct as wrong decisions could be made resulting in business loss
2. Sufficient - there needs to be a lot of information to make the comparison effective
3. Up to date - this is not just about passing time but also changes in the market. If it is not up to date it can be irrelevant

### **Limitations:**

The way that such information is used may have limitations. For example, the average rate of return is often used to help a business make decisions by comparing the profitability of different investment options. However, this technique does not consider the effects of inflation on the value of cash.

### **Financial information that can help inform decisions:**

- Costs and revenues
- Gross and net profit
- Profit margins
- Cash flow
- Break-even
- Average rate of return

**See 5.3-5.5  
KO's**

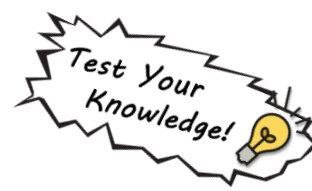
**The first 3 points are also used to understand the business' performance.**

### **Understanding business performance:**

1. Business often compare their accounts each year as measure of performance
2. They compare their accounts with competitors if possible (Limited Companies)



## Knowledge Recall



The bosses at a large supermarket chain are pleased with the performance of the business this year, pointing out that sales have increased by 20%. They claim that this is because of their decision to open ten new stores over the past year.

Activity 1:  
Complete the  
table

Information from a large supermarket chain	Last year	This year
Sales revenue	£1,000,000	£1,200,000
Gross profit	£380,000	£600,000
Net profit	£150,000	£150,000
Gross profit margin		
Net profit margin		

Remember  
these are %

Should the bosses of this supermarket chain be pleased with their performance?

Yes		No	
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Give at least 3 reasons for your why you think they should/should not be pleased with their performance

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Which functional areas (departments) would have been affected by the decision to open 10 new stores and why?

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## Exam Questions

Jo Swindale runs a convenience store, which is open seven days a week from 7am until 6pm. She is considering keeping the shop open until 10pm. She would need to employ two additional workers to share the 6-10pm shift during the week. Jo needs information to decide whether to open for the additional hours.

1. State two risks and two rewards Jo might gain from extending her hours (4 marks)

2. Evaluate how financial information would help Jo to make this decision (7 marks)

**App (2)** - use 2 pieces of information from the case study

**An (2) - 2 ways**  
financial  
information can  
help

**Evaluate (3) -**  
will financial  
information help  
her make the  
decision - how?  
Why?