Year 11 revision – week beginning March 31st

Revision book - read through and refresh your knowledge of pages 18-24 and 54-58

Formulas-

Breakeven calculation = fixed costs divided by contribution (contribution =Selling price-variable cost)

Profit = total revenue minus total costs (total costs = fixed costs + variable costs)

1/ Complete the table on the different ways to improve profit –

- cut costs or increase revenue

Method	Advantage	Disadvantage
Cutting material costs		
Cutting labour costs		
Cutting investment		
Improve products		
Increase price		
Decrease price		
Improved marketing		

2/ Complete the table on the different ways to improve cashflow –

- improve cash outflows or cashinflows

Method	Advantage	Disadvantage
Delay paying invoices (increase trade credit)		
Leasing rather than buying		
Increase sales revenue		
De-stocking		
Reduce trade credit with customers		
Overdraft		

3/ Financing growth

Method	Advantage	Disadvantage
Retained profit (internal, long term)		
Selling assets (internal)		
Owners funds (internal, long term)		
Overdraft (external, short term)		
Bank loan (external, long term)		
Trade credit (external, short term)		
Selling shares (external, long term)		
Factoring (external, short term)		
Bonds (external, long term)		
Venture capitalists (external, long term)		
Mortgage (external, long term)		
Leasing (external, long term)		

4/ Past questions

1/ Which of the following is a cash inflow? (1 mark)

Select **one** answer.

A Payments to suppliers.
B Purchasing assets.
C Longer credit terms for customers.
D Taking out a bank loan.

2/) Identify **two** reasons why *The Range* might want to establish more favourable credit terms with suppliers. (2 marks)

1. ____
____
2. ____
____

3/

Mark Steel is a qualified hairdresser looking to set up in business as a sole trader. He has carried out some market research in the town where he lives. There are 11 hairdressing businesses in the town. Mark's speciality is in creating styles which involve a high degree of skill that adds significant value. Mark's reputation has been boosted by winning a styling competition in a leading fashion magazine.

Mark is considering different sources of finance to start his business.

Which **two** of the following sources of finance would be most appropriate for Mark to start up his business?

Select **two** answers:

☐ **A** Personal savings.
☐ **B** Selling the business's assets.
☐ **C** Issuing shares to new shareholders.
☐ **D** Retained profit.
☐ **E** Bank loan.

4/

Which **one** of the following sources of finance would be most appropriate in starting a private limited company?

Select **one** answer:

☐ **A** Retained profit
☐ **B** Share capital
☐ **C** Overdraft
☐ **D** Sale of business assets

5/ Discuss the benefits to Mulberry of using internal sources of finance to fund its epxansion (6 marks)

Structure – At least 2 benefits identified and explained – use connectives like you would in a 3 mark question. Answer must be in context to Mulberry the fashion designer.

Conclusion – Which benefit is most important? Is it the best source for Mulberry to use?

Parent Help Sheet and Answers

1/

Method	Advantage	Disadvantage
Cutting material costs	- Costs will be lower - Might find a better supplier or save on waste	- Quality could be affected - Might not have the same relationship as usual supplier
Cutting labour costs	- Keeps costs lower	- Could affect motivation of current staff - Workers may go elsewhere/ not work as hard - May have to pay redundancy
Cutting investment	- Will save larger sums of money	- Will make it harder for the company to grow.
Improve products	- Will attract new customers and sales	- expense of the research and development costs
Increase price	- Will increase sales revenue as more money made per item	- Could put of loyal customers and actually decrease customers
Decrease price	- Might attract new customers	- Will have to sell more items to make the same amount of revenue
Improved marketing	- More people might find out about the business or be reminded of it.	- Increased costs from extra marketing - Might not attract more customers

2/

Method	Advantage	Disadvantage
Delay paying invoices (increase trade credit)	- Keeps cash in the business for longer	- Could destroy relationship with supplier - No discounts for prompt payments
Leasing rather than buying	- Spreads the cost of buying the item - Businesses can afford to have better and more up to date equipment	- If it's a long term lease it could work out to be more expensive
Increase sales revenue	- Brings more money into the business - could attract more customers	- May involve advertising costs or changing prices in the short term
De-stocking	- Can help to get rid of unwanted stock - Less money tied up in stock – lower storage costs, room for new stock	- May not receive the full amount for the stock if sold at sale prices.
Reduce trade credit with customers	- The business receives the money quicker	- Customers may not be happy and use a competitor instead
Overdraft	- Easy to arrange - Flexible - Good for short term finance needs	- Have to pay interest, higher than a bank loan - Can be withdrawn at short notice

3/

Method	Advantage	Disadvantage
Retained profit (internal, long term)	- Doesn't have to be repaid - No interest is payable	• Not available to a new business • Business may not make enough profit to plough back
Selling assets (internal)	- No initial outlay or interest to pay - Gain money from unwanted items	- Might sell item you need in the future - If it's sold quickly may not get full value
Owners funds (internal, long term)	- No interest to pay back - Quick and easy to use	- Limited to the amount that the owner has
Overdraft (external, short term)	- Very quick to arrange - A good short term solution to a cash flow problem	- Only suitable for smaller amounts and has to be repaid within a short amount of time - Interest or charges are paid
Bank loan (external, long term)	- Easy and quick to set up - Large amounts of money can be borrowed - Structured repayment term	- Interest payable - If repayments cannot be kept up, the business risks getting a poor credit rating or being made bankrupt
Trade credit (external, short term)	Gives the business more cash to use in the immediate future	Can only be used to buy certain goods - Bills usually have to be settled within 30,60 or 90 days
Selling shares (external, long term)	- No need to repay the money invested - Cheaper than a loan. - Some businesses can raise large sums of money this way	- Need to pay the shareholders a share of future profits - Ownership also means some influence over how the business is run – the original owners may lose control of the business
Factoring (external, short term)	- Allows the business to get money for debts that might otherwise never have been paid - Saves the business time chasing customers etc. for money owed	- Time consuming to arrange - The business receives less money than it was originally owed – this may affect profitability
Bonds (external, long term) Long term loan	- Lower interest than the banks - Last between 5-25 years	- Interest has to be paid.
Venture capitalists (external, long term) e.g. Dragons Den	- Extra finance from the investment - Mentoring, help, contacts	- Most are looking for 3-5 years for their investment to be returned - Intrusion
Mortgage (external, long term)	- Only method available to buy property - Structured repayments over a long term (25 years)	- Large sums of interest charged - Can take a long time to repay debt
Leasing (external, long term)	- Cost of the asset is spread over its life - No need to find a lump-sum of money to purchase it	- May be more expensive than buying the asset – the owner will want to profit from the deal - The business does not own the asset

4/Exam questions

1/ D

2// 1 mark for each appropriate reason given.

Possible answers include:

• Improves cash flow.
• Delays cash payments to suppliers.
• Can use capital elsewhere in business.
• Lower costs due to less need to use loans.

Candidates can score 1 mark for any other valid reason.

3/A and E

4/B

5/

The aim here is for candidates to consider the benefits to *Mulberry* of using internal sources of finance as opposed to other types of finance. The question asks the candidate to *'discuss'*, so we should expect some balance within the answer. This could take the form of examining why one benefit is more important than another or through considering the drawbacks of solely using internal sources of finance.

Possible benefits:

- Lower risk-the fashion market can change rapidly.
- No interest to pay/less costly than using bank loans.
- No new shares need to be issued-no loss of control.
- No restrictions placed on the company by banks.

Possible sources of balance:

- Internal sources are unlikely to be enough to allow rapid expansion.
- *Mulberry* may miss out exploiting its competitive advantage.
- Rival firms may expand faster.

Level	Mark	Descriptor
No mark	**0**	Non-rewardable material.
Level 1	**1-2**	**One** benefit to *Mulberry* is highlighted with some simple development or **two** benefits are given with no development of either. An alternative route to marks in this level is if just a simple judgement or value is given to a benefit. 1 mark can be awarded for no support and 2 if some simple support is offered. The quality of written communication will be poor with frequent spelling, punctuation, style and grammar errors.
Level 2	**3-4**	Reference to at least **two** benefits is given with some development of each. A judgement/point is given at the lower end of the level with some development/support, which includes at least **one** reason/cause/consequence etc. for each benefit. At the top of the level this analysis will be relevant and linked to the judgement/point made and there **may** be some reference to the context.
Level 3	**5-6**	Reference to at least **two** benefits is given with development of each. A judgement/point is given with some development which includes at least **two** reasons/causes/consequences etc. for each benefit and should include some comparison/judgement as to which benefit is more important/evidence of balance. Answers at the top of this level will refer to the *Mulberry*/designer fashion goods context.