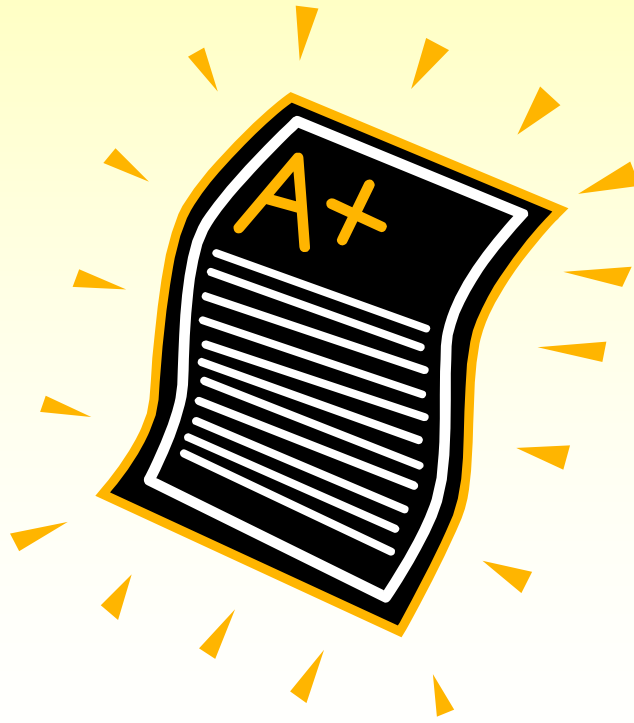


Financial Management Exam

Lesson Objectives

Starter

- Results feedback
- Fill in review of exam



**Make corrections as we go
through the paper**



1bi) Ways to improve cashflow

- Trade credit
- De-stocking
- Increase sales
- Sell assets
- Reduce costs
- Order fewer materials
- Loan

1bii) Explain why strong cashflow is important to a supermarket like Lidl.

- Reduces risk of failure
- Reduces need for overdrafts/loans
- Can pay bills when they are due
- Strong cashflow will allow Lidl to pay bills to suppliers when they are due.
- This will ensure that suppliers will keep delivering groceries to the store on time
- This will ensure Lidl will have enough food for their customers.

2) What is meant by the term break even?

- The breakeven point is the level of output where total revenue is equal to total costs
- Could use definition
 - Breakeven = $\frac{\text{fixed costs}}{\text{contribution}}$

2bi) Fixed costs £2400000, variable costs £140 per console, price £300.
Calculate the break even point

- Fixed costs/ contribution
- Contribution = Sales - variable cost

$$\frac{\text{£}2400000}{(\text{£}300 - \text{£}140)}$$

$$= 15,000 \text{ consoles}$$

2bii) Calculate the level of profit if Sony sold 20,000 consoles at £300

- Profit = Revenue - Total costs
- Revenue = $20,000 \times £300 = £6,000,000$
- Total costs =
 - Variable $(20,000 \times £140) +$
 - Fixed $£240,0000$ = $£5,200,000$
- Profit =
 $£6,000,000 - £5,200,000 = £800,000$

2c) Identify 2 problems Sony could face as a result of reducing the price to £250. For each problem explain how it would affect Sony.

- Rivals might lower their prices
- Demand may not increase by much
- Profits might fall
- Damage to the brand
- Might move further away from break even point
- By lowering prices, the profits on each console will fall. If the amount sold does not increase by a lot because they have competition from Xbox, revenue will be lower than before the price cut.

4a) If the price changes to £35, calculate the new break even point

- Fixed costs = £8000
- Variable costs = £14 per unit
- Selling price = £35

<u>Fixed costs</u>	<u>£8000</u>
Contribution	£21

= 381 set menus

4bi) Define the term margin of safety

- The quantity sold above the break even point
- This is where the business makes a profit

4bii) Explain the relevance of margin of safety to Jason's business

- Answers could include:-
 - The MOS shows Jason how many set menus they need to sell in order to be profitable
 - It shows them how far demand can fall before losses occur
 - They can use the information to persuade banks to lend them further capital

4c) In your opinion which price would be more likely to help the business survive the first year.

Level	Mark	Description
0	0	May just list price e.g. £35 is best
1	1-2	e.g. The price of £5 is best as it will bring in more profit per meal sold. Poor spelling and punctuation.
2	3-5	A judgement is made, one price is mentioned, good spelling and use of terms
3	6-8	Both prices discussed, good evaluative comments. Referred to break even points. High standard of writing and use of terms

5b) Which option do you feel is the most appropriate source of finance for Lyn's expansion?

- Relate to Lyn's business and shop fitting throughout your answer
- Define retained profit and selling assets
- Advantages and disadvantages of retained profit
- Advantages and disadvantages of selling assets
- Conclusion - which you think is best - could mention short term and long term affects

The impact of the environment on businesses



Volcanic Ash Cloud

BBC News clips

- <http://news.bbc.co.uk/1/hi/uk/8621464.stm>
- <http://news.bbc.co.uk/1/hi/business/8627899.stm>



Produce a mind map/ diagram..

- To show who which stakeholders/groups were affected by the volcanic ash cloud.
-
- For each group state how they were affected
- Think about positive affects as well as negatives

Some newspaper headlines:-

- Volcano ash cloud causing sporting chaos
- Exam change for stranded pupils
- Nissan and BMW suspend production
- Zambia food and flowers exports hit
- Tesco deliver Kenyon produce via Spain
- Ash cloud causes staff shortages

Plenary

- Report back on main groups affected and how