

UNIT 6 - FINANCE

GCSE BUSINESS

**THEORY AND EXAM
QUESTION REVISION
BOOKLET**

GCSE Business is assessed by two final exams and is broken down in the following way:

Paper 1: Influences of operations and HRM on business activity	+	Paper 2: Influences of marketing and finance on business activity
What's assessed <ul style="list-style-type: none">• Business in the real world• Influences on business• Business operations• Human resources		What's assessed <ul style="list-style-type: none">• Business in the real world• Influences on business• Marketing• Finance
How it's assessed <ul style="list-style-type: none">• Written exam: 1 hour 45 minutes• 90 marks• 50 % of GCSE		How it's assessed <ul style="list-style-type: none">• Written exam: 1 hour 45 minutes• 90 marks• 50 % of GCSE
Questions <ul style="list-style-type: none">• Section A has multiple choice questions and short answer questions worth 20 marks.• Section B has one case study/data response stimuli with questions worth approximately 34 marks.• Section C has one case study/data response stimuli with questions worth approximately 36 marks.		Questions <ul style="list-style-type: none">• Section A has multiple choice questions and short answer questions worth 20 marks.• Section B has one case study/data response stimuli with questions worth approximately 34 marks.• Section C has one case study/data response stimuli with questions worth approximately 36 marks.

The exams will measure how you have achieved the following assessment objectives.

AO1: Demonstrate knowledge and understanding of business concepts and issues.

AO2: Apply knowledge and understanding of business concepts and issues to a variety of contexts.

AO3: Analyse and evaluate business information and issues to demonstrate understanding of business activity, make judgements and draw conclusions.

Unit 6 – Finance – Sources of finance

What you need to know!

3.6.1 Sources of finance	Insecure	Developing	Secure
Identify the main methods used to raise finance: including family and friends Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including retained profits Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including new share issued Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including loan or mortgage Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including selling unwanted assets Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including overdrafts Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including trade credit Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including hire purchase Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			
Identify the main methods used to raise finance: including government grants Analyse the advantages and disadvantages of each method for a given situation Evaluate the suitability for new and established businesses.			

The theory

Key Term	Definition
Entrepreneur	
Internal source of finance	
External source of finance	
Owners Funds	
Interest	
Shareholder(s)	
Asset	
Trade Credit	
Collateral	
Mortgages	
Overdraft	
Hire purchase and leasing.	

Source of finance	Features of this source of finance	Internal or external	Long/med /short term	Benefits	Drawbacks
Bank Loan					
Loan from family & friends					
Overdraft					
Mortgage					
Own savings					

Source of finance	Features of this source of finance	Internal or external	Long/med /short term	Benefits	Drawbacks
New share issue					
Trade credit					
Selling unwanted assets					
Hire purchase					
Grant					

Item D – Money Makes the World Go Round

Ellen now has a business idea, limited finance and has undertaken basic market research and using the data and information gained from this she has drawn up an outline of a business plan. Her next step is to examine and review her expected production resources and the required finance to start up her business.

Being a new business would mean, especially in the current economic climate, that raising additional start-up finance would be difficult. However, Ellen was aware that she had many sources from which she could get start-up advice on her proposed business.

Ellen has decided to use her family's large empty garage to work from initially. She has available a wireless Internet connection from the main house to the garage, as well as an electricity supply. She has decided to install a metered electricity connection to the garage at a later date!

Her £1,500 worth of market research showed that in the first month of trading her initial set-up costs will be £4,500 **in total** (including the £1,500 of market research). She plans to use her £5,000 of personal savings for business purposes.

The research also showed that for the first and following 11 months it is estimated that the cost of making each card will be £0.20, her sales should average 2,000 cards each month and she intends sell her cards in batches of 100 for £50.

Ellen knew that she had to make a profit in the long run, in order to survive; however, she was very conscious that in the short run she needed to have an adequate cash flow and for this reason she decided not to offer any credit terms to her customers.

For these reasons Ellen drew up a simple estimated profit and loss account for the first six months of trading. She intends to include this in the financial section of her draft business plan. At the end of her first month of trading Ellen intends to draw up a simple cash flow statement.

1. Identify two organisations that can help and advise Ellen with the finance for her new business start-up (2 marks).

2. Identify two conditions the bank might laydown before considering financing Ellen's business (2 marks).

3. Apart from savings or a bank loan identify two other possible sources of finance for Ellen's business (2 marks).

4. Give a suitable reason why any financial institution might be reluctant to loan Ellen start-up finance for her proposed business (2 marks).

5. Explain how a bank loan differs from an overdraft (3 marks).

6. Explain two advantages of Ellen being offered a bank overdraft (4 marks).

7. Analyse why Ellen might not want to borrow additional business finance from her immediate family (6 marks).

8. If Ellen were to apply for, and be offered, a bank loan, would you recommend that she accepts it or not. Give reasons for your decision (9 marks).

How to structure your answer:	
Paragraph 1: Should she accept the bank loan?	
Paragraph 2: Why should she not accept the bank loan?	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: <u>Conclusion</u>	
A - Answer the question set. Make clear your decision.	
J - Justify your decision	
I - consider what the success of your decision depends on and the impact on the short and long term on the business.	
M - State the most important reason why you've come to your judgement	

Question paper 1 – Item C – LazerTazer Ltd

LazerTazer Ltd is an independent laser tag game played in a themed multi-level arena, which provides single games and birthday parties. It is located on the outskirts of a large town and is easy to reach by car, with a large car park, and is on all the major bus routes.

LazerTazer Ltd employ 20 part-time staff who help out at the centre. They cook the meals for the birthday parties, they work the reception desk and they help out in the gamezone area. Few of the staff work all year round, as business seems to trail off when the children are in school. School holidays are the busiest, which is when LazerTazer Ltd employ the most staff. In school holidays, the centre is open from 9am for young children ('early birds') right through to 10pm for 'zap and snap' groups which are over 16s only. The staff work long hours for a few days a week and are on zero-hour contracts. This means they often do not know until the morning of the working day whether they have to go into work. The staff feel very unhappy about this arrangement and think that the LazerTazer Ltd managers only care about money and not their staff.



Profits for the business have been dropping and LazerTazer Ltd managers are finding it hard to retain staff, who seem to be leaving all the time. The staff are only on minimum wage and LazerTazer Ltd find they have to constantly recruit and train new staff, which is very costly and time-consuming.

1. State a source of finance and analyse why it might be suitable for LazerTazer Ltd (6 marks).

Question Paper 4 – Item A – Band bus

Morgan Freeman is in a rock band and he noticed that there was scope for a new type of business at music festivals that he played at. He is considering whether there is an opportunity for him and his bandmate, Tim Robbins, to start a band bus business. The idea is that the band buy an old-open top double-decker bus and use it to drive to the gigs and festivals and when they get there they play on the top deck of the bus. Morgan hoped that the business could expand to include playing at parties and weddings.

At events such as weddings, guests could be ushered outside for a surprise, they would see the bus and the band would pop up and play on top of the bus. He hopes that the other band members would lend them the money to get started and to buy a bus.

1. Morgan and Tim have worked out that they will need a bank loan of £10,000. State two features of a bank loan (2 marks).

2. Analyse the reasons why Morgan and Tim might not want to use hire purchase to buy the double-decker bus they need for the business (6 marks).

3. Morgan and Tim need to buy a suitable open top double-decker bus for the business, which is likely to costs about £10,000. They could either:
- Borrow £10,000 from some of the other band members
 - See whether the local bank would give them a loan over five years.

<u>How to structure your answer:</u>	
Paragraph 1: On the option you have chosen.	
Paragraph 2: Disadvantage of the option you have not chosen.	
Use the steps below:	
Step 1 (P) - Make one point Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: <u>Conclusion</u> A - Answer the question set. Make clear your decision.	
J - Justify your decision	
I - consider what the success of your decision depends on and the impact on the short and long term on the business.	
M - State the most important reason why you've come to your judgement	

Unit 6 – Finance – Cash Flow
What you need to know!

3.6.2 Cash flow	Insecure	Developing	Secure
Understand the consequences of cash flow problems and the effect of positive cash flow.			
Understand how and why cash flow forecasts are constructed.			
Complete and interpret sections of a cash flow forecast (this includes an understanding of cash inflows and outflows, net cash flow and the opening and closing balance.			
Evaluate possible solutions to cash flow problems, including re-scheduling payments, overdrafts, reducing cash outflow, increasing cash inflow and finding new sources of finance.			
Understand the consequences of cash flow problems and the effect of positive cash flow.			

The theory

Key Term	Definition
Cash	
Cash flow	
Cash inflow	
Cash outflow	
Net Cash flow	

In the boxes below, give examples of items that could be classed as cash inflows or outflows

Cash inflows	Cash outflows

Identify causes of cash flow problems	Identify ways to improve a cash flow

Explain why cash flow is not the same thing as profit.

Explain the difference between the opening balance and the closing balance of a cash flow.

Explain how to work out the net cash flow.

Complete the two cash flow forecasts below.

	August (£)	September (£)
Receipts	17 400	21 770
Raw materials	8 050	9 340
Fixed costs	2 120	2 340
Total payments	10 170	(ii)
Net cash flow	(i)	10 090
Opening balance	5 300	12 530
Closing balance	12 530	22 620

<i>MVB Designs Ltd</i>				
Cash-flow forecast for the four months ended 31 October 2004				
	July	August	September	October
CASH IN				
Credit sales	21 000	21 000	26 000	30 000
Total inflow	21 000	21 000	26 000	30 000
CASH OUT				
Payments for stock	13 000	15 000	15 000	15 000
Wages	8 000	8 000	9 600	9 600
Purchase of new equipment		11 000		
Other costs	1 800	1 800	1 800	2 000
Total outflow	22 800	35 800	26 400	
Net monthly cash flow	(1 800)		(400)	3 400
Opening balance	16 000	14 200	(600)	(1 000)
Closing balance		(600)	(1 000)	

Question Paper 2 – Item B – BookyWook Workshop Ltd

Russell Brind started the BookyWook Workshop shop recently and it has since become an Ltd. He produces short-run books in batch production which he then sells to local bookshops and market book stalls. He also specialises in producing one-off books for people who have written their own work and wish to see it in print in the final book format. Russell has recently purchased some new book binding and printing equipment for the business to help make the process of printing and binding a book in its cover easier, and to give a more professional finish.



BookyWook Workshop Ltd have been trading for a year but have run into trouble. Recently, some of their customers have complained that the writing is upside down inside the book covers and sometimes the last page is missing so they cannot finish the story.

Cash flow has always been a problem for BookyWook Workshop Ltd, as Russell's suppliers expect to be paid on delivery of the paper but his customers never seem to pay on time. To get business, at the start Russell initially offered customers three months to pay, but now he is wondering if that was the right decision. He has three employees who work-part time for him producing books, delivering finished goods and making sales calls to potential customers. He pays these employees on a weekly basis. BookyWook Workshop Ltd are considering what action they could take to improve their cash flow situation in the future.

1. Recommend the best way for BookyWook Workshop Ltd to improve their cash flow. Give reasons for your recommendation (9 marks).

How to structure your answer:	
Paragraph 1: One way they could improve cash flow	
Paragraph 2: a second way they could improve their cash flow	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence	

from the **text** to support the explanation of your point.

Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.

Paragraph 3: Conclusion

A - Answer the question set.
Make clear your decision.

J - Justify your decision

I - consider what the success of your decision depends on and the impact on the short and long term on the business.

M - State the most important reason why you've come to your judgement

Question Paper 2 – Item C – It's the Pitts Cleaning Services

Angelina and Brad started their cleaning business back in 2007 when they realised that there was a gap in the market for providing cleaning services to people with allergies. This included shops, offices and schools who wanted their premises deep cleaned by the pair.



Angelina and Brad have both worked for other cleaning companies for years, so services that they could provide included after-school cleaning for colleges and also night cleaning for offices. It's the Pitts cleaning services were able to charge high rates per hour because of their specialism in removing all potential allergens and pollen. However, schools and colleges are very slow to pay and Brad often has to chase up the school secretaries on the phone to get them to pay the bills. This makes it hard for It's the Pitts cleaning services to pay their own suppliers of cleaning materials and chemicals, who insist on payment when they collect the items. Angelina is worried that if Brad takes action against the schools and colleges that are late to pay they will lose valuable cleaning contracts. Most of It's the Pitts' customers come through word-of-mouth recommendations made by satisfied customers who have had their offices deep cleaned. It's the Pitt's cleaning services are also considering starting a website so customers can see their details online, similar to that of other competitors who are also cleaning companies. Angelina is also keen to swap the website for her having to answer the phone all day to potential customers; she is hoping to replace that with an online 'contact us' form for them to get in touch with their enquiry. This will free her up to manage the current clients and improve their customer service.

Here is It's the Pitts cleaning services' cash flow forecast for the first six months this year:

	JAN £	FEB £	MAR £	APR £	MAY £	JUN £
Income						
Sales of cleaning services to customers	10 000	6 000	9 000	4 000	7 000	2 000
TOTAL INCOME	10 000	6 000	9 000	4 000	7 000	2 000
Expenses						
Cleaning materials	600	600	600	400	500	200
Wages	6 000	6 000	6 000	6 000	6 000	6 000
Website design	0	0	0	0	4 000	0
Other expenses	1 000	1 000	1 000	1 000	1 000	1 000
TOTAL EXPENSES	7 600	7 600	7 600	7 400	11 500	7 200
Net Cash	2 400	(1 600)	1 400	(3 400)	(4 500)	(5 200)
Balance brought forward	1 250	3 650	2 050	3 450	50	(4 450)
Balance carried forward	3 650	2 050	3 450	50	(4 450)	(9 650)

<p>How to structure your answer:</p> <p>Paragraph 1: 1st action they could take</p> <p>Paragraph 2: 2nd action they could take</p> <p>Use the steps below:</p> <p>Step 1 (P) - Make one point Step 2 (E) - Explain why/how your point is relevant. (C) Put your answer in Context by using evidence from the text to support the explanation of your point. Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.</p> <p>Paragraph 3: <u>Conclusion</u> A - Answer the question set. Make clear your decision. J - Justify your decision I - consider what the success of your decision depends on and the impact on the short and long term on the business. M - State the most important reason why you've come to your judgement</p>	
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Unit 6 – Finance – Financial terms and calculations
What you need to know!

3.6.3 Financial terms and calculations	Insecure	Developing	Secure
Understand the difference between variable costs , fixed costs and total costs .			
Understand the concept of revenue, costs, profit and loss.			
Understand the main investment projects that businesses undertake, including investment in new machinery, buildings and vehicles. Calculate the average rate of return for these projects.			
Define the term break-even Can interpret a break-even chart Identify the break-even level of output and the margin of safety from a break-even chart			
Explain the benefits and drawbacks of break-even analysis to a business.			

The Theory

Key Terms	Definitions
Revenue	
Sales	
Costs	
Fixed cost	
Variable cost	
Total costs	
Profit	
Loss	
Investment	
Average rate of return (ARR)	
Break-even	
Break-even Chart	

Exam Questions

6 Figure 3 shows the weekly break-even diagram for the *Cornish Cheese Company*.

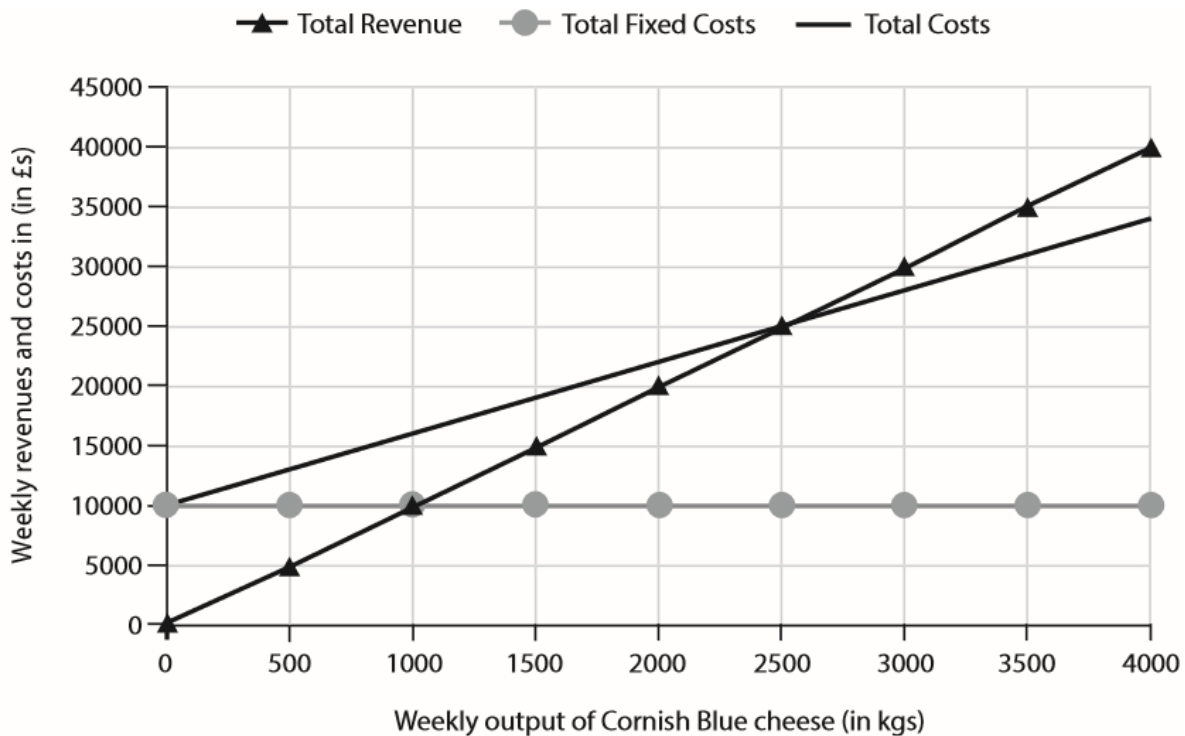


Figure 3

1. What is meant by the term break-even point? (2 marks)

2. The Cornish Cheese Company produces 4,000 kgs of Cornish Blue per week. Using Figure 3, calculate the weekly margin of safety. Show your workings and the formula used.

Complete the table below to identify for Anne whether the costs are fixed costs or variable costs. Place one tick in the appropriate column for each cost.

Costs	Fixed Costs	Variable Costs
Lease of a photocopier		
Payments to cleaners		
Insurance of the business		
Costs of materials used for cleaning		

(4 marks)

Anne's Angels will have:

- fixed costs of £20000 per year
- variable costs of £20 for each house cleaned
- a selling price of £30 for each house cleaned.

1. Using calculate how many houses Anne's Angels will need to clean each year to break even.

2. Explain the possible effects on the break-even point for Anne's Angels if the fixed costs for the house cleaning service rose to £25000.

Question Paper 3 – Item C – Mud, Sweat and Gears community cafe

Mud, Sweat and Gears is a community-focused bike cafe in a city centre. Their vision is to become the focal point for cycling in the city, celebrating and supporting the UK's unique cycling culture. They also aim to attract non-cyclists to show them what they are missing.

Mud, Sweat and Gears provide: quality food and drink; cycle-related events; information; sales, repairs and servicing; workshop space; and promotion of cycling. They are a not-for-profit social enterprise and the cafe premises have been donated by the council as part of their initiative to get the city citizens fitter.

The cafe produces a set snack meal which changes each day. Having only one choice means that often customers don't like the daily special and go elsewhere. The cost of raw ingredients for the snacks is likely to go up in the next few months and the owners of Mud, Sweat and Gears are looking at ways to keep costs down, such as using cheaper ingredients. Other ways are by giving customers more choices and having a wider menu, but the kitchen is very small so the owner, Johnny Dapp, is not sure that would work.



Price of a snack meal per customer		Cost of ingredients to make per snack meal	
£4.00		£2.00	
Cost of chef per week to cook snacks	2 unskilled waiting staff (total cost for both per week)	Other weekly costs including phone and electricity	Total costs per week of running Mud, Sweat and Gears
£300	£200	£50	£550

1. Calculate the weekly profit or loss made by Mud, Sweat and Gears Community café if they sell 720 snack meals per week (4 marks).

2. Russell owns a book store and currently sells a book for £15 and sells 50 a week. If he reduced the price to £9, he is sure he can sell 100 books. Calculate his weekly revenue if he does sell 100 books at the new price. What is the change in revenue with the new price?

The Cornish Cheese Company has weekly fixed costs of £10 000. It sells Cornish Blue at a price of £10 per kg. The variable cost of producing Cornish Blue is £6 per kg.

Calculate the weekly profit the Cornish Cheese Company would make if it produced and sold 4,000 kgs of Cornish Blue per week. Show your workings and the formula used.

Unit 6 – Finance – Analysing the financial performance of a business

What you need to know!

3.6.4 Analysing the financial performance of a business	Insecure	Developing	Secure
INCOME STATEMENT			
Understand the importance of income statements for assessing business performance and helping make business decisions.			
Identify the main components of the income statement.			
Make judgements on the performance of a business through the interpretation of the information contained in income statements			
Calculate gross profit margin and net profit margin to help assess financial performance.			
THE STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)			
Understand the importance of the statement of financial position for assessing business performance and helping make business decisions.			
Identify the main components of the statement of financial position.			
Explain the difference between assets and liabilities and that the statement of financial position is a snapshot in time.			
Consider current performance, performance against previous years, performance against competitors and performance from the perspective of a range of stakeholders			

The theory

Key Terms	Definition
Income statement (profit & loss)	
Revenue	
Cost of sales	
Gross profit	
Operating profit	
Financial ratio	
Gross profit margin	
Net profit margin	

Key Terms	Definition
A balance sheet	
Asset	
Liability	
Inventories	
Receivables	
Payables	
Equity	

Item C – The Money-Go-Round

Blue-Print Limited performed very well in its first year of trading and continued to improve in its second year. This should make it fairly easy for Blue-Print to raise additional finance if it wished to expand even further in the future.

At present, Blue-Print Limited is a fairly large, established business with a good bottom line. Consequently, it should have no problem raising funds to expand. Both Richard and Jamal, as well as the rest of the management team, know that quite a few methods of raising expansion funds are available to Blue-Print Limited, including the use of its retained profits, offering a new share issue to private individuals, getting a loan or mortgage and possibly selling some of its unwanted assets.

However, the management team all know that when they eventually decide to expand Blue-Print Limited even more, it is very important for them to choose the source of finance that is most appropriate for the business at that particular time. They are also very aware that each source of finance available to Blue-Print Limited has its own set of advantages and disadvantages.

Over two years of very successful trading, Blue-Print Limited published the follow financial summaries.

Trading and Profit and Loss Accounts

	Year 1 £	Year 2 £
Total Sales (Turnover)	100,000	150,000
Less: Cost of Sales	40,000	70,000
Gross Profit	60,000	80,000
Less: Operating Expenses	10,000	20,000
Net Profit	50,000	60,000
Less: Dividends and Tax Paid	20,000	20,000
Retained Profit	30,000	40,000

Balance Sheets

	Year 1 £			Year 2 £		
Fixed Assets			60,000			70,000
Add: Working Capital						
Current Assets						
Stock	20,000			45,000		
Debtors	5,000			15,000		
Bank	3,500			10,000		
Cash	1,500	30,000		5,000	75,000	
Less: Current Liabilities						
Creditors		10,000	20,000		25,000	50,000
Total Net Assets			80,000			120,000
Financed by: Share Capital			50,000			80,000
Retained Profits			30,000			40,000
Total Capital Employed			80,000			120,000

1. Identify the difference between an income statement and a balance sheet (2 marks).

2. Identify two types of expenses that Blue-Print Limited might incur and show on its income statement (2 marks).

3. Calculate Blue Prints percentage change in its net profit between year 1 and 2. Show your working out (2 marks).

4. Calculate Blue Prints gross profit margin and net profit margin for year 1 and explain what each result means (3 marks).

5. Calculate the increase or decrease in Blue Prints working capital between year 1 & 2 and explain the significance of any change (3 marks).

6. Calculate Blue Prints current ratio for year 1&2 and explain the significance of any change (3 marks).

7. Discuss the usefulness to the management team of Blue-Print Limited of analysing its balance sheet to judge market performance. Give reasons for your answer (9 marks).

<u>How to structure your answer:</u>	
Paragraph 1: How the balance sheet is useful	
Paragraph 2: How the balance sheet is not useful	
Use the steps below:	
Step 1 (P) - Make one point	
Step 2 (E) - Explain why/how your point is relevant.	
(C) Put your answer in Context by using evidence from the text to support the explanation of your point.	
Step 3 (An) - Analyse by writing about the impact and/or the consequence of your point.	
Paragraph 3: Conclusion	
A - Answer the question set. Make clear your decision.	
J - Justify your decision	
I - consider what the success of your decision depends on and the impact on the short and long term on the business.	
M - State the most important reason why you've come to your judgement	

- 4 Jen has asked you to construct a Profit and Loss summary for *DNS*. She has supplied you with the following information.

Drumz'n'Stix figures for the last month.

Sales of:	
Drum Kits	£3 500
Accessories	£2 125
Cost of these sales	£2 225
Wages and salaries	£ 900
Rent, Rates and Insurance	£ 800
Light, Heat and Power	£ 250
Telephone and Broadband	£ 80

Use this information to construct the Profit and Loss summary for *DNS* for last month.

Profit and Loss Summary for Drumz'n'Stix

	£	£	
Total Sales			(1)
			(1)
Gross Profit			(1)
Expenses:			
		(1)	
		(1)	
		(1)	
		(1)	
Total Expenses:			
			(1)

Simply Bake plc is a company making cakes. It is based in the UK.

Simply Bake plc has a bakery that produces pre-packaged party and celebration cakes, chocolate-covered mini rolls and cake bars, muffins and sponge cakes. This busy bakery would like to increase production, but does not have the resources to do this. At present the machinery and most of the other assets owned by Simply Bake plc are fully used in cake production. It therefore has no spare capacity.

- A Cake-making equipment.
- B Stock of ingredients.
- C Money that *Simply Bake plc* owes to its suppliers.
- D Debts owed to *Simply Bake plc*.
- E Bank overdraft.

- (a) List the items A – E above as **current assets**, **fixed assets** or **liabilities** in the table below. The first one has been completed for you.

(4)

A	Fixed Asset
B	
C	
D	
E	

Delivery vehicles are a fixed asset of *Simply Bake plc*.

- (b) Outline why delivery vehicles would be classed as fixed assets.

(2)

Simply Bake plc is currently successful. It is considering purchasing new machinery to enable it to increase production. To do this it needs to raise additional finance. The profit and loss account (income statement) and the balance sheet will be important documents for potential investors into the business.

Outline one reason why investors might be interested in Simply Bake plc's income account (2 marks).

Suggest and explain two reasons why a forecast balance sheet for Simply Bake plc could help a potential investor decide whether to invest in the business. (4 marks).

Why might suppliers be interested in the income statement of Simply Bake plc and what this account shows? (3 marks)

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

(a) In the table below, identify whether each item listed is a:

- current asset
- fixed asset
- current liability
- long-term liability.

(6)

Assets and Liabilities for SGH

Items	£	Current asset	Fixed asset	Current liability	Long-term liability
Hovercraft	80 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money in bank	6 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bank loan	12 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equipment used for repairs	2 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Debts owed by SGH to suppliers	1 400	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Blank DVDs	280	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Following formula.

Working Capital (Net current assets) = Current assets - Current liabilities

Using the information from your answer from the question above and the formula given above, calculate the Working Capital (Net current assets) for SGH. (2 marks)

Explain the purpose of SGH's balance sheet (statement of financial position). (3)

The DVD recording equipment is a fixed asset of SGH. (b) Outline why the DVD recording equipment is classified as a fixed asset. (2 marks)

Memo

From: Tess

Here are our figures.

Admission tickets	£925 000
Food sales	£110 000
Cost of sales	£232 500
Wages and salaries	£357 000
Rent, rates and insurance	£161 900
Light, heat and power	£ 65 000
Telephone and broadband	£ 30 000

(b) Use this information to construct the Profit and Loss account for *ETP*.

Profit and Loss Account for Elmwood Theme Park 2011

	£	£	
Total sales:			(1)
			(1)
Gross profit			(1)
Expenses:			
			(1)
			(1)
			(1)
			(1)
Total expenses:			
			(1)

Sirin has asked you to help construct a Profit and Loss account (Income Statement) for *SGH* for 2015. She has sent you the following figures:

	£
Sales of hovercraft experiences	120 000
Sales of DVDs	15 000
Wages and salaries	25 000
Servicing of machines	1 500
Rent, rates and insurance	11 100
Cost of sales	19 000

5 (a) Complete the Profit and Loss account (Income Statement) for *SGH*.

(8)

Profit and Loss Account (Income Statement) for *Slide and Glide Hovercraft (SGH)*

	£	£
Gross Profit		
Expenses:		
Total Expenses:		

Using SGH's profit and loss account (Income Statement) from the question above calculate the gross profit margin for SGH.
