

## **BTEC Level 2 Tech Award in Enterprise**

# **COMPONENT 3: PROMOTION AND FINANCE FOR ENTERPRISE**

## **KNOWLEDGE BOOKLET**



**NAME:**

**YEAR:**

**TEACHER:**

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## **Components**

Learners are required to complete and achieve all the components included in the qualification.

Pearson BTEC Level 1/Level 2 Tech Award in Enterprise

1 Exploring Enterprises 36 1/2 Internal

2 Planning for and Running an Enterprise 36 1/2 Internal

3 Promotion and Finance for Enterprise 48 1/2 External and Synoptic

The qualification has three components that focus on the assessment of knowledge, skills and practices. These are all essential to developing a basis for progression and therefore learners need to demonstrate attainment across all components in order to achieve the qualification.

The components are strongly interrelated and they are best seen as part of an integrated whole rather than totally distinct study areas. Normally, learners will take this qualification over a two-year period or longer. This means that they must be given the opportunity to build their confidence in understanding the sector, vocational contexts and vocational attributes over a long period during the course of study before they are assessed.

As the interrelated components are not linked to occupational roles, certification is not available at component level.

## **Understanding exam questions**

There are numerous terms or command verbs that will be used in the specification. Most of them are very straightforward as follows:

### **Explain**

Set out in detail the meaning of something, with reasons. More difficult than describe or list, so it can help to give an example to show what you mean. Start by introducing the topic, then give 'how' or 'why'

### **Describe**

Give a clear description that includes all the relevant features; think of it as 'painting a picture with words'

### **Plan**

Work out and plan how you would carry out a task or activity

### **Compare**

Identify the main factors that apply in two or more situations and explain the similarities and differences or advantages and disadvantages

### **Assess**

Give careful consideration to all the factors or events that apply and identify which are the most important or relevant

### **Justify**

Give reasons or evidence to support your opinion or view to show how you arrived at these conclusions

**Evaluate**

Review the information then bring it together to form a conclusion. Give evidence for each of your views or statements

**BTEC LEVEL 1/LEVEL 2 TECH AWARD COMPONENT 3:****PROMOTION AND FINANCE FOR ENTERPRISE**

Assessment objectives

**AO1** Demonstrate knowledge and understanding of elements of promotion and financial records

**AO2** Interpret and use promotional and financial information in relation to a given enterprise

**AO3** Make connections between different factors influencing a given enterprise

**AO4** Be able to advise and provide recommendations to a given enterprise on ways to improve its performance

## **A Promotion**

### **A1 Elements of the promotional mix and their purposes**

What is Promotion?

In marketing, promotion refers to any type of marketing communication used to inform or persuade target audiences of the relative merits of a product, service, brand or issue. The aim of promotion is to increase awareness, create interest, generate sales or create brand loyalty. It is one of the basic elements of the market mix, which includes the four P's: price, product, promotion, and place.

Promotion is also one of the elements in the promotional mix or promotional plan. These are personal selling, advertising, sales promotion, direct marketing publicity and may also include event marketing, exhibitions and trade shows.

A promotional plan specifies how much attention to pay to each of the elements in the promotional mix, and what proportion of the budget should be allocated to each element.

Promotion covers the methods of communication that a marketer uses to provide information about its product. Information can be both verbal and visual.

The different methods of promotion used by enterprises, their suitability for different sizes of enterprise, including the factors they consider when choosing the most appropriate.

### **The use of advertising to persuade and inform.**

Advertising is a marketing communication that employs an openly sponsored, non-personal message to promote or sell a product, service or idea. Sponsors of advertising are typically businesses wishing to promote their products or services

Commercial ads often seek to generate increased consumption of their products or services through "branding", which associates a product name or image with certain qualities in the minds of consumers. On the other hand, ads that intend to elicit an immediate sale are known as direct-response advertising. Non-commercial entities that advertise more than consumer products or services include political parties, interest groups, religious organizations and governmental agencies. Non-profit organizations may use free modes of persuasion, such as a public service announcement. Advertising may also be used to reassure employees or shareholders that a company is viable or successful.

The two basic aspects of advertising are:

- o the message:** what the communication needs to say
- o the medium:** how to get the message across.

### **Knowledge check**

What is promotion? \_\_\_\_\_

What are the 4ps of marketing? \_\_\_\_\_  
\_\_\_\_\_

What is a promotional plan? \_\_\_\_\_  
\_\_\_\_\_



Coca Cola Poster AD

**o the message:**  
\_\_\_\_\_  
\_\_\_\_\_

**o the medium:**  
\_\_\_\_\_  
\_\_\_\_\_

Do you think this advert is effective?  
\_\_\_\_\_



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Why?

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Cadburys 3d billboard

**o the message:**

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**o the medium:**

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Do you think this advert is effective?

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Why?

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KitKat Bench

**o the message:**

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**o the medium:**

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Do you think this advert is effective?

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Why?

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**Advertising methods: moving image, print, ambient, digital, audio.**

Advertising is communicated through various mass media, including traditional media such as newspapers, magazines, television, radio, outdoor advertising or direct mail; and new media such as search results, blogs, social media, websites or text messages. The actual presentation of the message in a medium is referred to as an **advertisement** or "**ad**" or **advert** for short.

**moving image**

**Can you find examples of the following types of advertising?**

**Print**

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**Ambient**

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**Digital**

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**Audio.**

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**EXTENSION**

Which type of advertising do you think is most effective, why is it effective?

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## Types of Promotion

### Sales promotion

Sales promotion is the process of persuading a potential customer to buy the product. Sales promotion is designed to be used as a short-term tactic to boost sales – it is rarely suitable as a method of building long-term customer loyalty. Some sales promotions are aimed at consumers.

**Coupons** can be used to encourage customers to go to your shop or shop online, coupons usually offer customers a discount or something for free to encourage them to try the product

**Competitions** are another way that businesses use sales promotion, competitions usually ask customers to enter and in exchange the business will collect their details such as their name and email address, which they can later use for marketing purposes( If customers consent to their information being used).

Why do you think competitions might encourage customers to use a particular business?

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**Loyalty incentives** are used by many businesses to gain customer loyalty, offering a '5th product free' or 20% off your next purchase this encourages customers to come back to the business.

How many examples of loyalty incentives can you think of?

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### **'Buy one get one free'**

Enterprises may use offers such as 'buy one get one free' to attract new or existing customers. Buy offering an incentive of buying one product or service and receiving another free, customers may be more likely to not buy from their competitors.



**BUY 1 GET 1 FREE ON ANY SIZE  
PIZZA – COLLECTION ONLY**

**How many examples of buy one get one free offers can you think of ?**

**Do you think the business will lose money if they offer this ?**

**Why might a business need to consider the impact of this offer on their break even point?**

### **Discounts.**

By offering discounts to their customers, businesses can target their existing customer base, or attract new customers by offering an incentive to shop with them rather than their competitors

## **Personal selling**

### **Face-to-face**

It is a process in which salesperson interacts with customer directly in order to **sell** the product. **Face to Face selling** is marketing and **selling** product to customer using his skills and marketing techniques. It can occur during a sales meeting or in a retail environment.

### **By telephone**

The practice of telephoning people in order to try to sell them things, or sales made by telephone. This is used to sell things over the phone such as insurance.

### **Via email**

Emails are often used to market certain products and target them towards specific customers.

### **Through video or web conferencing**

Video conferencing (skype etc) can be used to hold important sales meetings, which is particularly useful if exporting or importing products from other countries.

Which of these do you think is most effective?

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Why do you think it is effective?

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What are the advantages of video conferencing to global businesses?

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## Public relations activities

Public relations is a way of promoting a product/service, brand or enterprise by placing information about it in the media without paying for the time or media space directly:

o methods can include:

### Exhibitions

A trade show is an event where goods and services in a specific industry are exhibited and demonstrated to other businesses. An exhibition is the same, except the audience is normally the general public. Trade shows and exhibitions can be useful marketing tools; however, not all businesses benefit from them.



### Sponsorship

Sponsorship advertising is a form of advertising where a company will sponsor some event or organization. ... Companies should consider such factors as the



relevance of the event or organization to its business, brand fit, any misalignment of interests, and the probable business result of a sponsorship before pursuing it.

### **Press releases**

A press release, news release, media release, press statement or video release is a written or recorded communication directed at members of the news media for the purpose of announcing something ostensibly newsworthy.

### **What should go into a press release?**

To write an effective press release, answer the following questions:

**Who?** Who are the key players - your company, anyone else involved with the product? Who does your news affect/who does it benefit?

**What?** What is new?

**Why?** Why is this important news - what does it tell people that they need to know?

**Where?** Where is this happening?

**When?** What is the timing of this? Does this add significance?

**How?** How did this come about?

### **Why are press releases important?**

This also enables you to target thousands of journalists. Improving brand image. Because it has become so easy to publish and distribute a **press release**, companies can easily send out as many **press releases** as they want. Publishing more **press releases** more often is a good way to improve your brand's image.





## Have a go at writing your own press release

Food Retailer 'M & A have asked you to write a press release for their new vegan product range, they have given you the following information;

- **M&A launch their new vegan range, Plant Kitchen, on January 2**
- **The dairy and meat free collection includes over 60 dishes from snacks to mains**
- **The meals cost between £3.00 -£6.00**
- **The meals have been developed for vegans, vegetarians and those wanting to consume more plant based foods**
- **Plant Kitchen dishes are the first M&A ready meals to use recycled trays**

## PRESS RELEASE

A headline that hooks the reader

→

Contact: Wendy Marx, Marx Communications, (203) 445-2850, [wmarx@marxcommunications.com](mailto:wmarx@marxcommunications.com)

### **Aspiring Minds Launches First-of-its-Kind Interactive Map To Help Close US Jobs-Skills Gap**

A first sentence that answers the who, what, when, where, and why

*US Skill Map shows job seekers, employers and institutions what qualifications are most-needed and highest-paid, nationally and by state*

A quote that explains why and how

→

**REDWOOD CITY, California, June 14, 2016:** Aspiring Minds, the global leader in employability assessments, today launched the U.S. Skill Map ([http://www.aspiringminds.com/skill\\_map\\_skill\\_view](http://www.aspiringminds.com/skill_map_skill_view)) – a first-of-its-kind, free, interactive platform that links job qualifications to job vacancies and compensation.

“The U.S. Skill Map fills a huge information gap between job openings and qualified candidates,” said **Varun Aggarwal** (<http://www.aspiringminds.com/about-us/the-team/varun-aggarwal>), co-founder and chief technical officer of Aspiring Minds.

→ “Continually refreshed with new data, it connects the dots from supply to real-time demand for particular competencies. The map shows which qualifications are most-required and command the highest salaries, both nationwide and in each state.”

Statistics show why it's important

→

Despite 5.8 million open positions in the U.S., only 5.1 million people were hired in May, according to the U.S. Department of Labor.

- The U.S. Skill Map meets the needs of three groups:
- Job seekers, who struggle to understand which skills are in highest demand, and where, and which career paths are most profitable
  - Employers, who have trouble finding qualified candidates
  - Higher education institutions, which can use guidance in preparing students

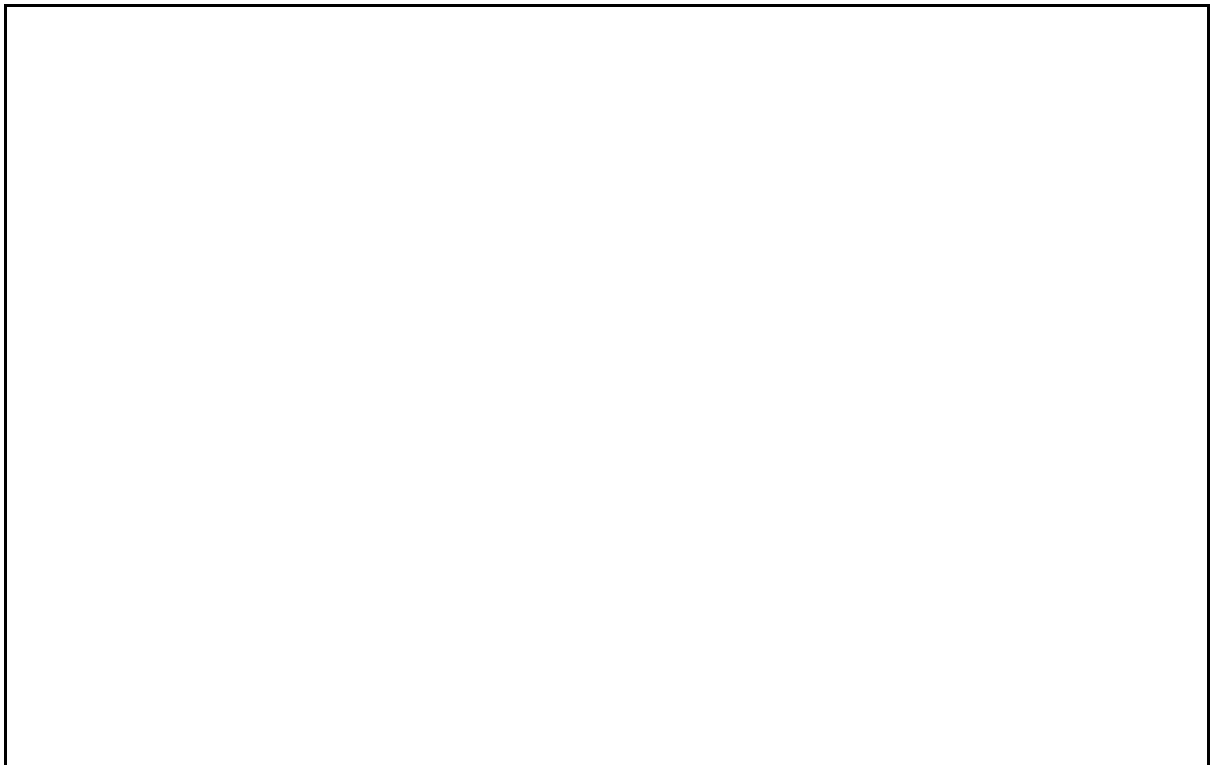
Adds credibility

→

To develop the map, Aspiring Minds analyzed more than 4 million job openings and matched them with some 200 job skill sets, spanning cognitive and soft skills across hundreds of industries. This was done for the U.S. overall and by state.



**FOR IMMEDIATE RELEASE**





## Direct marketing

Direct marketing is a form of advertising in which companies provide physical marketing materials to consumers to communicate information about a product or service.

### Methods:

- Direct mail (junk mail)
- Mail order catalogues
- Magazines
- Telemarketing.

What do you think are the advantages of direct marketing?

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What do you think are the disadvantages of direct marketing?

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Which forms of direct marketing might be appropriate for a fashion brand?

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Why would these be appropriate?

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Are there any methods that would not be appropriate? why?

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## **A2 Targeting and segmenting the market**

**Lo: to understand why an enterprise targets its market, and the impact this has on promotion.**

### **Types of market:**

#### **Business to Business (B2B),**

B2B is shorthand for business to business. The products and services of the business are marketed to other businesses.

Examples include advertising agencies, web hosting and graphic design services, office furniture manufacturers and landlords who lease office and retail space.

Business to business relationships are developed and ongoing, and the sales processes involved take longer than business-to-consumer relationships.

B2B decision making may take place at more than one level. For instance, the salesperson meets with the departmental manager, who then has to get approval from the business owner before the sale is closed.

#### **Business to Consumer (B2C).**

The final customer is the consumer with a B2C business. House cleaning services, restaurants and retail stores are examples of B2C companies. Websites that offer consumer products are B2C.

The B2C sales cycle is shorter. The consumer is encouraged to buy the product immediately. For example, a mother is looking for educational toys. She finds the site, reviews the product and buys the toy. Purchases are made on an emotional basis as well as on the basis of price and product. It gets a little confusing when the product is marketed to consumers but goes through several steps to get to the customer.

### **Knowledge check...**

What is a b2b market?

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Give an example of a b2b market:

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What is a b2c market?

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Give an example of a b2c market:

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What is public relations?

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What is ambient advertising?

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What is the difference between the message and medium in advertising?

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## Segmenting the market to identify which customers its promotions will target through:

Market segmentation is the activity of **dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers (known as segments)** based on some type of shared characteristics. In dividing or segmenting markets, researchers typically look for common characteristics such as shared needs, common interests, similar lifestyles or even similar demographic profiles.

The overall aim of segmentation is to identify **high yield segments** – that is, those segments that are likely to be the **most profitable** or that have growth potential – so that these can be selected for special attention (i.e. become target markets).

### The Car Market



The car market is highly segmented, car companies will target particular market segments,

**How do you think the following cars have been targeted towards potential markets? Who would their potential customers be?**

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**Many different ways to segment a market have been identified.**

**Business-to-Business (B2B)** sellers might segment the market into different types of businesses or countries.

**While Business to Consumer (B2C)** sellers might segment the market into demographic segments, lifestyle segments, behavioural segments or any other meaningful segment.

Why do you think businesses might need to identify different markets?

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## Ways of segmenting a market



### **o demographics:**

Age, race, religion, gender, family size, ethnicity, income, education level, socio-economic group o geographic location

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### **o psychographic:** social class, attitudes, lifestyle and personality characteristics

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**o behavioural:** spending, consumption, usage, loyalty status and desired benefits.

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## **A3 Factors influencing the choice of promotional methods**

**Lo: To consider the factors affecting the choice of promotional method for an enterprise.**

- **Size of enterprise.**

The size of the enterprise will be an influencing factor in the choice of promotional methods for example direct mail may not be appropriate for larger companies due to having a larger customer base, Smaller companies may not use public relation activities as they may not be appropriate to their business size or its location if it is a small local market.

- **Budgetary constraints.**

Finance available to a business will also be a huge factor in the type of promotions that they use, bigger global companies will have a massive budget allocated to advertising, allowing them to use the more expensive mediums such as television and billboards.



This is a form of billboard advertising located in Piccadilly Circus in central London, probably one of the most expensive places for outdoor advertising in London.

**What do you notice about the brands advertising here?**

- **Appropriateness for product/service.**

Certain methods of promotion will also be suited to certain types of products for example it is appropriate for McDonald's to offer money off vouchers and free deals as it encourages customers to go to McDonald's over competitors and the product is cheap,



An expensive car manufacturer like Mercedes will have to rely on different methods of promotion because of the high end and expensive product they are selling



What forms of promotion do you think a luxury car manufacturer would use and why?



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- **Target market.**

Niche markets in particular need to make sure that they use promotion to target their market, it would not be appropriate for them to use something like advertising on national television or on the side of a London taxi, as the market is niche they will need to target where their market lives/ socialises/ etc.

What forms of promotion could you use for the following products?  
Why have you made this choice?



(protein energy bars)

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(Specialist Bike)

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### In Pairs

Decide on the forms of promotion you would use for the following product,  
What has influenced your decisions ( target market, type of product, costs, size  
of business)



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**EXAM PRACTICE**

## Scenario

The activities in this paper are based on this scenario.

You should read this scenario carefully before you start the activities. Complete all the activities.

### *Waffling On*

*Waffling On* is a fast food enterprise that provides a mobile food service. The enterprise sells hand-made waffles, and thick shakes.

The owner, Millie, started the enterprise 2 years ago, using an old van her grandad gave to her to travel around music festivals. Since then the enterprise has grown with more staff, another van, as well as an investment in a new food production unit.



Millie now invents and perfects new recipes, as well as producing inventory for each event. Millie is struggling to manage her creative role of coming up with unique recipes whilst also managing the promotion and finances of the enterprise.

To help ensure the success of the enterprise she has decided to appoint you as her promotion and finance assistant to utilise your understanding of exploring and running enterprises.





# Model Answer

|                    |  |
|--------------------|--|
| <b>Activity 7b</b> | <p>Award <b>one</b> mark for each appropriate factor identified up to a maximum of 2, e.g.</p> <ul style="list-style-type: none"><li>• Budgetary constraints (how much they want to spend)</li><li>• Likely impact on sales</li><li>• Target market (festival goers)</li><li>• Appropriateness – waffles are sold at festivals</li></ul> <p>Award any other acceptable response.</p> |
|--------------------|--|

**Total for Activity 7b = 2 marks**

|                    |  |
|--------------------|--|
| <b>Activity 7c</b> | <p>Award <b>one</b> mark for benefit of method identified. Award a further one mark for development. Award <b>one</b> mark for how customers will react to method. Award a further one mark for development. Award <b>one</b> mark for identifying the likely impact on sales. Award a further one mark for development, e.g.</p> <p>Money-off coupons can influence an impulse buy (1) where a customer might be choosing between alternative snacks – a waffle or a cake or an ice cream (1). So long as the money-off price still more than covers the costs of the ingredients (1) and generates many more sales (1) this might be increase net profit (1). Loyalty cards tend to be for the long-term and work best with a potential customer base which is close by which might not be the case with festivals so money-off coupons would be more persuasive(1).</p> <p>Loyalty cards help build a long-term relationship with a customer (1) and might encourage customers to choose waffles rather than cakes or ice-creams when looking for a snack (1). The loyalty card might offer the 6<sup>th</sup> waffle free (1) which would mean that there would be a slight reduction in unit revenue (1) but this could be more than offset by more sales overall (1). At festivals, groups of friends could share a loyalty card to get the free waffle so it might not actually encourage loyalty (1).</p> <p>Accept any other acceptable response.</p> |
|--------------------|--|

**Total for Activity 7c = 6 marks**

**Total for Activity 7 = 12 marks**

**Total for Paper = 60 marks**





# B Financial records

**LO: To be able to complete, interpret and check the information on financial documents and statements.**

## **B1 Financial documents**

It is important for businesses to keep financial records for all of their sales, costs, etc so that they are able to keep accurate accounts.

**Other reasons for keeping financial records include;**

- To Monitor the progress of your business
- To work out your tax payments
- To help Prepare financial statements
- To Identify source of receipts
- To Keep track of deductible expenses
- To Prepare your tax returns
- To Support items reported on tax returns

Why would businesses want to monitor the progress of the business?

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Who might be interested in the progress of the business?

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Why do businesses need financial statements?

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What is a tax return?

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## **Types Of Financial Document:**

### **Invoices**

An invoice is a document that charges a customer for goods or services you've provided. Also called a bill, an invoice shows all the information about a transaction. This includes:

- the quantity of any goods or services provided
- the rate charged
- the total cost
- a description of the transaction (so your customer knows what they're paying for) when and how the customer should pay

### **Delivery notes**

A delivery note will need to be issued whenever a shipment of goods is delivered to a customer.

the goods listed on the delivery note should all be included in the package no additional goods should be included that are not listed on the delivery note.

Once the customer receives the package they will: check the contents of the package against the delivery note sign the delivery note to confirm receipt of the goods.

### **Purchase orders,**

A purchase order (PO) is a commercial document and first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. It is used to control the purchasing of products and services from external suppliers.[1] Purchase orders can be an essential part of ERP system orders.

The issue of a purchase order does not itself form a contract. If no prior contract exists, then it is the acceptance of the order by the seller that forms a contract between the buyer and seller.

Companies use purchase orders for several reasons. Purchase orders allow buyers to clearly and explicitly communicate their intentions to sellers. They may also help a purchasing agent to manage incoming orders and pending orders. Sellers are also protected by POs in case of a buyer's refusal to pay for goods or services

### **Credit notes**

A credit note is issued in various situations to correct a mistake, such as when (1) an invoice amount is overstated, (2) correct discount rate is not applied, (3) goods spoil within guarantee period, or (4) they do not meet the buyer's specifications and are returned.

### **Receipts**

A receipt, is a document acknowledging that a person has received money or property in payment following a sale or other transfer of goods or provision of a service. All receipts must have the date of purchase on them.

### **Statement of account**

A statement of account is a detailed report of the contents of an account. An example is a statement sent to a customer, showing billings to and payments from the customer during a specific time period, resulting in an ending balance. The purpose of the statement is to remind a customer of sales on credit that have not yet been paid to the supplier.

## Knowledge Check

What is an invoice?

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What is a delivery note?

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What is a Purchase order?

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What is a Credit note?

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Give an example when a customer might receive a credit note

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What is a Receipt?

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What is a Statement of account?

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What is issued after a payment is made?

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What is issued after the item is delivered?

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Why do you think it is Important for a business to be accurate when these documents are being used?

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1. The business completes a **PURCHASE ORDER** ( They are ordering goods from the supplier.)

| <b>PURCHASE ORDER</b>  |  |                       |  |                      |  |
|--|--|-----------------------|--|----------------------|--|
| <b>[Your Company Name]</b><br><i>[Your Company Slogan]</i>   |  |                       |  |                      | P.O. # [100]<br>DATE: OCTOBER 25, 2011 |
| [Street Address], [City, ST ZIP Code]<br>Phone [000.000.0000] Fax [000.000.0000]<br>[e-mail]   |  |                       |  |                      |  |
| <b>VENDOR</b>  | [Name]<br>[Company Name]<br>[Street Address]<br>[City, ST ZIP Code]<br>[Phone]<br>Customer ID [ABC12345] | <b>SHIP TO</b>        | [Name]<br>[Company Name]<br>[Street Address]<br>[City, ST ZIP Code]<br>[Phone]<br>Customer ID [ABC12345] |                      |  |
| <b>SHIPPING METHOD</b>   |  | <b>SHIPPING TERMS</b> |  | <b>DELIVERY DATE</b> |  |
|  |  |                       |  |                      |  |
| QTY  | ITEM #   | DESCRIPTION           | JOB  | UNIT PRICE           | LINE TOTAL                             |
|  |  |                       |  |                      |  |
|  |  |                       |  | <b>SUBTOTAL</b>      |  |
|  |  |                       |  | <b>SALES TAX</b>     |  |
|  |  |                       |  | <b>TOTAL</b>         |  |
| <ol style="list-style-type: none"> <li>1. Please send two copies of your invoice.</li> <li>2. Enter this order in accordance with the prices, terms, delivery method, and specifications listed above.</li> <li>3. Please notify us immediately if you are unable to ship as specified.</li> <li>4. Send all correspondence to:<br/>[Name]<br/>[Street Address]<br/>[City, ST ZIP Code]<br/>Phone [000.000.0000] Fax [000.000.0000]</li> </ol> |  |                       |  |                      |  |
|  |  |                       | _____<br><i>Authorized by</i>  | _____<br><i>Date</i> |  |

Fill out the purchase order for 20 x textbooks , the textbooks cost £12.00 each and their is 20% vat charged (sales tax) compete the total order at the bottom.

2. The order is delivered and a **DELIVERY NOTE** is provided

**SIGMA FORMS**                      **DUPLICATE DELIVERY NOTE**                      **NO CARBON REQUIRED**

**DELIVERY NOTE**

DELIVERY ADDRESS

| DESPATCH DATE | YOUR ORDER NO. | OUR REF. | NO. OF BOXES | METHOD OF DELIVERY | DELIVERY NOTE NO. |
|---------------|----------------|----------|--------------|--------------------|-------------------|
|               |                |          |              |                    |                   |

*Please receive the following:*

| QUANTITY | DESCRIPTION |
|----------|-------------|
|          |             |
|          |             |
|          |             |
|          |             |
|          |             |
|          |             |
|          |             |

RECEIVED IN GOOD CONDITION

CLAIMS FOR NON-DELIVERY, PART DELIVERY OR DAMAGE MUST BE ADVISED IN WRITING WITHIN 3 DAYS OF DESPATCH DATE.

\_\_\_\_\_  
SIGNATURE                                      NAME                                      DATE

Fill out the delivery note for the books, The order number is 2001, and the reference is 'school' there are 2 boxes in total with 10 books in each box, they were delivered by courier and the delivery note number is 31.

Fill out the quantity and description of item.



3. An **INVOICE** is then giving to the business which states how much their

|   |   |
|---|---|
| <p><b>Your Company Name</b></p> <p>Address 1<br/>Address 2<br/>Address 3<br/>Address 4</p> <p><b>To:</b><br/>Customer Address 1<br/>Customer Address 2<br/>Customer Address 3<br/>Customer Address 4</p> <p><b>Additional Information</b></p> | <h1 style="margin: 0;">INVOICE</h1> <div style="border: 1px solid gray; padding: 10px; margin: 10px 0;"> <p>Invoice Date:</p> <p>Invoice Number:</p> <p>Client Reference:</p> <p>Purchase Order:</p> <p><b>DUE DATE:    dd/mm/yyyy</b></p> </div> |
|---|---|

| Description | Quantity | Unit | Unit Price | VAT % | VAT | Total |
|-------------|----------|------|------------|-------|-----|-------|
|             |          |      |            |       |     |       |

|                     |    |
|---------------------|----|
| <b>Sub Total</b>    | £- |
| <b>Total VAT</b>    | £- |
| <b>TOTAL AMOUNT</b> | £- |

Using the previous information fill out the invoice  
the invoice number is 1001.

4. The Business will then make a **PAYMENT** for the goods



What type of payment is being made here?

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What are the advantages of this payment method?

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What are the disadvantages of this payment method?

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How else would a business pay for their goods?

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5. The supplier will provide a **RECEIPT**

# SALES RECEIPT

**Date** \_\_\_\_\_

| QTY. | Description | Price | amount |
|------|-------------|-------|--------|
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |
|      |             |       |        |

Subtotal \_\_\_\_\_  
Tax \_\_\_\_\_  
Total \_\_\_\_\_

**Payment With**

- Cash
- Credit Card
- Check # \_\_\_\_\_
- Other \_\_\_\_\_

Fill out the sales receipt above

**6. A STATEMENT OF ACCOUNT IS THEN PROVIDED**

| STATEMENT OF ACCOUNT |             |         |         |                 |
|----------------------|-------------|---------|---------|-----------------|
| DATE                 | DESCRIPTION | CHARGES | CREDITS | ACCOUNT BALANCE |
| 1/1/18               | 40 X BOOKS  | £40.00  | 40.00   | 0.00            |
|                      |             |         |         |                 |
|                      |             |         |         |                 |

1.Add the new order to the statement of account

2.The business has overcharged you on the previous order and you receive £5.00 credit

What is the account balance now?

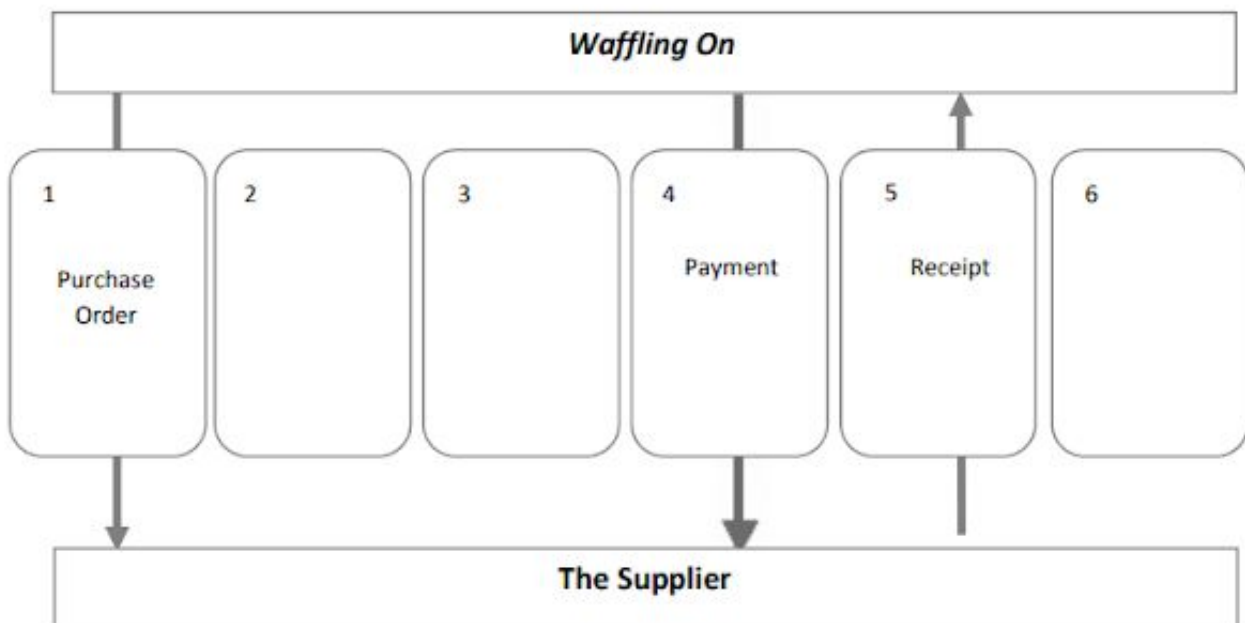
## EXAM PRACTICE 1 : FINANCIAL DOCUMENTS

### Activity 1:

Millie has started to draw a diagram to show the flow of financial documents. The diagram shows the order in which documents are sent when *Waffling On* buys from a supplier. Each arrow shows who sends the document and who receives it.

Complete the rest of the diagram showing the order of documents sent and received. In each blank box write one of these documents and draw the direction arrow.

- Statement of Account
- Invoice
- Delivery Note



Total for Activity 1 = 6 marks

## EXAM PRACTICE 2: FINANCIAL DOCUMENTS

Damien has a number of questions about the appropriate financial documents to use in his enterprise

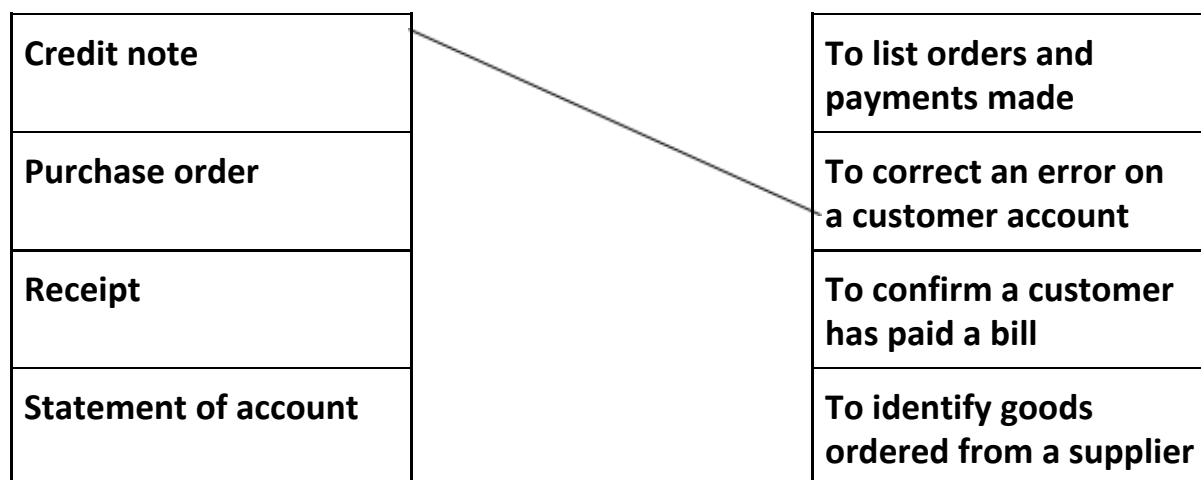
1a State the name of the financial document that is used to check materials when they arrive from suppliers (1 mark)

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B Complete the diagram below by drawing arrows to match the financial document to its purpose. An example has been completed for you (3 marks)



### EXAM PRACTICE 3 :FINANCIAL DOCUMENTS

You have received the following email

“

*Hello*

*Can you create an invoice to aj art supplies ltd?*

*250 x candles at 8.50 each*

*275 candles at 4.00 each*

*Please can you give them a loyal customer discount of 10%*

*Thanks!”*

| Invoice number: 7916 |                  | Invoice to: aj craft supplies |             |
|----------------------|------------------|-------------------------------|-------------|
| Quantity             | Item Description | Unit Price                    | Total Price |
| 250                  | Scented candle   | 8.50                          |             |
| 275                  | candles          | 4.00                          |             |
|                      |                  | Total Price                   |             |
|                      |                  | Customer discount             |             |
|                      |                  | Subtotal                      |             |
|                      |                  | Postage and Packing           | 40.00       |
|                      |                  | Total to pay                  |             |

**EXAM PRACTICE 4 :FINANCIAL DOCUMENTS**

**You have received the following email**

“

*Hello*

*Can you create an invoice to aj art supplies ltd?*

*250 x candles at 8.00 each*

*275 candles at 4.00 each*

*150 candles at 5.00 each*

*Please can you give them a loyal customer discount of 5%*

*Postage will be 28.00*

*Thanks!”*

|                             |                         |                                      |                    |
|-----------------------------|-------------------------|--------------------------------------|--------------------|
| <b>Invoice number: 7916</b> |                         | <b>Invoice to: aj craft supplies</b> |                    |
| <b>Quantity</b>             | <b>Item Description</b> | <b>Unit Price</b>                    | <b>Total Price</b> |
|                             |                         |                                      |                    |
|                             |                         |                                      |                    |
|                             |                         |                                      |                    |
|                             |                         |                                      |                    |
|                             |                         | <b>Total Price</b>                   |                    |
|                             |                         | <b>Customer discount</b>             |                    |
|                             |                         | <b>Subtotal</b>                      |                    |
|                             |                         | <b>Postage and Packing</b>           |                    |
|                             |                         | <b>Total to pay</b>                  |                    |



## EXAM PRACTICE 5 :FINANCIAL DOCUMENTS

You have received the following email

“

*Hello*

*Can you create an invoice to aj art supplies ltd?*

*3 x blue candles at 5.00 each*

*200 red candles at 4.00 each*

*300 green candles at 6.50 each*

*200 orange candles at 4.00 each, (orange candles are now half price)*

*Please can you give them a loyal customer discount of 15%*

*Postage will be 30.00*

*Thanks!”*

| Invoice number: 7916 |                  | Invoice to: aj craft supplies |             |
|----------------------|------------------|-------------------------------|-------------|
| Quantity             | Item Description | Unit Price                    | Total Price |
|                      |                  |                               |             |
|                      |                  |                               |             |
|                      |                  |                               |             |
|                      |                  |                               |             |
|                      |                  | <b>Total Price</b>            |             |
|                      |                  | <b>Customer discount</b>      |             |
|                      |                  | <b>Subtotal</b>               |             |
|                      |                  | <b>Postage and Packing</b>    |             |
|                      |                  | <b>Total to pay</b>           |             |

## B2 Payment methods

- Payment methods: cash, credit cards, debit cards, direct debit, payment technologies.

| Method of Payment   | Explanation/ Features   | Advantages   | Disadvantages   |
|---------------------|---|--|---|
| <b>CASH</b>         | Notes and coins in a wide range of denominations  | Most widely accepted form of payment.<br>Physical not virtual.<br>Makes Budgeting easier.  | Can be lost/stolen.<br>Threat of counterfeit.<br>Not appropriate for purchases above a certain amount.<br>Cannot be used online.  |
| <b>DEBIT CARD</b>   | Issued by banks with payments for goods and services being deducted directly from a current account                     | No need to carry cash.<br>Secure method of payment with low risk of theft (can cancel card if stolen).<br>Widely accepted.<br>Suitable for online transactions.                                  | Money doesn't leave account the second you spend it, so risk of overspending & going into overdraft.<br>Not always accepted or appropriate for small transactions.  |
| <b>CREDIT CARDS</b> | Issued by financial institutions allowing customers to delay payments for goods and services                            | Allows a period of credit that is interest free<br>Most cards widely accepted.<br>Loyalty schemes available.<br>Offers a degree of protection on purchases.<br>Suitable for online transactions. | Interest is charged on balances not paid off within a month.<br>Can encourage a customer to overspend and get into debt.<br>Interest is charged on cash withdrawals.<br>A limit is set on the amount of credit allowed. |
| <b>CHEQUE</b>       | A written order to a bank to make a payment for a specific amount of money from one person's account to another account | Low risk form of payment as the cheque can only be cashed by the named payee.<br>Widely accepted.<br>No need to provide change as can be written to exact amount.                                | Expensive for the consumer if it fails to clear (charge for 'bounced' cheques)<br>Time delay could lead to overspending.<br>Old fashioned.  |

What is the Impact on **customers** of using the following methods of payment?

Cash

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Debit Card

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Credit Card

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---

Cheque

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What is the Impact on **enterprises** of using the following methods of payment?

Cash

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Debit Card

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Credit Card

---

---

Cheque

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When Damian sells his candles, he accepts a number of different payment methods. One payment method that he accepts is cash.

(b) Give **two** other payment methods that customers can use to pay Damian.

**Method 1**

**Method 2**

(2 marks)

(c) Explain **two** impacts Damian would need to consider when allowing customers to pay for goods with cash.

**Impact 1**

**Impact 2**

(4 marks)

**(Total for Activity 2 = 12 marks)**

## **B3 Sources of revenue and costs**

### **Income from sales (Sales Revenue)**

Sales Revenue is the total amount of income generated by the sale of goods or services related to the company's primary operations.

### **Income from assets**

Earning assets are income-producing investments that are owned, or held, by a business, institution or individual. These assets also have a base value and the ability to produce additional funds beyond this inherent value for the investment holder. Examples include hiring machinery or renting offices/building or equipment.

### **Start-up costs**

Startup costs are the expenses incurred during the process of creating a new business. All businesses are different, so they require different types of startup costs. Examples include; equipment and supplies, Insurance, license and permit fees.

### **Running costs.**

The running costs of a business are the amount of money that is regularly spent on things such as salaries, heating, lighting, and rent.

### **Which of the following are running costs or start up costs?**

- |                             |                    |
|-----------------------------|--------------------|
| 1. Electricity bills        | start up / running |
| 2. Cost of materials        | start up / running |
| 3. Purchasing a building    | start up / running |
| 4. Monthly telephone bill   | start up / running |
| 5. Purchasing a company car | start up / running |

### **What is the difference between start up and running costs?**

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## **B4 Terminology in financial statements**

Turnover (net sales)

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cost of sales (cost of goods sold)

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Gross profit and

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Net profit

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Retained profit

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Expenses

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Fixed assets.

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Current assets

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Current liabilities long-term liabilities.

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Long-term liabilities.

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Debtors

---

---

Creditors

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Net current assets.

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Capital.

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What is the difference between current and long term liabilities?

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What is the difference between debtors and creditors?

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What are net current assets?

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What is the difference between net profit and gross profit?

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## **B5 Statement of comprehensive income**

Lo: to be able to Complete and interpret a statement of comprehensive income using given figures, and suggest appropriate actions.

### **Statement of comprehensive income:**

A statement of comprehensive income is a financial report detailing the change in a company's net assets during a specific period of time. A statement of comprehensive income differs from a typical income statement, which details profits and losses, but may omit changes in net assets due to transfer of equity holdings, change of ownership, or other factors.

The statement of comprehensive income shows the profit or loss of an enterprise over time.

**Label the income statement below**

Income Statement for Movie Moments Pty Ltd  
For the year ending 30 June 2010

|                                |                |                |
|--------------------------------|----------------|----------------|
| <b>Revenue</b>                 |                | 229,000        |
| <b>Less Cost of Goods Sold</b> |                |                |
| Opening Inventory              | 28,000         |                |
| Add Purchases                  | 120,000        |                |
| Less Discounts                 | -5,000         |                |
| Add Freight inwards            | 2,000          |                |
| Less Closing Stock             | <u>-31,000</u> | 114,000        |
| <b>Gross profit</b>            |                | <b>115,000</b> |
| <b>Less Expenses</b>           |                |                |
| Rent                           | 60,000         |                |
| Insurance                      | 2,000          |                |
| Wages                          | 30,000         |                |
| Petrol                         | 10,000         |                |
| Cleaning                       | <u>5,000</u>   | 107,000        |
| <b>Net profit</b>              |                | <b>8,000</b>   |

**Question 1**

(Using the example before)

Fred has carried out a stock take and realised that his closing inventories(closing stock) figure is actually 112,000 and not £114,000 as first thought.

Calculate his new Gross Profit figure.

**Question 2**

The rent figure was increased from 60,000 to 80,000 , calculate Fred's new net profit

### Question 3

Sales revenue increased to 232,000 calculate Fred's new net profit

## B6 Statement of financial position

**LO: To be able to complete and interpret a statement of financial position using given figures, and suggest appropriate actions.**

The **Statement of Financial Position**, also known as the **Balance Sheet**, presents the financial position of an enterprise at a given date. It is comprised of three main components:

- **Assets** (An asset can be (1) something physical, such as cash, machinery, inventory, land and building, (2) an enforceable claim against others, such as accounts receivable, (3) right, such as copyright, patent, trademark, or (4) an assumption, such as goodwill)
- **Liabilities** (A liability is defined as a company's legal financial debts or obligations that arise during the course of business operations. ...)

Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues and accrued expenses)

- **Equity** (Equity - Balance Sheet Definition. Equity is the difference between total assets and total liabilities. ... In order for the balance sheet to balance, total assets on one side have to equal total liabilities plus shareholders' equity on the other)

The Statement of Financial Position helps users of financial statements to assess the financial soundness of an entity in terms of liquidity risk, financial risk, credit risk and business risk.

- Statement of financial position: shows the financial performance of an enterprise at a point in time.
  - Categorise total assets and liabilities using a statement of financial position.
- What does a statement of financial position look like?

### Recap

What are assets?

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What are liabilities?

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What is equity ?

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What is the purpose of a statement of financial position?

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**CLOSING THE GAP**

EXAM PRACTICE

**Activity 3:**

Millie wants you to complete a statement of comprehensive income for the sale of food and drink at a recent festival.

**Hi**  
Here are the figures for the Green Woman festival:

**Sales**

|         |         |
|---------|---------|
| ○ Food  | £72 000 |
| ○ Drink | £11 000 |

**Costs**

|                                   |         |
|-----------------------------------|---------|
| ○ Food supplies                   | £22 000 |
| ○ Drinking cups/waffle boxes etc. | £ 3 150 |
| ○ Wages and salaries              | £13 300 |
| ○ Light, heat and power           | £ 4 500 |
| ○ Telephone and internet          | £ 2 000 |
| ○ Promotional leaflets            | £ 1 000 |

Can you draw up statement of comprehensive income?

Thanks Millie

3a) Complete the form.

**Statement of Comprehensive Income for the Green Woman Festival**

|                        | £ | £ |
|------------------------|---|---|
|                        |   |   |
|                        |   |   |
| <b>Gross Profit:</b>   |   |   |
| <b>Expenses:</b>       |   |   |
|                        |   |   |
|                        |   |   |
|                        |   |   |
|                        |   |   |
| <b>Total Expenses:</b> |   |   |
|                        |   |   |

4 marks

|             |   |          |          |                                   |
|-------------|---|----------|----------|-----------------------------------|
| Activity 3a | <b>Statement of Comprehensive Income for the Green Woman Festival</b> |          |          |                                   |
|             |   | <b>£</b> | <b>£</b> |                                   |
|             | Total Sales   |          | 83 000   |                                   |
|             | Cost of Sales   |          | 25 150   |                                   |
|             | Gross Profit  |          | 57 850   | (2)<br>Method = 1<br>Accuracy = 1 |
|             | <b>Expenses</b>   |          |          |                                   |
|             | Wages and salaries  | 13 300   |          |                                   |
|             | Light, Heat and Power   | 4 500    |          |                                   |
|             | Telephone and Broadband   | 2 000    |          |                                   |
|             | Promotional leaflets  | 1 000    |          |                                   |
|             | Total Expenses  |          | 20 800   | (1)                               |
|             | Net Profit  |          | 37 050   | (1) OFR                           |

Total for Activity 3a = 4 marks

## Closing the Gap

# B7 Profitability and liquidity

**Lo:** to be able to interpret statements of comprehensive income and of financial position to calculate ratios.

## KEY TERMS

CASH \_\_\_\_\_

PROFIT \_\_\_\_\_

LIQUIDITY \_\_\_\_\_

PROFITABILITY \_\_\_\_\_

- What is The difference between cash and profit.

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- What is The difference between liquidity and profitability.

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Why is liquidity important ?

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## RATIOS

LO: To be able to calculate profitability ratios from given formulae:

**YOU WILL NEED TO LEARN THE FOLLOWING FORMULAS;**

**Gross profit margin percentage (GPM):**  $(\text{gross profit}/\text{revenue}) \times 100$

**Net profit margin percentage (NPM):**  $(\text{net profit}/\text{revenue}) \times 100$

**Current ratio:**  $\text{current assets}/\text{current liabilities}$

**Liquid capital ratio:**  $(\text{current assets} - \text{inventory})/\text{current liabilities}$ .

### **Cover and check;**

Gross profit margin percentage (GPM) =

Current ratio=

Liquid capital ratio=

Net profit margin percentage (NPM)=

### **Cover and check;**

Gross profit margin percentage (GPM) =

Current ratio=

Liquid capital ratio=

Net profit margin percentage (NPM)=

### **Cover and check;**

Current ratio=

Gross profit margin percentage (GPM) =

Liquid capital ratio=

Net profit margin percentage (NPM)=

# C Financial planning and forecasting

Lo: to be able to complete cash flow forecasts, and investigate the effects of positive and negative cash flow on an enterprise.

## C1 Using cash flow data

- Cash – liquid assets of the business; bank balance plus cash in the business.
- Cash flow – difference between the cash flowing into the business (inflows) and the cash flowing out of the business (outflows), positive and negative liquidity.
- **Difference between sales and purchases.**
- **Cash flow statement:** the cash inflows and the cash outflows over the past 12 months.
- **Cash flow forecast:** outlines the forecasted future cash inflows (from sales) and the outflows (such as raw materials, wages) per month over a period of time.

## KNOWLEDGE CHECK

### Cover and check;

Gross profit margin percentage (GPM) =

Current ratio=

Liquid capital ratio=

Net profit margin percentage (NPM)=

### Cover and check;

Gross profit margin percentage (GPM) =

Current ratio=

Liquid capital ratio=

Net profit margin percentage (NPM)=

### Cover and check;

Current ratio=

Gross profit margin percentage (GPM) =

Liquid capital ratio=

Net profit margin percentage (NPM)=

CASH \_\_\_\_\_

PROFIT \_\_\_\_\_

LIQUIDITY \_\_\_\_\_

PROFITABILITY \_\_\_\_\_

# C2 Financial forecasting

LO: To understand the **Purpose of a cash flow forecast:**

**Cashflow forecasts can be used to;**

o identify money coming in (inflows) and going out (outflows) of the enterprise over time

o to determine net current asset requirements and make business decisions.

They can also be used to identify

- Inflows to the business : sales, capital introduced, loans.
- Outflows of the business: purchases, running costs.

This can help a business to plan for their purchasing and running costs to make sure they are able to cover their costs and to achieve a positive cashflow.

**Name one business decision that may be helped by a cash flow forecast**

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**How can the cash flow forecast aid this decision?**

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**What might happen if a business does not use a cash flow forecast as part of their financial planning?**

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# What does it look like?

This usually helps the business to have a better cash flow as they will have more cash available for their payments

cash sales is the money coming in to the business from sales only

Total receipts are everything coming in to the business

they payments are starting here as they have bought something on a credit purchase in January so are now paying interest

Net cash flow is the difference between a company's cash inflows and outflows in a given period.

|                             | January         | February        | March          | April          | May            | June           |
|-----------------------------|-----------------|-----------------|----------------|----------------|----------------|----------------|
| <b>Receipts</b>             |                 |                 |                |                |                |                |
| Cash sales                  | £2,000          | £12,000         | £18,000        | £22,000        | £26,000        | £28,000        |
| Other income                | £10,000         | £0              | £0             | £0             | £0             | £0             |
| <b>Total receipts</b>       | <b>£12,000</b>  | <b>£12,000</b>  | <b>£18,000</b> | <b>£22,000</b> | <b>£26,000</b> | <b>£28,000</b> |
| <b>Payments</b>             |                 |                 |                |                |                |                |
| Credit purchases            | £7,000          | £9,000          | £12,000        | £14,000        | £16,000        | £17,000        |
| Wages                       | £3,000          | £3,000          | £5,000         | £5,000         | £5,000         | £5,000         |
| Office expenses             | £2,000          | £1,000          | £1,000         | £1,500         | £1,000         | £1,000         |
| Finance and tax payments    | £0              | £500            | £500           | £650           | £650           | £650           |
| Capital expenditure         | £3,000          | £0              | £0             | £0             | £0             | £0             |
| <b>Total payments</b>       | <b>£15,000</b>  | <b>£13,500</b>  | <b>£18,500</b> | <b>£21,150</b> | <b>£22,650</b> | <b>£23,650</b> |
| <b>Net cash flow</b>        | <b>(£3,000)</b> | <b>(£1,500)</b> | <b>(£500)</b>  | <b>£850</b>    | <b>£3,350</b>  | <b>£4,350</b>  |
| <b>Opening cash balance</b> | £0              | £(3,000)        | £(4,500)       | £(5,000)       | £(4,150)       | £(800)         |
| <b>Closing cash balance</b> | £(3,000)        | £(4,500)        | £(5,000)       | £(4,150)       | £(800)         | £3,550         |

other income could be from either a loan from the bank or investor

staff wages (usually the same every month)

A capital expenditure is an amount spent to acquire or improve a long-term asset (like a car or building or equipment)

Table 1  
The closing balance at the end of each month becomes the opening balance at the start of next month

## C3 Suggesting improvements to cash flow problems

- Analysis of cash flow information – considering changes in inflows and outflows over a period and how this affects the enterprise, considering differences between predicted and actual cash flow.

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- Cash flow problems – not having enough cash to pay employees and suppliers.

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### Impact of timings of inflows and outflows, and suggested solutions to problems

Cash flow problems can usually be reduced by one or a combination of the following;

- o increasing revenue
- o selling off unused assets
- o selling off inventory
- o chasing debtors for monies owed
- o cutting costs
- o delaying payment to suppliers
- o reducing credit period offered to customers
- o cutting back or delaying expansion plans.



## EXAM PRACTICE

### Activity 5

Millie has started to prepare a cash flow forecast for January-March 2018, when sales are lower.

Complete the cash-flow forecast for *Waffling On* by putting figures in all the blank boxes.

| Cash-flow forecast for <i>Waffling on</i> for January – March 2017 |                |                 |              |
|--|----------------|-----------------|--------------|
| 2018   | January<br>(£) | February<br>(£) | March<br>(£) |
| Total Receipts   | 18 000         | 21 000          |              |
| Total Payments   | 20 000         |                 | 21 000       |
| Net Inflow/outflow   |                | 1 250           | -5 000       |
| Opening Balance  | 16 000         |                 | 15 250       |
| Closing Balance  |                | 15 250          |              |

Total for Activity 5 = 6 marks



| Activity 5         |                |                 |              |         |
|--------------------|----------------|-----------------|--------------|---------|
| 2018               | January<br>(£) | February<br>(£) | March<br>(£) |         |
| Total Receipts     | 18 000         | 21 000          | 16 000       | (1)     |
| Total Payments     | 20 000         | 19 750          | 21 000       | (1)     |
| Net Inflow/outflow | -2 000         | 1 250           | -5 000       | (1)     |
| Opening Balance    | 16 000         | 14 000          | 15 250       | (1)     |
| Closing Balance    | 14 000         | 15 250          | 10 250       | (1) (1) |

Total for Activity 5 = 6 marks

## Closing the Gap

# C4 Break-even analysis and break-even point

**Lo:** to be able to construct and interpret a break-even chart, and recognise its limitations.

**Some definitions:**

- **Costs:**  
variable costs  
fixed costs  
total costs.

- **Sales:**  
total revenue

The breakeven point is reached when the total revenue exactly matches the total costs and the business is not making a profit or a loss.

## **Why is it important?**

Establishing the breakeven point helps a firm to plan the levels of production it needs to be profitable.

What do you think might happen if a business does not calculate its break even point?

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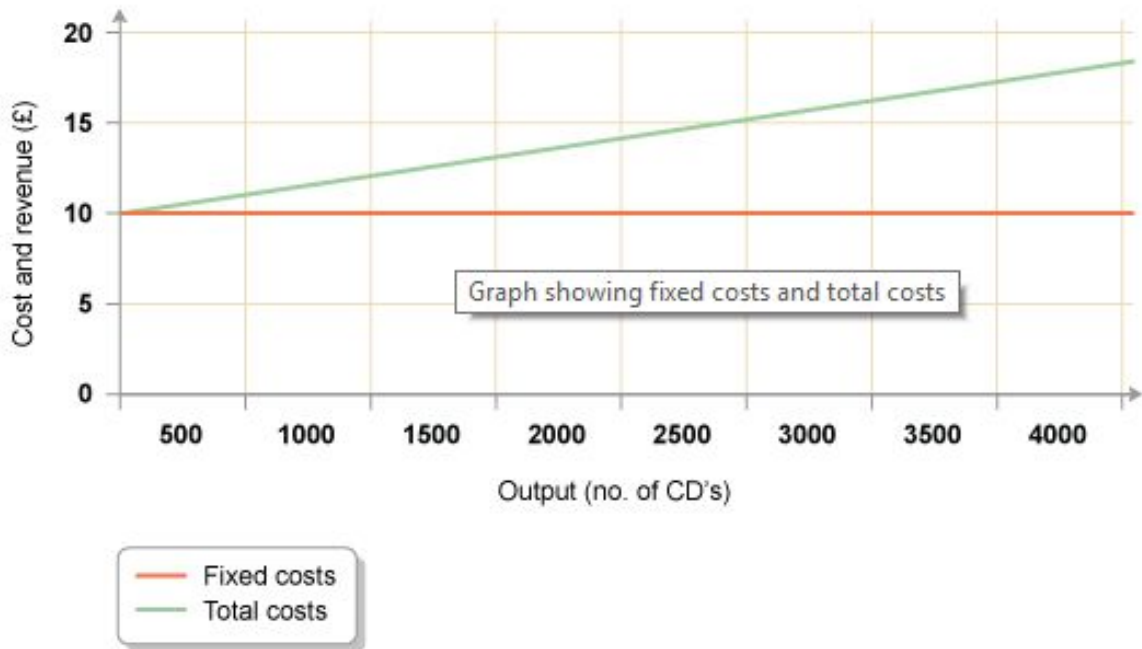
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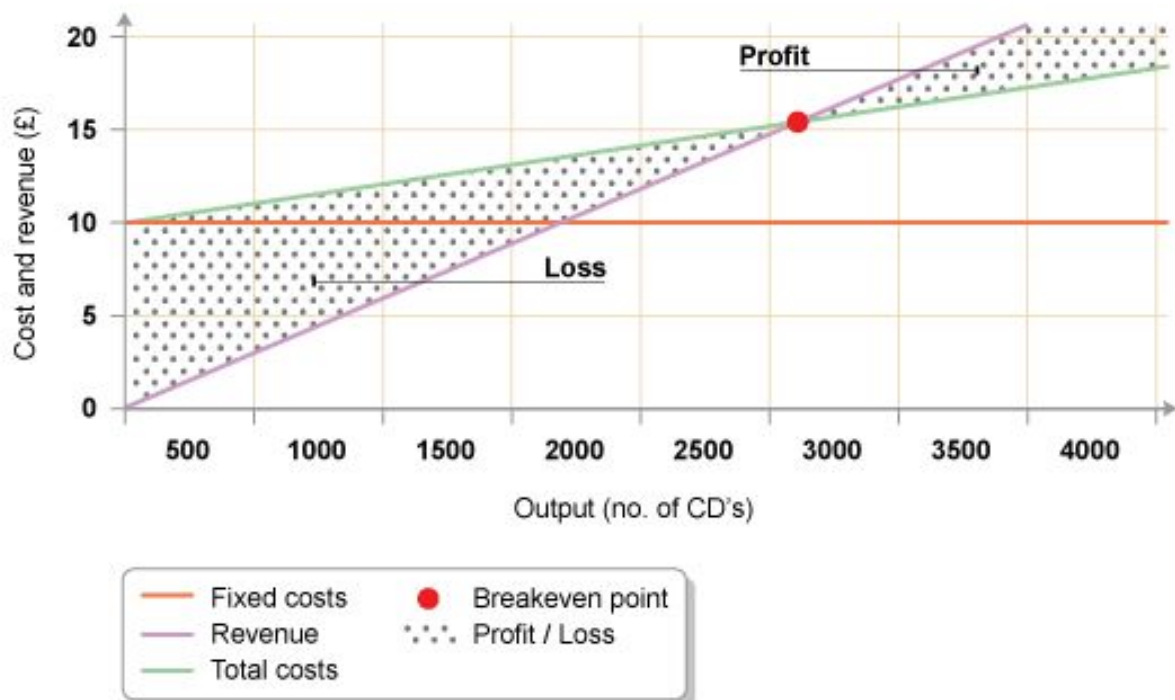
## The breakeven chart

The breakeven point can be calculated by drawing a graph showing how fixed costs, variable costs, total costs and total revenue change with the level of output.

1. First draw in the fixed costs then total costs...this increases with total output.



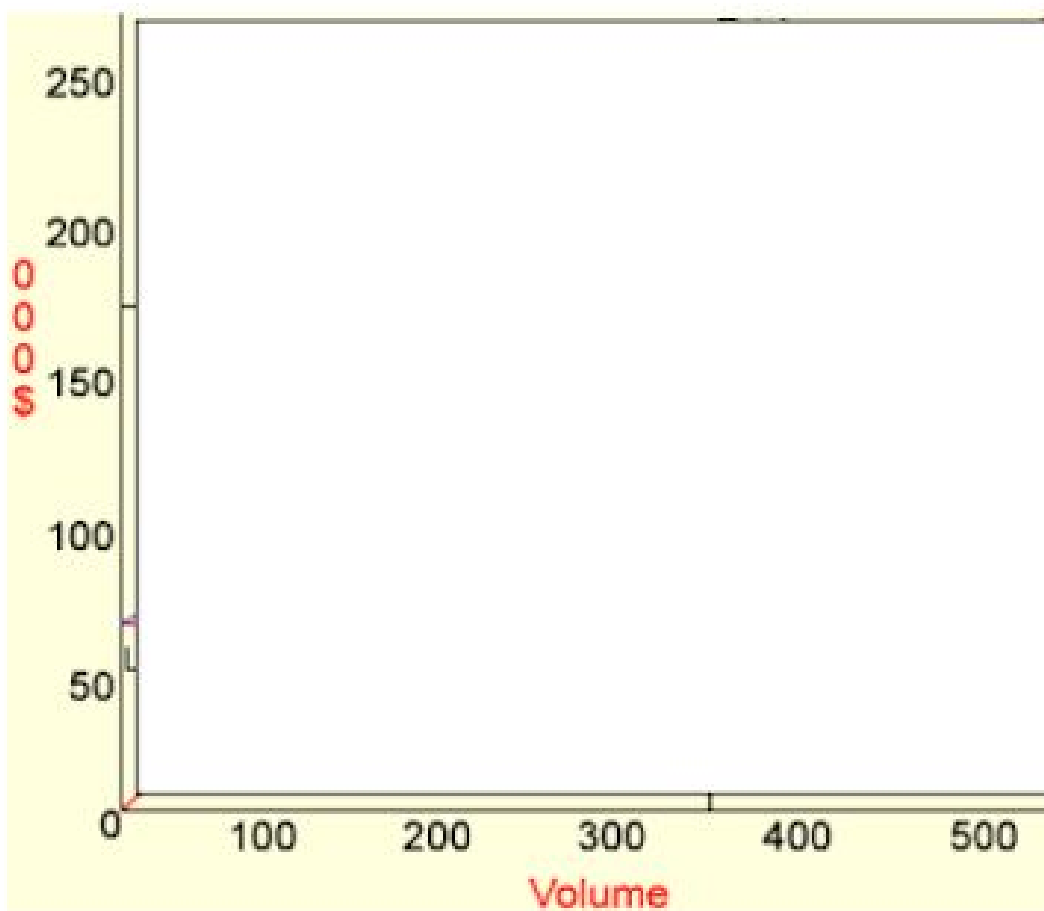
2. By drawing a line to show revenue (purple) which will increase with output.. We can see when the business will be making a profit or a loss.



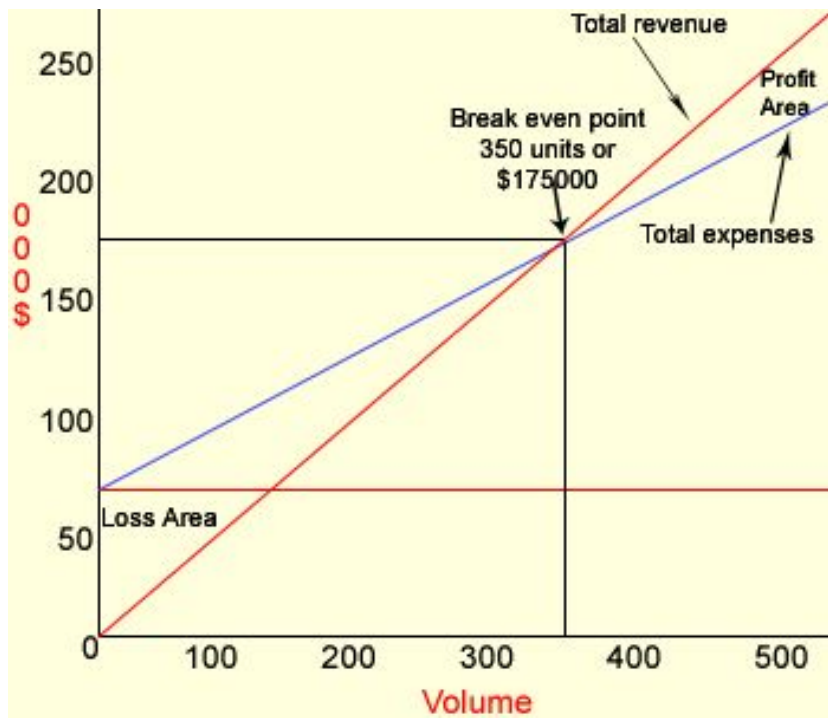
This also allows us to calculate the **BREAK EVEN POINT**

Now construct your own break even chart...

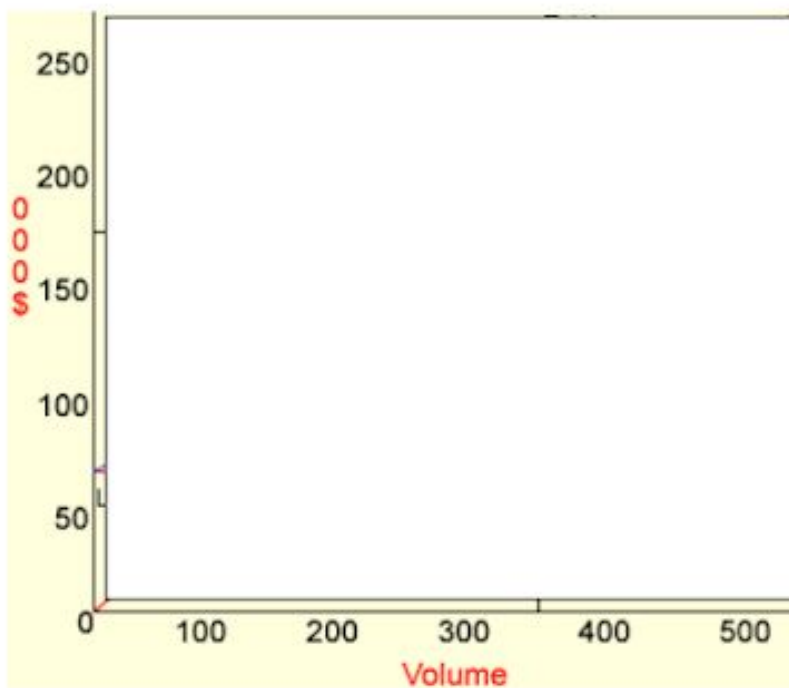
fixed costs £75,000  
total costs £225,000  
total revenue £250,000



Your graph should look like this.....



Not correct ? .....Try again ...



## The formula for break even point

- Break-even = fixed costs/(selling price per unit – variable cost per unit).

### Fill in the blanks...

**1.**

Break-even =

fixed cost

\_\_\_\_\_

(\_\_\_\_\_ – variable cost per unit)

**2.**

Break-even =

\_\_\_\_\_

(selling price per unit – variable cost per unit)

**3.**

Break-even =

fixed cost

\_\_\_\_\_

(selling price per unit – \_\_\_\_\_)

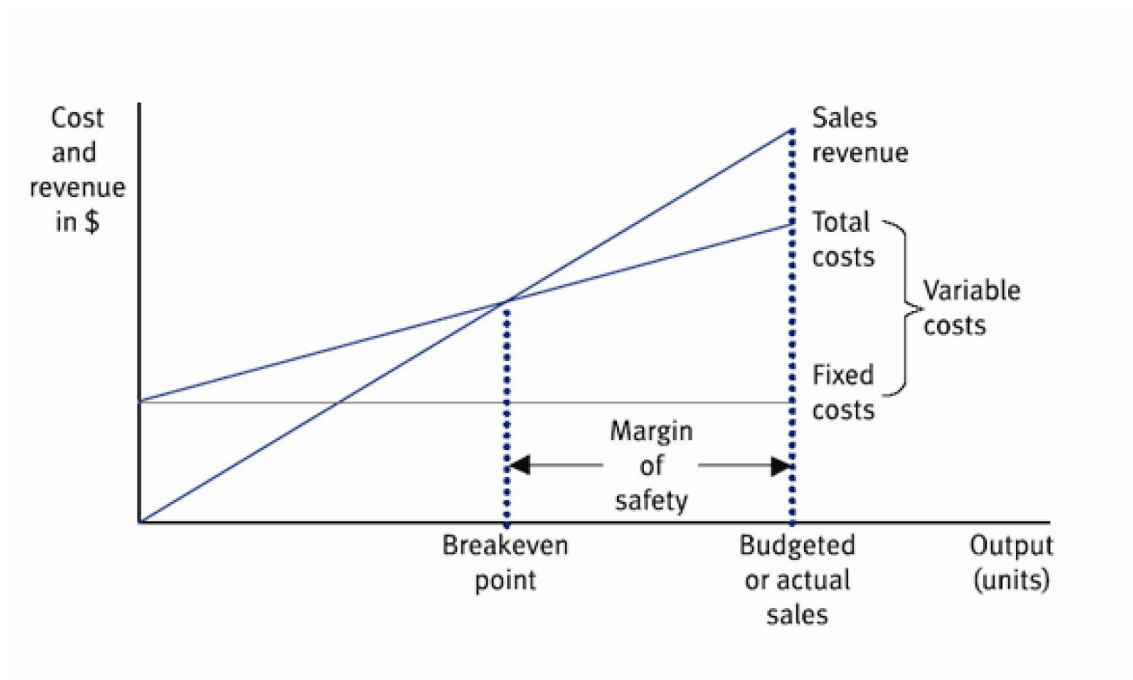
## Margin of Safety

What do you think the margin of safety is ?

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A margin of safety (MoS) is a difference between actual/budgeted sales and level of breakeven sales.

Why do you think the purpose of the margin of safety is?

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## Break-even analysis EXERCISE 1

Jane and Matthew are planning to make wooden boxes to sell in school. They want to know how many they will have to sell to break even.

Information:

Their fixed costs will be £10

Their variable costs are £1.00 per box

They are going to produce 40 boxes

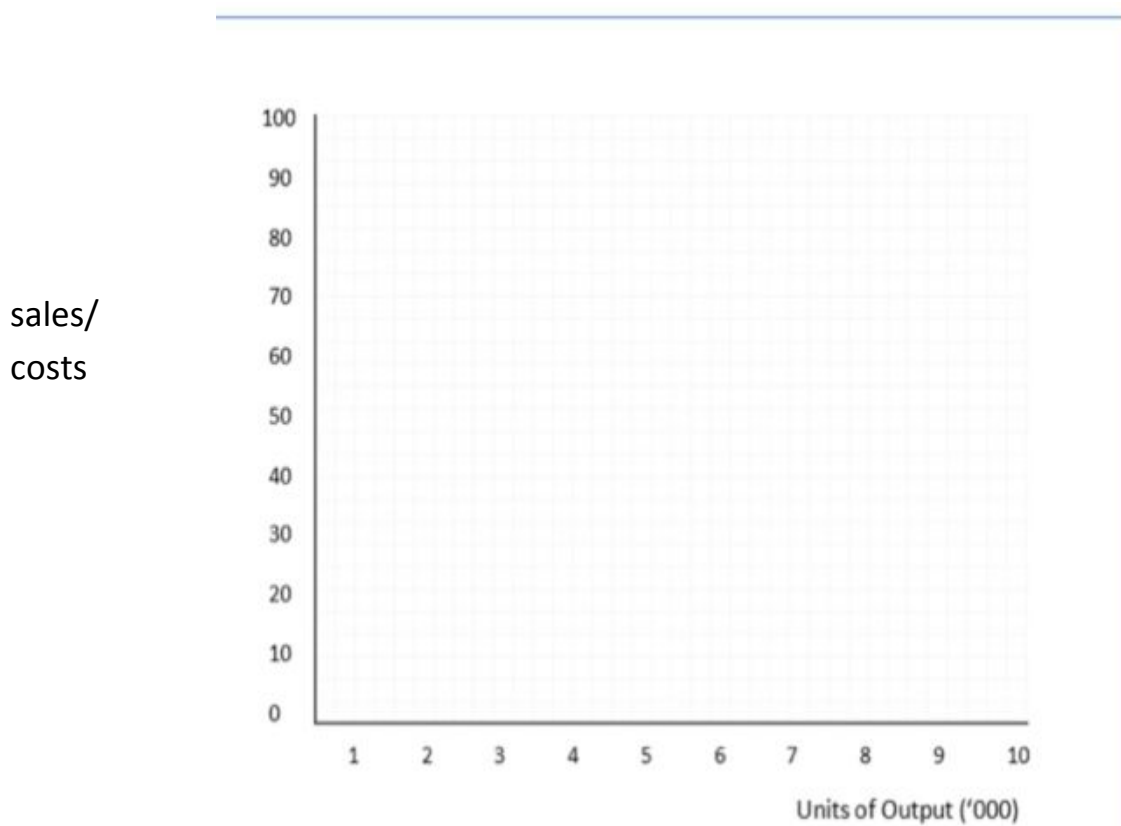
The selling price a wooden box will be £2

Task:

1. Using the information above, complete table below.

| No. sold | Sales revenue | Fixed Costs | Variable Costs | Total Costs | Profit/Loss |
|----------|---------------|-------------|----------------|-------------|-------------|
| 0        | £0            |             |                |             |             |
| 10       |               | £10         |                |             |             |
| 20       |               |             | £20.00         | £30.00      |             |
| 30       |               | £10         |                |             |             |
| 40       | £             |             |                |             |             |

2. Draw break-even chart = Label each line and the axis





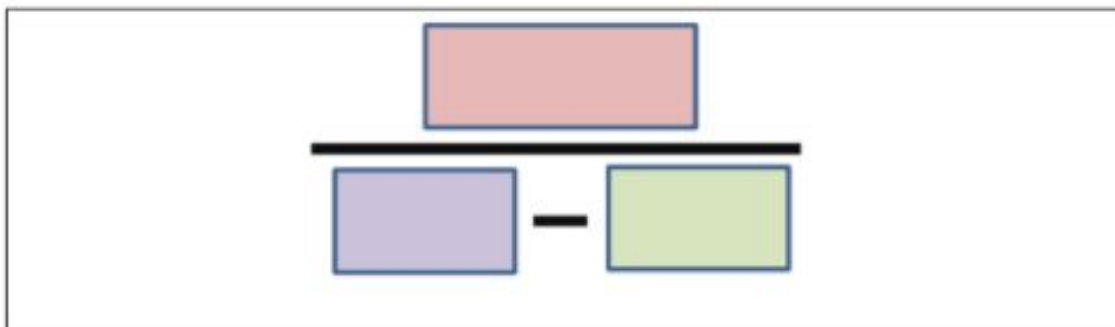


## Practice Exercise 2

Highlight what would you expect to happen to the break even point if;

|  |   |
|--|---|
| Selling Price Increases  | (Break Even Increases, Break Even Decreases, Break Even Remains the Same) |
| Variable Costs Increase  | (Break Even Increases, Break Even Decreases, Break Even Remains the Same) |
| Fixed Costs Increase   | (Break Even Increases, Break Even Decreases, Break Even Remains the Same) |
| Selling Price Increases by a Greater Amount than Variable Costs Increase | (Break Even Increases, Break Even Decreases, Break Even Remains the Same) |
| All costs and revenue increase by 10%                                    | (Break Even Increases, Break Even Decreases, Break Even Remains the Same) |

What is the formula to calculate break even? Use the terms; **fixed costs**, **variable costs**, **selling price** to complete the diagram.





## C5 Sources of business finance

**LO: To be able to consider why enterprises may plan different sources of finance for different purposes or at different stages and the relevance of each source.**

A business may need finance to: start up a business, eg pay for premises, new equipment and advertising. run the business, eg having enough cash to pay staff wages and suppliers on time. expand the business, eg having funds to pay for a new branch in a different city or country.

- **Sources of finance:**

- o **owner funds**

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Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

- o **retained profits**

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Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

- o **loans**

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Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

- o **credit cards o government grants**

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Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

**o hire purchase and leasing**

\_\_\_\_\_

\_\_\_\_\_

Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

**o trade credit**

\_\_\_\_\_

\_\_\_\_\_

Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

**o venture capital**

\_\_\_\_\_

\_\_\_\_\_

Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

**o peer-to-peer lending.**

\_\_\_\_\_

\_\_\_\_\_

Advantages : \_\_\_\_\_

Disadvantages: \_\_\_\_\_

## Descriptors

To achieve a grade, a learner is expected to demonstrate these attributes across the essential content of the component. The principle of best fit will apply in awarding grades.

**Level 1 Pass** Learners demonstrate basic knowledge of the elements of promotion and financial records. They can make basic observations about given information and can identify different promotional and financial factors that have positive or negative impacts. They demonstrate a basic ability to interpret information to identify factors that could potentially affect the performance of an enterprise, such as relevant information from cash flow forecasts and statements. Learners are able to make basic recommendations for success.

**Level 2 Pass** Learners demonstrate knowledge and understanding of the elements of promotion and financial records and apply them in context. They are able to interpret given information to explain factors that could potentially affect the performance of an enterprise, including the impact of specific factors such as information from cash flow forecasts and statements. They can explain how different factors have positive or negative impacts. Learners can produce some realistic recommendations for success.

**Level 2 Distinction** Learners demonstrate a high level of knowledge and understanding of the elements of promotion and financial records and apply them in context. They demonstrate a high level of ability to interpret given information and can explain, in detail, the factors that could potentially affect the success of an enterprise, and how different promotional and financial factors have positive and negative impacts. Learners can produce clear recommendations for success, with clear, realistic and convincing justifications.















**Closing The Gap Question**

**Date:**

**Misconceptions/ Misunderstanding**

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**Question** \_\_\_\_\_

**Answer:** \_\_\_\_\_

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