Edexcel GCSE in Applied Business (Double Award)

March 2004
Teachers Notes

Introduction
These materials have been put together by members of the Examining team overseen by the Principal Examiner. While the materials cover most of the requirements of the externally assessed unit students should not rely purely on these materials for their revision.

There are two sections:
- Subject specific help
- Exam tips

Subject specific help
A variety of approaches and activities have been developed in order to help the students revise for their summer exams.

Revision Timetable
Examiners have reviewed the unit being tested and devised a checklist for the students.

Understanding what the examiner means by the question
This section explains for the student the meaning of the words used in the exam papers. Students should take note of this when answering the questions.

Sample exam question with answers
Here the examiner has shown how the student should approach different types of questions and gives suggested answers.

Practice questions
These are just that, examples of exam questions for the student to practice. The answers are given at the end of the section.

Revision exercises
These take a variety of forms – Key words and phrases, Quizes and tables to complete.

Suggestions for how pupils might tackle their revision
- on their own
- with their revision buddy
- in small buzz groups
- as a class

Exam tips
These pages could be looked at with the class group to reinforce good exam technique. If you wish to photocopy them students could have their own copies.

Edexcel centres may photocopy the materials in this pack.
Revision Pack

Edexcel GCSE in Applied Business
(Double Award)
### Finance Unit

Main topics that you need to know about

<table>
<thead>
<tr>
<th>Financial Issues</th>
<th>What have you done to find out about the following? Can you write briefly about each topic?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial documents</td>
<td></td>
</tr>
<tr>
<td>Making and receiving payments</td>
<td></td>
</tr>
<tr>
<td>Start up costs and running costs</td>
<td></td>
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<tr>
<td>Cash flow forecasting</td>
<td></td>
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<tr>
<td>Budgeting</td>
<td></td>
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<tr>
<td>Calculating break even</td>
<td></td>
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<tr>
<td>Profit and loss account</td>
<td></td>
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<tr>
<td>Balance sheet</td>
<td></td>
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<tr>
<td>Stakeholders and accounts</td>
<td></td>
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<tr>
<td>Sources of business finance</td>
<td></td>
</tr>
<tr>
<td>Financial planning</td>
<td></td>
</tr>
<tr>
<td>Themes</td>
<td>How much time do I have to revise this theme?</td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Do you know when to use the different financial documents? Can you fill them in accurately? Do you know what each document is used for?</td>
<td></td>
</tr>
<tr>
<td>Can you explain when a business should use different methods of making and receiving payment? Do you understand how long a payment takes to be processed using different methods and how much each costs?</td>
<td></td>
</tr>
<tr>
<td>Make sure you understand the differences between start up and running costs. Can you identify different costs that might be found in different types of businesses? Can you explain why it is important for a business to reduce costs?</td>
<td></td>
</tr>
</tbody>
</table>
## Name:

### Revision Timetable

<table>
<thead>
<tr>
<th>Themes</th>
<th>How much time do I need to revise this theme?</th>
<th>Who can be my revision buddy?</th>
<th>I know this</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can you complete a cash flow forecast?</td>
<td></td>
<td></td>
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<tr>
<td>Can you explain why using a spreadsheet on a computer is a good idea when a business produces a cash flow forecast?</td>
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<tr>
<td>Can you interpret what a cash flow forecast is showing?</td>
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<tr>
<td>Can you explain how a business is affected by fluctuations in cash flow?</td>
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<tr>
<td>Can you explain when and why a business should use a budget?</td>
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<tr>
<td>Can you calculate a break-even point for a product or service?</td>
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<tr>
<td>Can you construct a break-even graph?</td>
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<tr>
<td>Can you read a break-even graph accurately?</td>
<td></td>
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<tr>
<td>Can you explain the importance of working out the break-even point?</td>
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<tr>
<td>Can you use the formula for break even?</td>
<td></td>
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</tr>
<tr>
<td>Themes</td>
<td>How much time do I need to revise this theme?</td>
<td>Who can be my revision buddy?</td>
<td>I know this</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
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</tr>
<tr>
<td>Do you understand the format of a profit and loss account?</td>
<td></td>
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<tr>
<td>Can you calculate profit &amp; loss from figures you have been given?</td>
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<tr>
<td>Can you explain the advantages and disadvantages of using a computer to produce a P&amp;L account?</td>
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<tr>
<td>Do you understand the format of a balance sheet?</td>
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<td></td>
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<tr>
<td>Can you construct a balance sheet from figures you have been given?</td>
<td></td>
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<td></td>
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<tr>
<td>Can you identify the stakeholders that might be interested in the financial position of a business?</td>
<td></td>
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<tr>
<td>Can you say how and why profit &amp; loss account and a balance sheet might be of interest to each different stakeholder?</td>
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<tr>
<td>Can you list different sources of finance?</td>
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<tr>
<td>Can you explain when a business might use these different sources?</td>
<td></td>
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<td></td>
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<tr>
<td>Can you say when a business might use each source?</td>
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<tr>
<td>Do you have a good understanding of the importance of good financial control to a business?</td>
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</tbody>
</table>
Understanding what the examiner means by the questions

1. SELECT
General Definition: Choose the most appropriate one from the list you are given

Example: Select the most appropriate document to use when a business has items delivered from its suppliers.

- Credit Note
- Goods Received Note
- Statement of Account

2. COMPLETE
General definition: Enter the information on the document in the right places.

Example: Enter the following information into the blank sales invoice on page X
- Customer name
- Customer address
- Purchase order number
- Goods to be invoiced
- Total to pay

3. CALCULATE
General Definition: Work out the right figure or amount and always check your working.

Example: (Part of a sales invoice) £
Total goods 200.00
Trade discount 10% 20.00
180.00
VAT 17½ 32.50
Total to pay 212.50

Circle the first error on this invoice. Calculate the correct invoice total.

(Follow-up question (A03 level)
This company has a reputation for making mistakes on its sales invoices. Explain the likely consequences to the company if it continues to make these mistakes.
Sample Exam Questions

Making and Receiving payments
The following examples will give you an idea of how questions will look on an exam paper and the marks that each question will be awarded.

1. Meera wants to buy a CD. She could use either her credit card or her debit card to pay for it.
   (a) Name two other payment methods Meera could use to buy the CD.

   Payment method 1...........................................................................................................
   Payment method 2...........................................................................................................

   (2 marks)

   (b) Explain one advantage to Meera if she uses her credit card, rather than her debit card, to buy the CD.

   Advantage......................................................................................................................

   .................................................................................................................................

   (2 marks)

   This is the sort of question that you would find at the start of a question paper. Each answer is worth one mark.

   Answers: Cash/ Cheque

   This is a middle range question requiring more information from you and the answer is worth 2 marks.

   Answer: Meera has more time to pay/ the money isn't taken straight out of her bank account.
(c) Recommend one of these payment methods for Meera to use. Explain why you have recommended this method.

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(4 marks)

This is a high level question expecting you to be able to give advice to Meera, and to explain why you have advised her to use this method.

Credit card – because Meera will not have the money taken out of her bank account straight away, so she has a period of time before she must pay the amount owed.

(d) Meera has decided to use her credit card. Describe how the shop would process this transaction.

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(2 marks)

This is a medium to low level question – you need to say how the shop processes credit card payments.

The shop ‘swipes’ the card electronically, which records the amount of the transaction. Meera will be asked to sign for the CD. The shop later receives payment through Meera’s credit card company.
Sample Exam Questions

1. You have started making and selling sandwiches.

At present:
- each sandwich sells for £2
- variable costs per sandwich are:
  - bread and fillings 60p
  - staff wages 40p
- fixed costs total £100

You hope to sell 200 sandwiches.

(a) Complete the table below

<table>
<thead>
<tr>
<th>Number of sandwiches</th>
<th>0</th>
<th>100</th>
<th>200</th>
<th>300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (£)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Costs (£)</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable Costs (£)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) From this table, create a break-even chart manually or using a spreadsheet.
How many sandwiches do you need to sell to break even?

(c) What:
   (i) would be the profit or loss if only 50 sandwiches were sold?
   (ii) would be the profit and loss if demand was so great that the shop was selling 500 sandwiches a week so a move to new premises increased fixed costs to £200?
   (iii) would be the break-even output if there was a demand for luxury sandwiches at £3 each, which meant the cost of ingredients rose to £1.10 per sandwich (labour and fixed costs stayed the same at 40p and £200)?
2. Use the breakeven chart below to answer the following questions.

(a) Enter these labels in their correct boxes above:
- Fixed costs
- Total costs
- Costs and revenues (£)
- Total revenue
- Quantity

(b) Identify the break-even point: is it A, B or C?
Practice Questions

Situation:
Peta and Paul own and run a business that makes and sells office furniture. Peta and Paul’s business is successful, and they would like to expand. At present, however, they do not have the machinery or premises needed for this and they do not know whether their bank will help them finance the expansion.

1. Peta and Paul will start selling a new type of desk from January.

(a) They need to prepare a Cash Flow Forecast from the following information.

- Sales and purchases for this desk are expected to be (all cash).

<table>
<thead>
<tr>
<th>Month</th>
<th>Sales</th>
<th>Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>£10 000</td>
<td>£5 000</td>
</tr>
<tr>
<td>February</td>
<td>£12 000</td>
<td>£6 000</td>
</tr>
<tr>
<td>March</td>
<td>£14 000</td>
<td>£7 000</td>
</tr>
</tbody>
</table>

- Wages will be £500 per month.
- New machinery will be bought in January and paid for in February, the cost being £15,000.
- Advertising costs will be £250 per month.
- In January, Peta and Paul will pay £1,000 for market research.

Prepare a Cash Flow forecast for the new desk, by completing the table on the next page.
### Practice Questions

<table>
<thead>
<tr>
<th>Inflow (Receipts):</th>
<th>January £</th>
<th>February £</th>
<th>March £</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Total Inflow</strong></td>
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<tr>
<td>Outflow (Payments):</td>
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<tr>
<td><strong>Total Outflow</strong></td>
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<td></td>
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<td></td>
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<tr>
<td><strong>Net Inflow/ Outflow</strong></td>
<td>5 000</td>
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<td></td>
</tr>
<tr>
<td><strong>Opening Balance</strong></td>
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<tr>
<td><strong>Closing Balance</strong></td>
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</tr>
</tbody>
</table>

(b) (i) Identify the month when Peta and Paul have a negative closing balance.

Month ………………………………………………………………………………………………... (1)

(ii) State the main reason for the negative closing balance.

Reason …………………………………………………………………………………………….. (1)
(c) Peta and Paul have asked their bank manager for either a loan or an overdraft.

(i) Explain which is more appropriate in this situation.

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(3)

(ii) Explain whether the bank manager is likely to allow Peta and Paul to borrow money.

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(3)

TOTAL: 12 marks
2. Peta and Paul are keen to expand their business.

(a) Explain why Peta and Paul need to produce a budget to help them expand.

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(3)

(b) Peta and Paul have the choice of financing the expansion by:
   - selling some of their existing business assets to raise money
   - issuing more shares in their business (a limited company)

(i) Explain one advantage to Peta and Paul from selling some of their business’s existing assets.

Advantage: ..............................................................................................................................
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(2)

(ii) Explain one advantage to Peta and Paul from issuing more shares in their business.

Advantage: ..............................................................................................................................
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(2)
(c) Recommend with reasons whether Peta and Paul should finance the expansion through selling existing assets or through issuing more shares.

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(6)

TOTAL: 13 marks
Challenging situations!

**Activity:** On the following pages you have a selection of different situations you might come across within the financial business environment.

1. Think about each situation. What advice would you give or how would you sort it out?

2. You might find it helpful to work with your revision buddy!

3. Make a note of what you would say in each situation, taking each one in turn.

4. First you say what you think should happen and let your buddy check off that you have used the key words correctly. If you are unsure about one of the keywords then first check what it means.

5. Now change roles – you listen to your buddy and check that they have used the words correctly.
Situation 1

Your business telephones a supplier to query an invoice.

The invoice is for 50 items more than the business has received.

What do you do?

Keyword/ phrases

- keeping accurate records
- purpose of documents
- security
- relationship between supplier and customer

Situation 2

The accounts clerk has to telephone a customer because they have not paid for goods they received over 3 months ago.

Advise the accounts clerk on what to say.

Keyword/ phrases

- cash flow
- statement of accounts
- debits
- method of payment
- credit referencing

Situation 3

The account clerk has written and sent a cheque for £350 instead of £35.

What do you do? How do you avoid a similar thing happening again?

Keyword/ phrases

- accuracy
- impression of the efficiency of the business
- record keeping
- lost revenue
- checking procedures
Situation 4

A customer is buying a new stereo and offers the business cash or a cheque without a guarantee card.

What should the shop do?

Keyword/ phrases
- security
- trust
- customer service
- record keeping
- cost of banking cash

Situation 5

A manager asks for some petty cash up-front to pay for taxis and expenses on a trip to Belgium.

The accounts clerk tells the manager the rules are that petty cash can only be used when a receipt is provided.

What are the issues here that the manager should be aware of?

Keyword/ phrases
- record keeping
- trust
- procedures
- cash for the business

Situation 6

A friend wants to set up a business valeting cars. He wants some advice on the start up and running costs he might incur.

Think of all the likely start-up and running costs and explain each one.

Keyword/ phrases
- planning
- fixed and variable costs
- cash flow forecasting
- control of costs
### Situation 7

A friend wants to buy a computer to help her run her business selling sportswear. She has one shop and employs five assistants full time and additional seasonal staff.

She wants your advice as to how a computer would help her reduce her running costs.

**Think about all the potential savings she could expect if she used IT systems. Talk about each one and the advantages gained.**

<table>
<thead>
<tr>
<th>Keyword/ phrases</th>
</tr>
</thead>
<tbody>
<tr>
<td>using BACS</td>
</tr>
<tr>
<td>record keeping</td>
</tr>
<tr>
<td>statistics</td>
</tr>
<tr>
<td>training</td>
</tr>
<tr>
<td>customer ordering</td>
</tr>
<tr>
<td>stock control</td>
</tr>
<tr>
<td>accuracy</td>
</tr>
<tr>
<td>speed</td>
</tr>
</tbody>
</table>

### Situation 8

A cash flow forecast shows a large surplus of cash at certain times in the year.

**Any ideas why this is so?**

<table>
<thead>
<tr>
<th>Keyword/ phrases</th>
</tr>
</thead>
<tbody>
<tr>
<td>investment</td>
</tr>
<tr>
<td>availability</td>
</tr>
<tr>
<td>short term finance</td>
</tr>
<tr>
<td>interest rates</td>
</tr>
<tr>
<td>liquidity</td>
</tr>
<tr>
<td>forecasting</td>
</tr>
</tbody>
</table>
### Situation 9

A vital piece of machinery has been found to be beyond repair. To replace it will mean the production manager will have to spend more than he has budgeted for in the year.

**How could the company have planned for this?**

**What are the implications for this year?**

### Situation 10

The sales and marketing team have been told they will need to either raise prices or cut costs because they are not breaking even on two of their products.

**What are the issues here for the company and for the sales and marketing team?**

### Keyword/ Phrases

**Situation 9**

- planning
- liquidity
- depreciation
- budgeting
- borrowing
- cash flow

**Situation 10**

- break even
- planning
- contribution
- margin of safety
- competition
- costs and sales
Situation 11

Business is booming and the directors have decided to move to larger premises.

Some of the managers are horrified about the increase in costs.

Why are the managers ‘horrified’?
What costs will increase?
What can the company do to meet these increases?

Keyword/ phrases
- fixed and variable costs
- break even
- contribution
- expansion
- borrowing
- liquidity

Situation 12

A sole trader has had a really good year and made a large profit of £50,000. His business is worth £250,000.

How can the sole trader measure the success of his business?

Keyword/ phrases
- profitability
- retained profits
- expansion
- use of finance
- changing forms of ownership

Situation 13

A business has fixed assets of £200,000, current assets of £50,000 but creditors of £100,000

How well is the business doing?

Keyword/ phrases
- liquidity
- format for balance sheet
- importance of assets
- control of creditors and debtors
Situation 14

The final accounts for the business show a poor performance compared with other years. The directors are going to have to explain this to different groups of people who have an interest in the business.

What different groups are there, and why would they be interested?

Keyword/ phrases
- stakeholders
- relative importance of different stakeholders, e.g. shareholders, banks
- liquidity
- forecasting and planning
- improving performance

Situation 15

The business wants to buy a new computer system because things have changed so quickly. The directors could use retained profits but they are discussing a bank loan or hiring the equipment.

What are the advantages and disadvantages of taking a bank loan or hiring the equipment?
What would you advise them to do?

Keyword/ phrases
- sources of finance - loan, overdraft, costs of borrowing, interest rates
- could consider hiring, leasing
- control of finance, changing technology

Make sure you are familiar with all the terminology before you move on.
Situation 16

A toy manufacturer has to spend more money than normal during the summer to have sufficient stock for the Christmas rush. Costs are therefore much higher than sales for part of the year.

What are the issues here?

Keyword/ phrases
- cash flow
- short-term finance
- overdraft costs
- supply and demand
- stock control
- control of finance
- planning

Don’t hurry this one – talk about the key words/phrases to make sure you both understand them.

Situation 17

An office furniture manufacturer has decided to offer a mail order service using their customer database.

The directors have forecast a large increase in sales. This will mean an increase in production and more record-keeping.

What are the issues here?

Keyword/ phrases
- planning for diversification
- communication across all the departments
- production targets
- stock control
- borrowing
- budgets
- estimates
- short-term fluctuation in cash flow
- IT training
- mailing section

Spend time talking with your buddy about all the key words/phrases to make sure you understand all the issues – you may think of others!
Situation 18

A large national book retailer is losing sales to the internet retailers. Costs are going to have to be reduced.

What can traditional book retailers do to cut costs?
What can they do to stay in the market?

Keyword/ phrases
- financial planning
- costs
- confidence
- break even forecasting
- redundancy
- fighting back
- diversification

Situation 19

A new business is trying to decide whether to introduce a credit/debit card facility for its customers.

What do the owners of the business need to consider?

Keyword/ phrases
- increased sales
- security
- record keeping
- cash flow
- cost of arrangement

Situation 20

A new accounts clerk needs to be trained in how to produce a profit and loss account and a balance sheet using the computer. You have been given the job of training this new member of staff.

What would you include in your training programme?

Keyword/ phrases
- use of IT
- importance of training
- importance of accuracy and speed
| **Asset**     | something owned by a business, either fixed (eg premises, machinery) or current (eg stocks, cash) |
|--------------|-------------------------------------------------------------------------------------------------
| **Budget**   | a financial plan for the business                                                               |
| **Capital**  | the investment by the owner in the business                                                      |
| **Creditor** | a supplier from whom the business buys on credit                                                |
| **Expenditure** | payments made by the business                                                                  |
| **Finance**  | the money associated with business activities                                                    |
| **Hiring**   | using an asset without owning it, and paying regular instalments                                 |
| **Interest** | the cost of borrowing money                                                                     |
| **Leasing**  | using an asset, without owning it, for a fixed time and making regular payments                  |
| **Liability**| something owed by a business, such as capital (owed to owners) or loans (owed to lenders)        |
| **Overheads**| another name for costs or expenses                                                               |
| **Profitability** | how much profit a business makes, compared with (eg) how much the owners have invested         |
| **Share**    | a part of a company owned by someone                                                             |
| **Shareholder** | someone (or a group) who has bought shares giving them an interest in the business          |
**Activity:** Cut out the following to make 14 individual cards. With your revision buddy or in small groups discuss the meaning of each term and think of examples.

- Asset
- Interest
- Budget
- Leasing
- Capital
- Liability
- Creditor
- Overheads
- Expenditure
- Profitability
- Finance
- Share
- Hiring
- Shareholder
## Applied Business Quiz

### How many points can you get?

1. Name the **two** main documents that are produced at the end of the financial year to show how well a company is doing.
   - **2 points**

2. What is the job title of the person who is responsible for producing these two documents?
   - **1 point**

3. What are the main headings that make up a profit and loss account?
   - **5 points**

4. State **four** main headings that appear on a balance sheet.
   - **4 points**

5. Name the stakeholders who may want to look at business accounts:
   a. People who have bought shares in the business.
   b. People who control the different function areas.
   c. Those who actually carry out the day-to-day work in the business.
   d. The main institutions that lend money to a business.
   e. The people who buy goods and services.
   - **5 points**

6. You are planning to set up a business providing sandwiches. There are a number of office blocks locally and you think there is a market for sandwiches at lunchtime. Name **three** start up costs.

7. What **two** things could you do to ensure that the market is there and that your products will sell?
   - **5 points**
8. Identify **four** running costs in your sandwich business.

9. Identify **two** variable costs for your business.  

10. The following business documents may be used in buying and selling goods. Put them in the order they would normally be used:

- cheque
- delivery note
- credit note
- receipt
- invoice
- purchase order
- remittance advice slip
- statement of account

11. What is the correct financial term for the following:

a) the business has made more income than it has spent in costs
b) borrowing from the bank over a fixed term
c) borrowing from the bank to cover day to day expenses
d) a personal bank account
e) paying over time for equipment we may have to give back
f) paying over time for something we can keep at the end
g) sometimes the Government can help
h) selling some machines or premises for example
i) giving someone else a slice of the business
### Words can have more than one meaning

Draw one line from the business phrase to its correct business meaning:

<table>
<thead>
<tr>
<th>Word</th>
<th>Business Meaning</th>
</tr>
</thead>
</table>
| **overhead** | the aeroplane circled overhead  
taking on a new member of staff will be yet another overhead  
overhead cables are an eyesore |
| **account** | she gave a very good account of the party  
a statement of account |
| **turnover** | turn over in bed/a new leaf  
the amount of sales made by the business |
| **manage** | you could manage your time more effectively  
to manage the department  
I could manage another slice of cake |
| **stock** | to take stock of the situation  
goods or raw materials that are not yet sold but are stored by the business  
a gravy or sauce used to flavour food |
| **gross** | a gross miscarriage of justice  
144  
gross profit, profit before deductions |
### Words can have more than one meaning

Draw one line from the business phrase to its correct business meaning.

<table>
<thead>
<tr>
<th>Word</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>net</td>
<td>an implement used for fishing</td>
</tr>
<tr>
<td></td>
<td>net profit, profit after deductions</td>
</tr>
<tr>
<td></td>
<td>a net can be used over the hair to keep it in place</td>
</tr>
<tr>
<td>credit</td>
<td>give me the credit for it</td>
</tr>
<tr>
<td></td>
<td>I’ll give you a credit note</td>
</tr>
<tr>
<td></td>
<td>you deserve the credit for all your hard work</td>
</tr>
<tr>
<td>statement</td>
<td>I had to give a statement to the police</td>
</tr>
<tr>
<td></td>
<td>the statement shows you owe £36.00 from 3 months ago</td>
</tr>
<tr>
<td></td>
<td>that is a statement of fact, not an opinion</td>
</tr>
<tr>
<td>grant</td>
<td>she was granted a wish</td>
</tr>
<tr>
<td></td>
<td>I believe you can get a government grant for that</td>
</tr>
<tr>
<td></td>
<td>I grant you the key to this city</td>
</tr>
<tr>
<td>capital</td>
<td>London is the capital city</td>
</tr>
<tr>
<td></td>
<td>that is a capital idea</td>
</tr>
<tr>
<td></td>
<td>we will need capital to set up a business</td>
</tr>
<tr>
<td>commission</td>
<td>a commission in the Army</td>
</tr>
<tr>
<td></td>
<td>commission for achieving high rate of sales</td>
</tr>
<tr>
<td></td>
<td>commission a new project</td>
</tr>
</tbody>
</table>
Words can have more than one meaning

Draw lines from the business phrase to its correct business meaning
- in some cases these are two.

<table>
<thead>
<tr>
<th>Word</th>
<th>Business Meaning</th>
</tr>
</thead>
</table>
| **interest** | she took a great interest in what he was saying  
the interest rate is set to change  
the interest on her savings will pay for her holiday |
| **liability** | it was becoming clear that he was a liability in the group  
money owed by a business  
responsibility by the owner of a business for debts |
| **market** | an outdoor market has existed in this town for 400 years  
What is the best way to market the new product?  
the stock market is the best place to buy and sell shares |
| **return** | to come back from somewhere  
a return on investment  
return those library books by Friday |
| **application** | Which software application shall we use?  
please complete the application form  
she had no application for the role |
| **scale** | The map was drawn to scale  
she was told to scale her budget down  
the scales confirmed it was time to go on a diet |
| **quality** | the coat was of superior quality  
the production department was worried about the quality of the product  
quality assurance was important |
Notes
Suggested Answers
Sample Exam Questions - Answers

1 (a)

<table>
<thead>
<tr>
<th>Number of sandwiches</th>
<th>0</th>
<th>100</th>
<th>200</th>
<th>300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (£)</td>
<td>0</td>
<td>200</td>
<td>400</td>
<td>600</td>
</tr>
<tr>
<td>Fixed Costs (£)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Variable Costs (£)</td>
<td>0</td>
<td>100</td>
<td>200</td>
<td>300</td>
</tr>
</tbody>
</table>

(b)

Costs and revenues

- Sales
- Total costs
- Fixed costs

(c)
(i) £50 loss (revenue £100 – costs £150)
(ii) £300 profit (revenue £1000 – costs £700)
(iii) £200 fixed costs / £1.50 = 133 sandwiches.
2. Use the breakeven chart below to answer the following questions.

(a) Enter these labels in their correct boxes above:
- Fixed costs
- Total costs
- Costs and revenues (£)
- Total revenue
- Quantity

(b) Identify the break-even point: Is it A, B or C?

A  B  C X
1. (a) Cash flow forecast for the new desk

<table>
<thead>
<tr>
<th></th>
<th>January £</th>
<th>February £</th>
<th>March £</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inflow (receipts)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH FROM SALES</td>
<td>10 000</td>
<td>12 000</td>
<td>14 000</td>
</tr>
<tr>
<td><strong>Total Inflow</strong></td>
<td>10 000</td>
<td>12 000</td>
<td>14 000</td>
</tr>
<tr>
<td><strong>Outflow (Payments):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH FROM PURCHASES</td>
<td>5 000</td>
<td>6 000</td>
<td>7 000</td>
</tr>
<tr>
<td>WAGES</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>MACHINERY</td>
<td>15 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADVERTISING</td>
<td>250</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>MARKET RESEARCH</td>
<td>1 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Outflow</strong></td>
<td>6 750</td>
<td>21 750</td>
<td>7 750</td>
</tr>
<tr>
<td><strong>Net Inflow/Outflow</strong></td>
<td>3 250</td>
<td>(9 750)</td>
<td>6 250</td>
</tr>
<tr>
<td>Opening Balance</td>
<td>5 000</td>
<td>8 250</td>
<td>(1 500)</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>8 250</td>
<td>(1 500)</td>
<td>4 750</td>
</tr>
</tbody>
</table>

(b) (i) February
(ii) The payment of a large sum (£15000) for machinery

(c) (i) An overdraft is more appropriate in this situation. This is because an overdraft is more suitable for short–term borrowing, and the cash flow forecast suggests that Peta and Paul only need to borrow money for a short term. (An overdraft is also more flexible than a loan, and interest is charged only on the daily amount overdrawn).

(ii) The bank manager is likely to allow Peta and Paul to borrow money because the cash flow forecast shows that, typically, the cash coming into the business will be much more than the cash going out of the business (except for “one-off” items such as buying the machine). This suggests that Peta and Paul will be able to repay the amount borrowed.

TOTAL: 12 marks
2. (a) A budget is a financial plan. If Peta and Paul are to expand, they will need to plan their finances such as how much to borrow, when their furniture sales are likely to be made, when to make the furniture to meet these sales and how this affects their cash flow.

(b) (i) One advantage to Peta and Paul from selling some of their business’s existing assets is that this will bring in money quickly and without the cost of borrowing (compared with, for example, having to pay interest on a bank loan).

(ii) One advantage to Peta and Paul from issuing more shares in their business is that this will bring in money in the form of share capital, which (unlike a loan) will not need repaying in the future.

(c) I recommend that Peta and Paul should finance the expansion through issuing more shares. Although selling some of their existing assets would introduce more money, by doing so Peta and Paul will lose the use of these assets forever. This means that in future, they may need to buy replacement assets (especially since they are planning to expand).

Although selling shares to others will affect the ownership of the company, and will mean that more profits are likely to be paid out as dividends, at least Peta and Paul can still keep control of the company. There are costs involved in issuing shares, but Peta and Paul can potentially raise a lot of money for expansion by this method.

TOTAL: 13 marks
### Applied Business Quiz – Answers

1.  
   - Profit and Loss Account  
   - Balance Sheet  
   - 2 points

2.  
   - Accountant or company accountant  
   - 1 point

3.  
   - Sales  
   - Cost of sales  
   - Gross profit  
   - Overheads/expenses  
   - Net Profit  
   - 5 points

4.  
   - Fixed assets  
   - Current assets  
   - Liabilities (Current liabilities, Long-term liabilities)  
   - Capital  
   - 4 points

5.  
   - Shareholders  
   - Directors  
   - Employees  
   - Banks  
   - Customers  
   - 5 points

6.  
   - Equipment  
   - Premises  
   - Delivery van  
   - 7.  
     - Market research  
     - Initial marketing  
   - 5 points

7.  
   - Insurance  
   - Ongoing marketing  
   - Telephone  
   - Motoring expenses  
   - 9.  
     - Sandwich fillings  
     - Petrol  
   - 6 points

8.  
   - 10.  
     - Purchase order  
     - Delivery note  
     - Invoice  
     - Credit note  
     - Statement of account  
     - Remittance advice slip  
     - Cheque  
     - Receipt  
   - 8 points

9.  
   - a) Profit  
   - b) Loan  
   - c) Overdraft  
   - d) Current account  
   - e) Leasing  
   - f) Buying on credit  
   - g) Grants  
   - h) Selling assets  
   - i) Selling shares  
   - 9 points
Words can have more than one meaning – Answers

**Overhead** - taking on a new member of staff will be yet another overhead

**Account** – a statement of account

**Turnover** – the amount of sales made by the business

**Manage** – to manage the department

**Stock** – goods or raw materials that are not yet sold but are stored by the business

**Gross** – gross profit, profit before deductions

**Net** – net profit, profit after deductions

**Credit** – I’ll give you a credit note

**Statement** – the statement shows you owe £36.00 from 3 months ago

**Grant** – I believe you can get a government grant for that

**Capital** – we will need capital to set up a business

**Commission** – commission for achieving high rate of sales

**Interest** – the interest rate is set to change

**Liability** – money owed by a business; responsibility by the owner of a business for debts

**Market** – what is the best way to market the new product? The stock market is the best place to buy and sell shares

**Return** – return on investment

**Application** – Which software application shall we use? Please complete the application form

**Scale** – she was told to scale her budget down

**Quality** – the production department was worried about the quality of the product; quality assurance was important
Revision Tips
Exams coming up?
Get ready!

1. Find a revision buddy to work with

2. Make sure that you both have a complete set of notes
   If you have missed any work for the examined unit:
   - copy up the notes
   - do any homework/class work that was set

3. Draw up a revision timetable:
   - put in all of your exam dates
   - block out time not available for revision
   - count down days/weeks
   - plan in your revision topics
   - set achievable targets for each revision session
     - work with about 20 minute slots
Get Set!

1 How do you remember things best? Is it by:
   - seeing – charts, diagrams, pictures, mind maps, etc?
   - hearing – eg talk with a revision buddy, listening to tapes which you or your buddy prepared?

2 See what you do know - use a checklist of all the topics in the unit and tick off the ones you feel confident with.

3 The ones you haven’t ticked are then the ones that you don’t know – plug the gaps by revising these topics.

4 Self help techniques:
   - work with your revision schedule
   - give yourself rewards when you keep to it – a reward might be to watch TV, meet your friends, have something nice to eat for example.

5 The day before the exam just go over the key points – avoid excessive, in depth revision.

6 Devise a strategy for exam day, know where you have to go and get there on time.

7 Identify where you will get most of your marks.

8 Consider how you will spend your time in the exam. Try the following:

9 If you have special requirements your schools can make special arrangements with the exam board.

10 If you are ill before an exam or have a family crisis – tell your teacher before the exam as this could affect your exam performance.

11 Have a good night’s sleep the night before.

12 And don’t forget to have breakfast on the day.
Go!

Getting there and getting settled:

1. Remember that you have done a lot of good revision!
2. Take a bottle of water with you.
3. Do a final review of key points if it helps to reassure you.
4. Leave your phone behind.
5. Turn up at the exam room in plenty of time.
6. Make sure you have all the pens, rulers, erasers, etc that you need and are allowed to take in with you.
7. Bring your candidate number (you will need to write it on the paper).
8. Leave your bag and other ‘non-allowed’ items where instructed.
9. Find your seat.
10. Note the position of the clock.
11. Be calm – start and remain calm.
12. Keep to the rules of ‘exam conditions’ - eg no talking.

Think positively about doing your best
Starting the exam

Read through these and try to remember key things – highlight anything that is especially important for you.

1. When told to, read and fill in the front cover of the exam paper/answer book.

2. When told to, read the exam questions carefully. Plan your time per question – and stick to it.

3. Read the questions carefully – what is the question asking you to do, for example, explain, identify, give reasons.

4. If necessary use calming techniques – breathe deeply.

5. Use highlighters on the questions to pick out those things that you want to include in your answers.

6. Look at the marks allocated to the parts of each question (in brackets) - two reasons and two marks mean one mark per reason – no need to give three reasons!

7. Look at the structure in the answer book – four lines means more detail needed than two lines, for more marks spend more time.

8. Try each question and do as many parts of it as possible. If you get stuck move on to the next question.

9. Structure your answers to match what the question is asking for - as you write your answer refer back to the question and make sure that you are keeping to it.

10. Keep an eye on the time throughout the exam.

11. Don't use text in exams because examiners need to know what you are saying.

12. Watch your handwriting – the examiner cannot mark what they cannot read.

13. Give yourself ten minutes at the end to check through your answers – eg spelling, punctuation, grammar, all questions answered.

After the exam don’t dwell on what you have done – have a break and relax, you may have another exam to get ready for!
Ideas to help with revision

1. Use past and specimen exam papers and mark schemes – these are on the Edexcel web:
   www.edexcel.org.uk

2. Look carefully at the structure of the exam paper so that you are familiar with the layout before the day of the exam!

3. Attempt the questions and check your answers against the mark scheme – how many marks would you have got? Do this with your revision buddy and then ‘mark’ each other’s work.

4. Think about where you went wrong on those questions where you did not get many marks, ask your teacher if there are things you don’t understand. Look again at your notes and structure an answer that will help you get maximum marks.

5. When answering whole papers give yourself the allowed time only and work within it plan the time for each question. Treat it like the real exam!

6. Look at the different types of questions and marks allocated to them – this will help you decide how much time to spend on each section.

7. Different types of questions will need different types of answers – for example, the answers to questions requiring short or long answers will be structured differently.

8. Re-use any case studies or similar exercises that are relevant to the exam.

9. Ask your teacher for help if you get stuck.