GCSE Business

Topic 1.3 Putting a Business idea into Practice Knowledge Organiser

Start

Describe the difference between an aim and an objective

Aim is an overall long term goal of the business.

An objective is a shorter-term step towards achieving their overall goal.

State 3 financial objectives a business may have:

1. Survival e.g. breakeven
2. Certain profit level
3. Number of sales

State 3 non-financial objectives a business may have:

1. Personal satisfaction
2. Independence
3. Social objective (helping others, charity)

Units sold: 240

Selling price: £6.20

Fixed Costs: £1100

Variable cost per unit: £0.80

Calculate the Total Cost of the business above. Show your working out.

1100 + (0.80 x 240) = £1292

Calculate the Profit of the business above. Show your working out.

Revenue = 6.20 x 240 = £1488

1488—1292 = £196

Look at the breakeven chart in the centre of the page. Identify the breakeven point.

200 sales

Explain what's meant by the breakeven point

The level of output (sales) where the Total Revenue is equal to the Total Costs. At this point, there is no profit and no loss.

Looking at the breakeven chart in the centre of the page. Calculate the margin of safety if they sell 250 products. 250—200 = 50 sales

Explain what's meant by margin of safety

The margin of safety is the number of sales a business makes which exceeds their breakeven point, it's the number of sales they're safe by.

Explain 2 ways the breakeven point of a business can be improved

1. Lower fixed or variable cost
2. Increase price

Why is cash not profit?

The amount of cash a business has can include things such as bank loans and savings, yet these are not taken into account when calculating profit. Profit is simply Revenue minus costs.

A business can survive in the short term without profit but a business CANNOT survive without cash.

Explain 2 reasons why cash is important to a business

1. Enables them to cover their day to day expenses and continue to make and sell products.
2. Avoid legal action, being taken to court, bankruptcy

Complete the blanks in the cashflow forecast below

	Aug	Sep	Oct
	£000	£000	£000
Opening Balance	44	40	45
Cash Inflow	26	27	18
Cash Outflow	30	22	13
Net Cash Flow	-4	5	5
Closing Balance	40	45	50

Identify 3 sources of short term finance and state 1 fact about each

1. An overdraft (negative number in bank account)
2. Trade Credit (Buy your supplies now, pay later)
3. Sale of assets (selling machinery, vehicles etc)

Identify 3 sources of long term finance and state 1 fact about each

1. Bank loan or Mortgage (borrowed money, pay interest)
2. Share Capital or Venture Capitalists or Crowd Funding (investor owns share of business in return for profit)
3. Retained profit (profit the owner reinvests)

Identify 1 advantage & 1 disadvantage of using share capital to fund business expansion

Advantage: can raise large amounts of money, no interest to pay and can benefit from advice/support

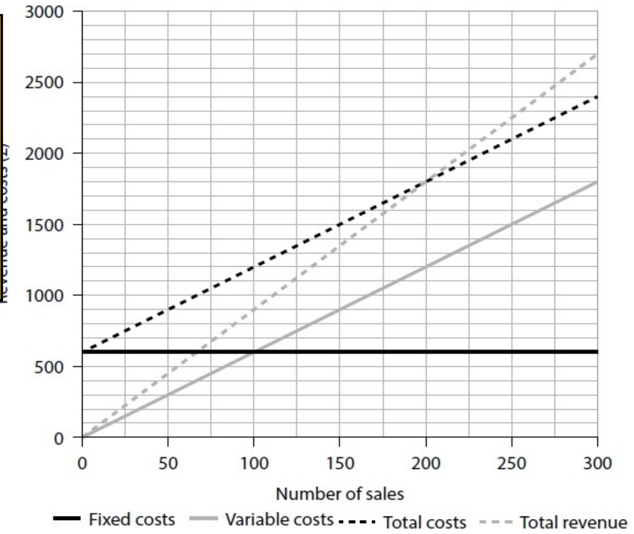
Disadvantage: May lose control on the business, have to share your profits

Identify 1 advantage & 1 disadvantage of using a bank loan to fund business expansion

Advantage: can request the exact amount needed and regular repayments make budgeting easier

Disadvantage: interest paid on loans can make them very expensive

Finish



Key word	Definition
Market share	The proportion of sales in a market that are taken by one business
Profit	The amount of revenue left over once costs have been deducted
Social objectives	Likely to be non-financial, such as to reduce the carbon emissions of a business or improve the quality of life for a local community
Income stream	The source of regular income that a business receives. This could be through the money it receives from customers, or other seas such invest-ment income
Viable	Capable of working or succeeding
Income statement	A financial statement showing the amount of money earned and spent in a particular period and resulting profit and loss
Stakeholder	Anyone who has an interest in the activities of a business, such as its work-ers, its suppliers, the local community and the government
Break-even point	The point where revenue received meets all of the costs of the business
Credit	The amount of money that a financial institution or supplier will allow a business to use, which it must pay back in the future at an agreed time
Overheads	Fixed costs that come from running an office, shop or factory, which are not affected by the number of specific products or services that are sold
Insolvent	A business that is unable to pay its debts and/or owes more money than it is owed
Consumables	Items that get ‘used up’, such as pens, paper, staples and other items that a business has to replace regularly
Trade credit	A credit arrangement that is offered only to businesses by suppliers
Overdraft	A facility offered by a bank that allows an account holder to borrow money at short notice
Cheque	A written order to a bank to pay an amount of money from an account holder’s account to a specified person
Venture capital	Money to invest in a business is sourced from individuals, or groups of people, who wish to invest their own money into new businesses
Return on investment	The amount of money that an investor gets back in return for investing a business
Shareholders	Investors who are part-owners of a company
Share capital	Money to invest in a business is raised by the business issuing shares that it then sells to those who wish to invest in the company
Credit check	A check on the financial status of a business or individual to ensure that the business or the individual has a reliable credit history and does not have any existing outstanding debts
Security	When the lenders asks the borrow to put up an asset, such as a house, or a valuable item owned by the business
Asset	Any item of value that a business owns, such as its machinery or premises
Guarantor	A named person who guarantees to pay the repayments on a loan should the person who has taken out the loan not be able to make the payments
Retained profit	Money that a business keeps, rather than paying out to its shareholders

Command Word	You are required to...
Multiple choice question	Select one or more correct answer from a choice of answers. These questions test recall of knowledge from the specification content
Define	define a term from the specification content
Give	give an answer testing recall of knowledge from the specification content
State	give an answer, no longer than a sentence, referring to a piece of contextual information from which students must select the answer
Identify	select the correct answer from reading a graph or table of data
Calculate	use mathematical skills to reach the answer, based on given data. Calculators may be used and workings should be given
Complete the table	work out the values missing from the presented table of data
Outline	give two linked points about a business concept or issue, placed in context in the question
Explain	give a statement of fact, with two further expansion points. These may expand on each other, or both from the same fact. There is no context in these questions
Discuss	write an extended answer, requiring expansion and exploration of a business concept or issue. These questions will not have context but students may bring one in for illustration purposes
Analyse	write an extended answer, requiring expansion and exploration of a business concept or issue. The answer will be placed in context by the question
Justify	write an extended answer, using information provided in order to recommend one of two options to a business owner
Evaluate	write an extended answer, using knowledge of specification content to reach a supported conclusion about a business situation.

Lesson Sequence
Aims and objectives
Fixed and variable costs
Revenue
Profit
Breakeven charts
Breakeven formulas
Breakeven challenge
Importance of cash
Cashflow forecast
Sources of finance

Formula		Formula	
Profit	Revenue — total costs	Total Variable Costs	Variable costs X output
Revenue	Units sold X selling price	Total costs	Fixed costs + Total Variable Costs
Break Even	Total Revenue = Total Costs	Margin of Safety	actual sales - break-even output