Edexcel GCSE BUSINESS STUDIES

SPOTTING A BUSINESS OPPORTUNITY

NAME _____

Unit 1: Section 3

Putting a business idea into practice

What you need to know

Topic 1.3 Putting a business idea into practice

This topic considers the practicalities of making a business idea happen and emphasises how focus on the financial aspects should not distract from the importance of effective management of marketing and human factors.

What students need to learn	Guidance
Objectives when starting up: • financial objectives: the range of motives for wanting to start a business including profit or income, financial security and wealth • non-financial objectives: personal satisfaction, challenge, to help others (starting a charity)	This section looks at the personal objectives of entrepreneurs (whether stated or implied by their actions).
The qualities shown by entrepreneurs: • determination and initiative • the willingness to take risks and make decisions • the ability to plan and persuade • showing leadership • the role of luck in business success/failure	This can be done through a project where students interview someone who has started a business in the last five years to understand their motives, their qualities and the effectiveness of their planning.
Estimating revenues, costs and profits: • how businesses forecast sales volumes and selling prices to estimate revenue • how to determine fixed and variable costs • understand the difference between price and cost and the concept of profit • explain how profit is the difference between the total revenue generated over a period and the total costs • the impact of profits and losses on a business and its owners	This is meant to be more realistic and challenging than the traditional approach to profit. At the start, profit is a 'guesstimate', not a fact.
Forecasting cash flows: • understand the role and importance of cash to the operation of a business and to its long-term success • how to estimate monthly cash inflows and outflows to determine net and cumulative cash flows • how cash flows are affected by stock levels and credit terms	This should also be set in a realistic context of uncertainty, ie reflecting the difficulty of forecasting with confidence. The technical definition of insolvency is not required. Students will not be required to produce a business plan.

- explain how cash flow problems can lead to business failure (insolvency)
- appreciate the role and importance of a business plan in minimising the risk involved

Obtaining:

- explain the main sources of finance for a small business start-up
- long-term sources, such as loans, personal savings, profit, venture capital and share capital in the context of a private limited company
- short-term sources such as overdrafts and trade credit

Invite a local bank or business link to come in and explain a recent financial package used to support the start up of a local business Ask them to cover the key issues of revenue forecasting, cash flows, and financing.

Revision Review

Key term definitions

Profit	
Revenue	
Fixed Cost	
Variable Cost	
Motivation	
Leadership	
Price	
Cost	

Cash Flow	
Cash Inflow	
Cash Outflow	
Net Cash Flow	
Negative Cash Flow	
Insolvency	
Overdraft	
Trade Credit	
Personal Savings	
Venture Capital	
Limited Liability	
Unlimited Liability	
Sole Trader	

Private Limited Company	

Calculations – Write the formulas to calculate the following

Profit	
Revenue	
Total Costs	
Total Variable Costs	
Net Cash Flow	

Questions

Q1.

Venture capital is a long-term source of finance for small businesses.

Which **two** of the following are the **most likely** advantages to a business of using venture capital?

Select **two** answers:

☐ **A** Venture capitalists do not interfere with the running of the business

☐ **B** There is the opportunity to benefit from expert advice

☐ **C** Venture capitalists do not have to pay tax

☐ **D** It increases access to finance for small businesses

☐ **E** There is no need to produce a business plan

(Total for Question = 2 marks)

Q2.

Skygo Airlines is a small cut-price airline offering cheap flights from England to Spain. It is classed as 'no frills', which means customers pay for flights only. Any extra services, such as refreshments, need to be paid for separately. *Skygo Airlines* is very conscious of its need to provide quality customer service for all its customers.

Detailed below is a table showing the prices of airline tickets and the number of passengers booked on each flight.

Flight	Price	Number of passengers
SK345	£130	85
SK611	£80	132
SK212	£55	157
SK322	£35	188

Which flight generated the highest revenue?

Select **one** answer

☒ **A** SK345

☒ **B** SK611

☒ **C** SK212

☒ **D** SK322

(Total for Question = 1 mark)

Q3.

Match the definition on the left with the correct term on the right.

The first one has been done for you.

	Definition
i	A long-term source of finance provided by expert investors who take a role in running the business.
ii	An individual who takes risks in order to make a profit.
iii	A group of customers with similar characteristics.
iv	Raw materials such as coal, oils and wheat.
v	A visual means of showing where a product is positioned in a market.
vi	A document outlining the skills and qualities needed by a job applicant.

Term	
A	Job description
B	Commodities
C	Person specification
D	Market segment
E	Entrepreneur
F	Goods
G	Market map
H	Added value
I	Venture capital

(i) . . . . . .**I** . . . . . .

(ii) . . . . . .

(iii) . . . . . .

(iv) . . . . . .

(v) . . . . . .

(vi) . . . . . .

(Total for Question = 5 marks)

Q4.

The following table shows the revenue and costs of a business over a three-month period. The business manufactures plastic components which are sold to a larger manufacturer.

Fill in the **four** blanks to complete the table.

	April	**May**	**June**
Total revenue	£3 700	£3 400	(iv)
Fixed costs	(i)	£900	£900
Variable costs	£1 700	£1 600	£1 500
Total costs	£2 600	(iii)	£2 400
Profit	(ii)	£900	£1 100

(Total for Question = 4 marks)

Q5.

Hamish started his business three years ago as a sole trader supplying and fitting kitchens. He now wants the business to be a private limited company. As part of this process he needs to produce a business plan.

Below is copy of Hamish's cash flow forecast from his business plan.

Fill in the **three** blanks to complete the cash flow forecast.

	Aug	Sep	Oct	
	£000	£000	£000	
Opening Balance	44	40	45	
Cash Inflow	26		18	(1)
Cash Outflow	30	22	13	
Net Cash Flow		5	5	(1)
Closing Balance	40	45		(1)

(Total for question = 3 marks)

Q6.

Which **three** of the following are fixed costs of a manufacturing business?

Select **three** answers:

- ☐ **A** Raw materials
- ☐ **B** Salaries of managers
- ☐ **C** Rent on premises
- ☐ **D** Packaging for products
- ☐ **E** Interest on a bank loan
- ☐ **F** Parts and components

(Total for question = 3 marks)

Q7.

James, a sole trader, has been trading for five years. He provides containers for growing vegetables. These are called *Veggards*. They are for people who wish to grow vegetables but do not have either the space or land to grow them.

James decides that he will use his personal savings to finance the expansion.

Which **two** of the following are disadvantages of using personal savings as a source of finance?

Select **two** answers.

- ☐ **A** No interest will have to be paid
- ☐ **B** The amount available might not be sufficient
- ☐ **C** The money will not have to be repaid
- ☐ **D** Less money available to deal with emergencies
- ☐ **E** The money is instantly available

(Total for Question = 2 marks)

Q8.

This question is based on the information below.

Fayazee Mantel is an entrepreneur who owns and runs a successful printing business.
She keeps a weekly diary, an extract of which is shown below.

Monday 9:30 am	Met with my main ink supplier today and negotiated a 20% discount on the next order
Tuesday 12:15 pm	Shared with employees my vision for the business over the next two years
Wednesday 8:00 am	Re-organised the layout of the printing room which should lead to less time being wasted
Thursday 3:30 pm	Placed an order for 30% more paper than normal. If my new promotion strategy works then I'm sure this will pay off!
Friday 5:00 pm	Met the owner of a travel agent at a small business conference. They needed a sales leaflet producing urgently. I told them we could do it and she agreed to give us the order. Brilliant news!

Using the information, which entrepreneurial quality does Fayazee demonstrate on Tuesday?

Select **one** answer:

☒ **A** Leadership

☒ **B** Willingness to take risks

☒ **C** Being lucky

☒ **D** Showing determination

(Total for Question = 1 mark)

Q9.

WEDGEWELLY LTD

Mike, Sarah and Laura started a business called *WedgeWelly*. It makes Wellington boots with a high heel to appeal to women and festival-goers.

Mike, Sarah and Laura wanted to expand *WedgeWelly* but needed additional capital. They appeared on the television programme *Dragons' Den*. One of the venture capitalists (a Dragon) invested £65 000 for a 25% stake in the business.

(Source: http://www.wedgewelly.co.uk/)

WedgeWelly has many variable costs when running the business.

Which **one** of the following is an example of a variable cost?

Select **one** answer.

- ☒ **A** Loan repayments
- ☒ **B** Salaries
- ☒ **C** Insurance
- ☒ **D** Raw materials

(Total for question = 1 mark)

Q10.

A small manufacturing company has variable costs.

Which **three** of the following are examples of variable costs?

Select **three** answers

- ☒ **A** Raw materials
- ☒ **B** Insurance premiums
- ☒ **C** Packaging
- ☒ **D** Loan repayments
- ☒ **E** Gas/electricity bills
- ☒ **F** Salaries

(Total for Question = 3 marks)

Q11.

These are the monthly cash flow figures for a business.

Opening balance £10 000 Cash inflow £14 000 Cash outflow £28 000

What is the closing balance for the business at the end of the month?

Select **one** answer.

- ☐ **A** –£14 000
- ☐ **B** –£4 000
- ☐ **C** £24 000
- ☐ **D** £38 000

(Total for question = 1 mark)

Q12.

Nick Nocha moved from Italy with his family in 2010 to live in England. In 2012 he set up as a sole trader making unique ice creams, which he only sold to local retailers. His business soon prospered and he moved production to a small factory. Local retailers liked his ice cream as it was different. He realised that this could be the opportunity he was looking for to develop his business further.

Which **two** of the following might help Nick to increase sales volume?

Select **two** answers.

- ☐ **A** Increase spending on marketing
- ☐ **B** Employ fewer production staff
- ☐ **C** Failure of a competitor
- ☐ **D** Reduce net cash flow
- ☐ **E** Increase the price of all of his products

(Total for question = 2 marks)

Q13.

Which **one** of the following is an example of a long-term source of finance?

Select **one** answer:

- ☐ **A** Sales revenue
- ☐ **B** Bank loan
- ☐ **C** Trade credit
- ☐ **D** Overdraft

(Total for question = 1 mark)

Q14.

> In early 2014 there were widespread floods across England. These floods had a negative effect on the UK supply of many crops, including potatoes.

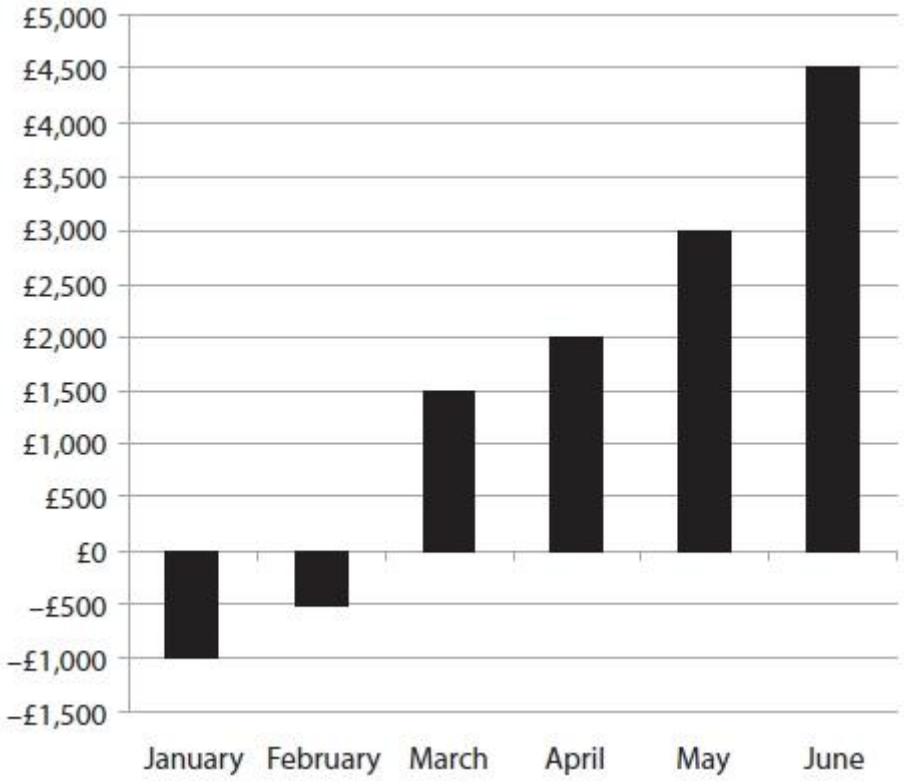
Which **one** of the following is the most likely effect of these floods on the market for potatoes?

- ☐ **A** The demand for potatoes will increase
- ☐ **B** The demand for potatoes will decrease
- ☐ **C** The price of potatoes will increase
- ☐ **D** The price of potatoes will decrease

(Total for question = 1 mark)

Q15.

Northern Coffee Merchants Ltd – Monthly Profit (January to June)



Identify **two** likely impacts for the owners of *Northern Coffee Merchants Ltd* as a result of the information shown in the graph above.

Select **two** answers:

- ☒ **A** Money will be available to reinvest in the business
- ☒ **B** Greater risk of losing personal possessions
- ☒ **C** More difficult to pay suppliers
- ☒ **D** Higher rate of Value Added Tax
- ☒ **E** Less risk of insolvency

(Total for Question = 2 marks)

Q16.

Hamish started his business three years ago as a sole trader supplying and fitting kitchens. He now wants the business to be a private limited company. As part of this process he needs to produce a business plan.

Which **three** of the following would Hamish include in his business plan?

Select **three** answers:

- ☐ **A** Summary of the market research carried out
- ☐ **B** Copy of the design of his letter heading
- ☐ **C** Projected profit and loss account
- ☐ **D** All receipts and invoices
- ☐ **E** Names and addresses of all employees
- ☐ **F** Overview of the nature of the business

(Total for question = 3 marks)

Q17.

Which **one** of the following is an example of long-term finance for a sole trader?

Select **one** answer.

- ☐ **A** Share capital
- ☐ **B** Overdraft
- ☐ **C** Bank loan
- ☐ **D** Trade credit

(Total for Question = 1 mark)

Q18.

Match the definition on the left with the correct term on the right.

The first one is done for you.

	Definition
i	The price of one currency in terms of another.
ii	The legal ownership of material such as books and films.
iii	A document that shows money going in and out of a business.
iv	The money paid to government on an individual's earnings.
v	Identifying where there is a gap for a business opportunity.
vi	Information about opinions, judgements and attitudes.

	Term
A	Financial objectives
B	Market mapping
C	Cash flow forecast
D	Copyright
E	Qualitative data
F	Quantitative data
G	Exchange rate
H	Capital
I	Income tax

(i) .....G.....

(ii) .....

(iii) .....

(iv) .....

(v) .....

(vi) .....

(Total for Question = 5 marks)

Q19.

Match the term on the left with the correct definition on the right.

The first one has been done for you.

Term	
Venture capital	i
Market map	ii
Stakeholder	iii
Quantitative data	iv
Market segment	v
Lateral thinking	vi

	Definition
A	Information that can be counted or expressed numerically.
B	Goods or services sold to foreign buyers.
C	A way of showing the net cash flow at the end of each period.
D	A way of solving problems by rejecting traditional methods in favour of more radical methods.
E	Money invested into a new business idea where there is an element of risk.
F	A group that has an interest in the success of a business or is affected by the activities of a business.
G	A visual means of showing where a product is positioned in the market.
H	Information about opinions, judgements and attitudes.
I	A group of buyers with similar buying habits.

(i) .....E.....

(ii) .....

(iii) .....

(iv) .....

(v) .....

(vi) .....

(Total for question = 5 marks)

Q20.

This question is based on the information below.

Connie Francis plans to open a juice bar in a busy town centre. The new business will sell organic freshly-squeezed juices and light snacks to take away.
Connie has carried out market analysis and has discovered that there are three competitors. She has produced a summary of these competitors, including their strengths and weaknesses.

Competitor	Details of the business	Strengths	Weaknesses
Stainthorpe's Snacks	• Sole trader • Two employees • One outlet • Main products: sandwiches, pasties, cakes and soft drinks	• Cheap prices compared to competitors • Long-established family business • Open from 6 am Mon–Sat	• Reputation for slow service • Regarded by younger customers as 'old-fashioned' • Takeaway service only
Fenway's	• Franchise of a national chain • 15 employees • Two local outlets • Main products: sandwiches, pasties, and canned/bottled drinks	• Established brand image • Large premises in two locations • High sales revenue	• Takeaway service only • Limited range of drinks and snacks • Reputation for unhealthy food
jooce	• Private limited company • Six employees • One outlet • Main products: organic freshly-squeezed juice drinks, freshly-prepared sandwiches • Targets the 25–40 year-old market	• Offers sit down service as well as takeaway service • Regarded as 'trendy' by younger customers • High sales in the last 12 months led to jooce becoming a private limited company	• Expensive prices • Slow service • Located in a quieter part of town

Connie had a number of objectives when deciding to start her own business.

Identify **two** non-financial objectives when starting a business.

Select **two** answers:

- ☐ **A** Personal satisfaction
- ☐ **B** Earn a high profit
- ☐ **C** Provide financial security
- ☐ **D** To provide a challenge
- ☐ **E** To increase personal wealth

(Total for Question = 2 marks)

Q21.

WEDGEWELLY LTD

Mike, Sarah and Laura started a business called *WedgeWelly*. It makes Wellington boots with a high heel to appeal to women and festival-goers.

Mike, Sarah and Laura wanted to expand *WedgeWelly* but needed additional capital. They appeared on the television programme *Dragons' Den*. One of the venture capitalists (a Dragon) invested £65 000 for a 25% stake in the business.

(Source: http://www.wedgewelly.co.uk/)

Which **two** of the following are disadvantages to Mike, Sarah and Laura of a venture capitalist investing in their business?

Select **two** answers.

- ☐ **A** The venture capitalist risks losing their investment
- ☐ **B** Higher corporation tax will need to be paid
- ☐ **C** Potential conflict between the shareholders
- ☐ **D** The risk of *WedgeWelly* failing is reduced
- ☐ **E** It will reduce the control of the existing owners

(Total for question = 2 marks)

Q22.

The following is an extract of financial information for a small gardening business. It shows the costs, revenues and profit.

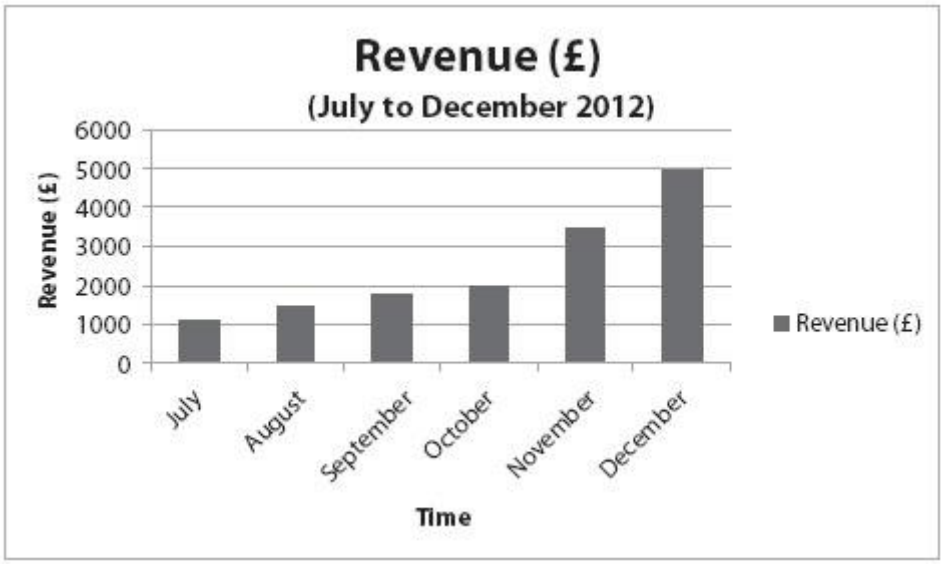
Fill in the **three** blanks.

	August	September	
Total revenue	£6 500		(1)
Fixed costs	£1 000	£1 000	
Variable costs		£5 300	(1)
Total cost	£5 400		(1)
Profit	£ 1 100	–£1 450	

(Total for question = 3 marks)

Q23.

A business has the following revenue information over a six-month period.



Which **three** of the following are the **most likely** explanations for the changes in revenue? Select **three** answers.

- ☒ **A** An increase in variable costs
- ☒ **B** The product being seasonal
- ☒ **C** A rise in profits
- ☒ **D** A higher level of sales
- ☒ **E** A successful advertising campaign
- ☒ **F** A new competitor entering the market

(Total for Question = 3 marks)

Q24.

Brownlow is a business that builds water features for gardens. It has recently experienced a fall in sales.

Which **two** of the following might explain this fall in sales?

Select **two** answers:

☐ **A** Weather has been poor over the last few months

☐ **B** Cost of raw materials has fallen

☐ **C** Interest rates have remained the same

☐ **D** Improved staff training programme

☐ **E** Gardens are smaller and have no available space

(Total for question = 2 marks)

Q25.

James, a sole trader, has been trading for five years. He provides containers for growing vegetables. These are called *Veggards*. They are for people who wish to grow vegetables but do not have either the space or land to grow them.

The following table shows his revenue, costs and profit/loss for three months.

Fill in the **three** blanks to complete the table.

	October	November	December	
Revenue	£11 750		£ 4 000	(1)
Variable costs	£ 5 000	£ 6 750		(1)
Fixed costs	£ 3 500	£ 3 500	£ 3 500	
Total costs	£ 8 500	£10 250	£ 4 775	
Profit/loss		£ 2 300	-£ 775	(1)

(Total for Question = 3 marks)

Q26.

Which **two** of the following are possible objectives for someone setting up business as a sole trader?

Select **two** answers.

- ☒ **A** To allow other people to make all decisions
- ☒ **B** To benefit from limited liability
- ☒ **C** To gain financial support from shareholders
- ☒ **D** To take all the profits
- ☒ **E** To have full control of the decisions

(Total for Question = 2 marks)

Q27.

Which **one** of the following is an example of short-term finance for a small business?

Select **one** answer:

- ☒ **A** Bank loan
- ☒ **B** Overdraft
- ☒ **C** Share capital
- ☒ **D** Personal savings

(Total for Question = 1 mark)

Q28.

James, a sole trader, has been trading for five years. He provides containers for growing vegetables. These are called *Veggards*. They are for people who wish to grow vegetables but do not have either the space or land to grow them.

James is looking to expand the business. He is considering using short-term sources of finance to do this.

Which **two** of the following are examples of short-term sources of finance?

Select **two** answers.

- ☒ **A** Loan from bank
- ☒ **B** Venture capital
- ☒ **C** Share capital
- ☒ **D** Trade credit
- ☒ **E** Overdraft

(Total for Question = 2 marks)

Mark Scheme

Q1.

Question	Answer	Mark
	B, D	2

Q2.

	Answer	Mark
	A	1

Q3.

	Answer	Mark
	ii = E; iii = D; iv = B; v = G; vi = C	**5**

Q4.

	Answer	Mark
	(i) £900; (ii) £1 100; (iii) £2 500; (iv) £3 500	**4**

Q5.

Question	Answer	Mark
	-4, 27, 50	3

Q6.

Question	Answer	Mark
	B, C, E	3

Q7.

	Answer	Mark
	B, D	2

Q8.

Question	Answer	Mark
	A	1

Q9.

Question Number	Answer	Mark
	D, Raw materials (1)	**(1)**

Q10.

	Answer	Mark
	A, C, E	3

Q11.

Question Number	Answer	Mark
	B, –£4 000 (1)	**(1)**

Q12.

Question Number	Answer	Mark
	A, Increase spending on marketing C, Failure of a competitor	**(2)**

Q13.

Question	Answer	Mark
	B	1

Q14.

Question	Answer	Mark
	C	1

Q15.

Question	Answer	Mark
	A, E	2

Q16.

Question	Answer	Mark
	A, C, F	3

Q17.

	Answer	**Mark**
	C	**1**

Q18.

	Answer	**Mark**
	ii = D, iii = C, iv = I, v = B, vi = E	5

Q19.

Question	Answer	Mark
	G, F, A, I, D	5

Q20.

Question	Answer	Mark
	A, D	2

Q21.

Question Number	Answer	Mark
	C, Potential conflict between the shareholders (1) E, It will reduce the control of the existing owners (1)	**(2)**

Q22.

Question Number	Answer	Mark
		(3)

	August	September
Total revenue		£4 850 (1)
Fixed costs		
Variable costs	£4 400 (1)	
Total Cost		£6 300 (1)
Profit		

The correct answer must be in the correct box, If a candidates enters an incorrect figure In the box is it wrong regardless of whether that figure would be correct in another box.

NB: Accept with or without the £ symbol
Accept any separator, e.g. 4 400, 4400, 4,400

Q23.

	Answer	**Mark**
	B, D, E	**3**

Q24.

Question	Answer	Mark
	A, E	2

Q25.

	Answer	Mark
	£3,250, £12 550, £1 275	3

Q26.

	Answer	Mark
	D, E	**2**

Q27.

Question	Answer	Mark
	B	1

Q28.

	Answer	Mark
	D, E	2