Week 26

A-Level Business

Homework bundle for this week

本周作业合集

exercises.lol

Contents 目录

A-Level Business | Name: ____________ | Score: ______

1. Day-to-day cash for wages, suppliers and bills is called:
   - ☐ working capital
   - ☐ start-up capital
   - ☐ capital expenditure
   - ☐ profit
2. Which is an internal source of finance?
   - ☐ retained profit
   - ☐ a bank loan
   - ☐ a share issue
   - ☐ a government grant
3. Inflows are 50 and outflows are 62. What is the net cash flow?

   ____
4. Which is a fixed cost?
   - ☐ factory rent
   - ☐ raw materials
   - ☐ piece-rate wages
   - ☐ power used by machines
5. Selling price is 15 and variable cost per unit is 9. What is the contribution per unit?

   ____
6. A budget is:
   - ☐ a financial plan for the future
   - ☐ a record of past sales only
   - ☐ the firm's bank balance
   - ☐ a tax return
7. Buying a new factory machine is:
   - ☐ capital expenditure
   - ☐ revenue expenditure

- ☐ working capital
- ☐ a current liability

8. Opening balance 20, net cash flow −8. What is the closing balance?

   ____

9. Fixed cost 500, variable cost 4 per unit, output 200. What is total cost?

   ____

10. Fixed costs are 3,000 and contribution per unit is 6. What is the break-even output (units)?

    ____

A-Level Business

1. **working capital**

   Working capital funds day-to-day operations.

2. **retained profit**

   Retained profit comes from within the business.

3. **-12**

   Net cash flow $= 50 - 62 = -12$.

4. **factory rent**

   Rent does not change with output — a fixed cost.

5. **6**

   Contribution $= 15 - 9 = 6$.

6. **a financial plan for the future**

   A budget plans expected income, spending or profit.

7. **capital expenditure**

   Spending on a long-term asset is capital expenditure.

8. **12**

   Closing = opening + net cash flow $= 20 + (-8) = 12$.

9. **1300**

   $TC = 500 + 4 \times 200 = 1300$.

10. **500**

   Break-even $= 3000 \div 6 = 500$ units.

A-LEVEL BUSINESS • EXERCISE SHEET

5.1 Business finance

Name: ______________ Class: __________ Date: ____________ **Total: 29 marks**

KEY WORDS cash 现金 • working capital 营运资本 • profit 利润 • capital expenditure 资本性支出 • revenue expenditure 收益性支出

Objective

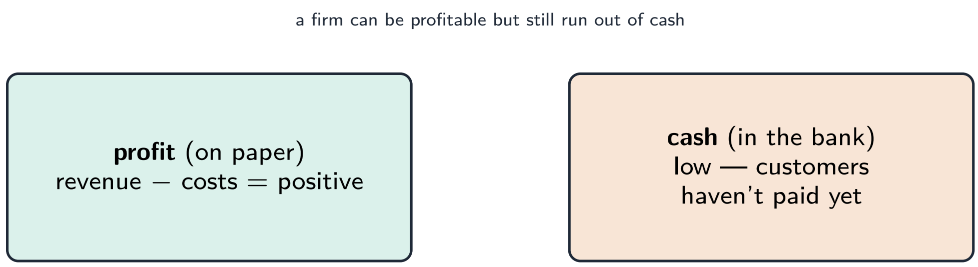
Build the skills to answer exam questions on **business finance 企业资金 — capital and revenue expenditure 资本性支出和收益性支出**, **working capital 营运资本**, and the key idea that **cash is not the same as profit 现金不等于利润**.

You must be able to:

- distinguish capital from revenue expenditure
- calculate **working capital** and explain why it matters
- explain why a profitable business can still run out of cash

1 Worked examples

■ Working capital, and cash versus profit



Profit (on paper) and cash (in the bank) are different

$$\text{working capital} = \text{current assets} - \text{current liabilities}$$

- **Worked:** current assets \$80,000, current liabilities \$50,000 → working capital = \$30,000.
- **Capital expenditure** = fixed assets (machines, buildings); **revenue expenditure** = day-to-day (wages, rent).
- A profitable firm can run out of cash if customers have not yet paid — **profit ≠ cash**.

> **Answer shapes:** AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *working capital.* [2]

2.2 A firm has current assets of $60,000 and current liabilities of $45,000. Calculate its working capital. [2]

2.3 State the difference between *capital* and *revenue* expenditure. [2]

3 Exam-style questions

3.1 Explain one reason why a profitable business might still run short of cash. [3]

3.2 Analyse two reasons why working capital is important to a business. [8]

3.3 'A business should always hold as much cash as possible.' Evaluate this view. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the money a business has available for its day-to-day needs, found as current assets minus current liabilities (2 for a clear definition; 1 for a partial idea).

2.2 $\$60{,}000 - \$45{,}000 = \$15{,}000$ (2; award 1 for a correct method with the wrong figure).

2.3 capital expenditure is money spent on fixed assets that last a long time (machines, buildings); revenue expenditure is money spent on day-to-day running (wages, rent, materials) (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 — give a reason (sells on credit and customers have not paid; bought too much stock or assets; overtrading). **AO2** up to 2 — develop it, e.g. goods are sold but customers pay 60 days later → the firm has profit on paper but no cash now → it cannot pay wages (2 developed / 1 limited).

3.2 *[8]* For **each** of two reasons: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *pay bills*: enough working capital → the firm pays suppliers and wages on time → it keeps trading and its reputation. *Avoid failure*: too little working capital → it cannot meet short-term debts → it may be forced to close even if profitable. Maximum 4 per reason, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For** holding cash: it pays bills, covers emergencies and avoids failure. **Against:** idle cash earns nothing and could be invested in stock, assets or marketing that raise profit. Judgement: a firm needs *enough* cash to stay safe, but too much is wasted — good working-capital management means a sensible balance, not "as much as possible"; the right level depends on how steady its cash flow is.

2 **(a)** Define the term *liquidation*. [2]

(b) Explain **one** external source of finance for a business. [3]

1 Solar Farms (SF)

SF is a private limited company that develops and maintains large-scale solar farms in country X. SF operates as a capital intensive business.

Bob is an entrepreneur and the majority shareholder of SF. He invested into SF's first solar farm. SF took out high-interest bank loans to cover initial cash flow problems and provide working capital. SF used internal (organic) growth over the next 10 years.

SF rents fields from farmers. Its main capital expenditure is solar panels, which are installed on the rented fields. The solar panels generate electricity, which SF sells to energy providers. Solar panel technology is constantly improving.

SF operates five solar farms in country X. A team of seven engineers maintain all of SF's solar farms.

Table 1.1 shows SF's budgeted and actual data for 2024.

Table 1.1 SF's annual budgeted and actual data for 2024

	Budget ($m)	Actual ($m)
Revenue	5	4
Total costs	3	3.75
Profit	2	0.25

Bob has identified that SF can increase its revenue by using batteries to store electricity generated by the solar panels. This electricity can then be sold at peak times for premium prices. This will require significant investment into battery technology.

Bob wants to retain control of SF but is concerned about the investment required for further growth. In 2024 the cost of renting new farmland and purchasing solar panels increased significantly.

ZB is a multinational battery manufacturer that is keen to start a joint venture with SF. If the joint venture goes ahead, ZB will insist that SF uses ZB batteries in all future solar farms.

(a) **(i)** Identify **one** quality an entrepreneur needs for success. [1]

(ii) Explain the term *working capital*. [3]

(b) **(i)** Refer to Table 1.1. Calculate the profit variance for SF in 2024. State whether the variance is favourable or adverse. [3]

(ii) Explain **one** drawback to SF of using budgets. [3]

(c) Analyse **two** limitations to SF of operating as a capital intensive business. [8]

(d) Evaluate whether a joint venture is the most appropriate way for SF to grow. [12]

4 Analyse **one** way a business might fail as a consequence of lack of finance. [5]

Section B

Answer **one** question only.

EITHER

5.2 Sources of finance

Name: ______________ Class: __________ Date: ____________ **Total: 29 marks**

KEY WORDS sources of finance 融资来源 • retained profit 留存利润 • trade credit 商业信用 • share capital 股本 • leasing 租赁

Objective

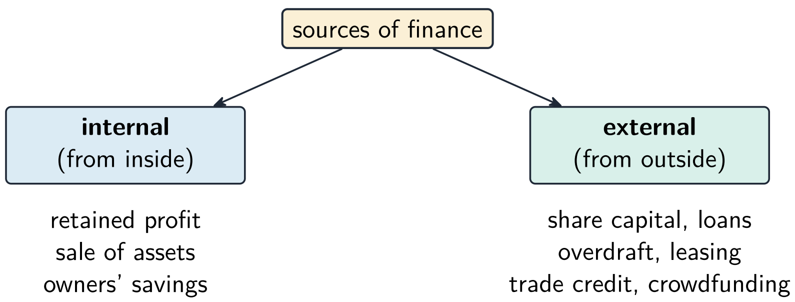
Build the skills to answer exam questions on **sources of finance 融资来源** — **internal and external 内部和外部** sources, **short- and long-term 短期和长期** finance, and how a business chooses the right source.

You must be able to:

- classify sources as internal/external and short/long-term
- describe the main sources (retained profit, share capital, loans, overdraft, trade credit, leasing)
- analyse and evaluate the best source for a given need

1 Worked examples

■ Where finance comes from



Internal: retained profit, sale of assets. External: shares, loans, overdraft, leasing, trade credit

- **Internal:** retained profit, sale of assets — no interest, no loss of control, but limited.
- **External:** share capital and loans (long-term), overdraft and trade credit (short-term).
- **Choice depends on:** the **amount**, the **purpose** (match long-term assets to long-term finance), the **cost** (interest), the legal structure (only a company sells shares), and **collateral**.

> **Answer shapes:** AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *retained profit*. [2]

2.2 State two **external** sources of finance. [2]

2.3 State the difference between a *loan* and an *overdraft*. [2]

3 Exam-style questions

3.1 Explain one benefit to a business of using **retained profit** to finance growth. [3]

3.2 Analyse two factors a business should consider when choosing a source of finance. [8]

3.3 A growing private limited company needs $2 million to build a new factory. Evaluate whether it should raise this money by a **bank loan** or by **selling more shares**. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 profit kept in the business (not paid out to owners) and used to finance the firm (2 for a clear definition; 1 for a partial idea).

2.2 any two of: share capital; bank loan; debenture; overdraft; leasing; hire purchase; trade credit; venture capital; crowdfunding (1 + 1).

2.3 a loan is a fixed sum borrowed and repaid with interest over a set time; an overdraft lets the bank account go below zero for a short time, for smaller, short-term needs (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 — name a benefit (no interest; no loss of control; no repayment date). **AO2** up to 2 — develop it, e.g. retained profit costs no interest → cheaper than a loan → more of the return stays in the business (2 developed / 1 limited).

3.2 *[8]* For **each** of two factors: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *purpose/term*: a long-term asset → financed by long-term finance → repayments matched to the income the asset earns. *Cost*: a high-interest source → raises costs → lowers profit, so a cheaper source is better if available. Maximum 4 per factor, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Loan:** keeps ownership and control, interest is tax-deductible — but it must be repaid with interest and needs collateral, raising risk. **Shares:** no repayment and no interest — but ownership and control are diluted, dividends are expected, and an Ltd can only sell shares privately. Judgement: a stable firm confident of repaying may prefer a loan to keep control; one wanting to avoid fixed repayments may prefer shares — it depends on its existing debt, profits and the owners' wish to keep control.

2 **(a)** Define the term *liquidation*. [2]

(b) Explain **one** external source of finance for a business. [3]

5 **(a)** Analyse **two** benefits to a business of using an internal source of finance for business growth. [8]

(b) 'The main reason why many small businesses fail is that they do not understand the difference between cash and profit.'

Evaluate this view. [12]

OR

6 **(a)** Analyse **two** uses of cost information for a business. [8]

(b) 'A large bank loan is the most appropriate source of finance for the expansion of a furniture retailer.'

Evaluate this view. [12]

6 **(a)** Analyse **two** advantages to a business of using sale and leaseback of non-current assets as a source of finance. [8]

(b) 'The use of budgets is the most effective way to monitor the performance of a hotel.'

Evaluate this view. [12]

2 Premium Homes (PH)

PH owns student rental accommodation in all the major cities in country Y. PH used demographic segmentation in its market research. This research identified that university students would pay a premium for high specification rental accommodation.

PH has specialist teams focused on sales, maintenance, customer service and finance. There is little opportunity for internal promotion. PH pays low salaries, however, it offers profit sharing to motivate its 150 employees. This has been effective as PH has had low labour turnover.

In the last two years, profit levels have fallen by 75%. In 2024, 45 employees left PH. Complaints about maintenance and customer service have increased due to the lack of experienced employees in PH.

The Finance Director is reviewing PH's existing sources of finance, shown in Fig 2.1.

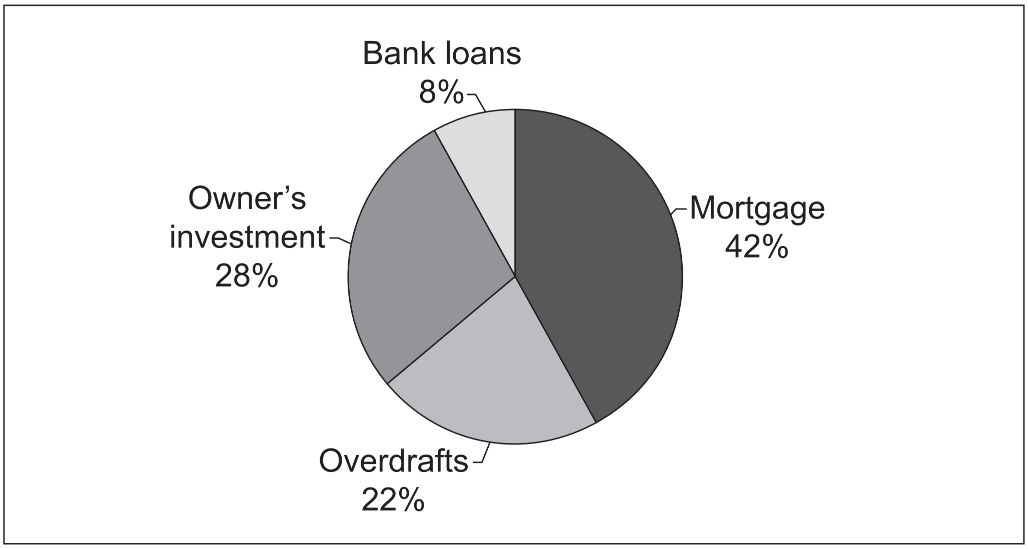


Fig 2.1 PH's sources of finance

Frank, the Operations Director, wants to improve the sustainability of PH's operations. He plans to:

- stop renting out accommodation in some lower-income cities, and sell these buildings
- upgrade accommodation in high-income cities
- reduce the size of the workforce.

(a) **(i)** Identify **one** way in which business size can be measured. [1]

(ii) Explain the term *demographic segmentation*. [3]

(b) **(i)** Refer to lines 6–8. Calculate PH's labour turnover in 2024. [3]

(ii) Explain **one** way in which PH could use Maslow's Hierarchy of Needs. [3]

(c) Analyse **one** advantage and **one** disadvantage to PH of using an overdraft as a source of finance. [8]

(d) Evaluate whether Frank's plan will improve the sustainability of PH's operations. [12]

A-LEVEL BUSINESS • EXERCISE SHEET

5.3 Forecasting and managing cash flows

Name: ______________ Class: __________ Date: ____________ **Total: 29 marks**

KEY WORDS cash-flow forecast 现金流量预测 • net cash flow 净现金流 • closing balance 期末余额 • cash inflows 现金流入 • cash outflows 现金流出

Objective

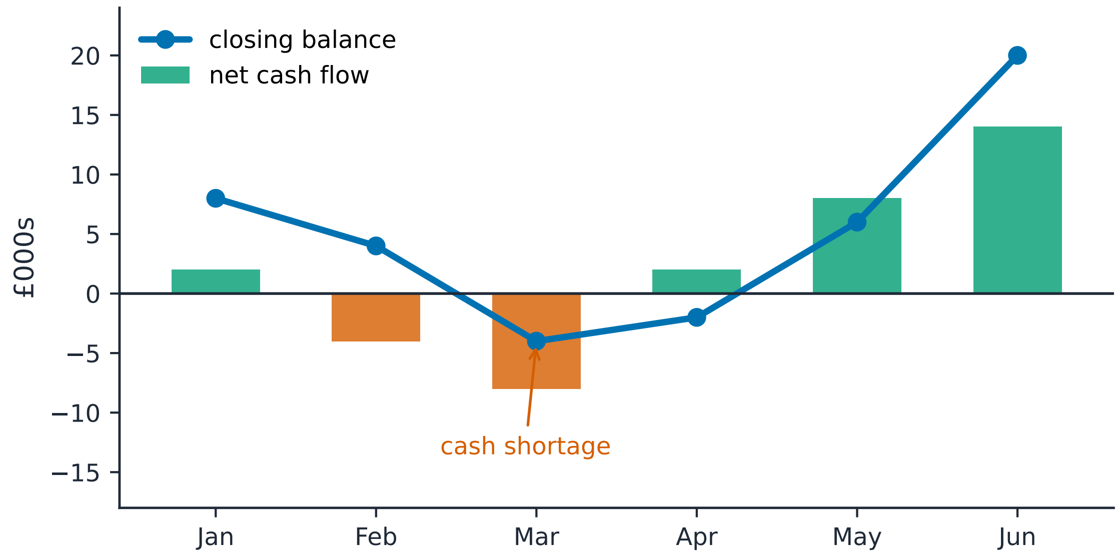
Build the skills to answer exam questions on **cash-flow forecasting 现金流量预测** — **cash inflows and outflows 现金流入和流出**, **net cash flow 净现金流**, the **opening and closing balance 期初和期末余额**, and how to fix cash-flow problems.

You must be able to:

- calculate net cash flow and the closing balance
- explain the causes of cash-flow problems (including **overtrading 过度交易**)
- analyse and evaluate ways to improve cash flow

1 Worked examples

■ Reading a cash-flow forecast



closing = opening + net · negative = cash shortage

Each month's closing balance carries forward as next month's opening balance

$$\text{net cash flow} = \text{cash inflows} - \text{cash outflows}$$

$$\text{closing balance} = \text{opening balance} + \text{net cash flow}$$

- **Worked:** opening \$8,000; inflows \$30,000; outflows \$25,000 $\rightarrow$ net = \$5,000, closing = \$13,000.
- **Improve cash flow by:** bringing cash in sooner (faster payment, discounts), delaying cash out (longer trade credit), an overdraft, or holding less stock.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *net cash flow*. [2]

2.2 A month opens with $4,000. Inflows are $20,000 and outflows are $23,000. Calculate the closing balance. [2]

2.3 State two causes of cash-flow problems. [2]

3 Exam-style questions

3.1 Explain one benefit to a business of producing a cash-flow forecast. [3]

3.2 Analyse two ways a business could improve its cash flow. [8]

3.3 A business has forecast a cash shortage in three months' time. Evaluate the best way for it to deal with this. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the difference between cash inflows and cash outflows over a period (2 for a clear definition; 1 for a partial idea).

2.2 net cash flow = $20,000 − $23,000 = −$3,000; closing = $4,000 + (−$3,000) = $1,000 (2; award 1 for a correct method with the wrong figure).

2.3 any two of: too many sales on credit; holding too much stock; buying too many assets at once; overtrading (1 + 1).

3.1 *[3]* **AO1** 1 — name a benefit (spots a shortage early; helps arrange finance; supports planning). **AO2** up to 2 — develop it, e.g. a forecast shows a shortage two months ahead → the firm arranges an overdraft in time → it avoids running out of cash (2 developed / 1 limited).

3.2 *[8]* For **each** of two ways: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *faster customer payment*: offer a discount for early payment → cash comes in sooner → the gap is covered. *Longer trade credit*: agree to pay suppliers later → cash stays in the business longer → the shortage is eased. Maximum 4 per way, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. Compare options: an **overdraft** is fast and flexible but has high interest; **chasing debtors** brings in owed cash but may annoy customers; **cutting stock** frees cash but risks stock-outs; **delaying suppliers** helps but can harm relationships. Judgement: the best choice depends on the size and length of the shortage — a short gap suits an overdraft, while a deeper problem needs better working-capital management, not just borrowing.

5 **(a)** Analyse **two** benefits to a business of using an internal source of finance for business growth. [8]

(b) 'The main reason why many small businesses fail is that they do not understand the difference between cash and profit.'

Evaluate this view. [12]

OR

2 Popular Drinks (PD)

PD is a mass market fizzy drinks manufacturer in country Z. The fizzy drinks market in country Z is dominated by a few well-known brands. The total market value is $5.3bn and the PD brand has a 17% share of this market.

Pablo was recruited to be the Marketing Director of PD in 2022. He launched a new promotional campaign based on trending music on social media. He decided to use social media influencers to focus on this market.

Online feedback of the campaign was poor. Many of PD's customers did not want to be associated with trending music. National news highlighted the negative feedback and PD's sales volume decreased by 20% within a week and continued falling. This led to excess inventory in PD's warehouses. The bad publicity also caused a drop in PD's share price and a negative impact on cash flow.

Fig. 2.1 shows feedback from a recent questionnaire where previous PD customers were asked what they thought about the promotional campaign.

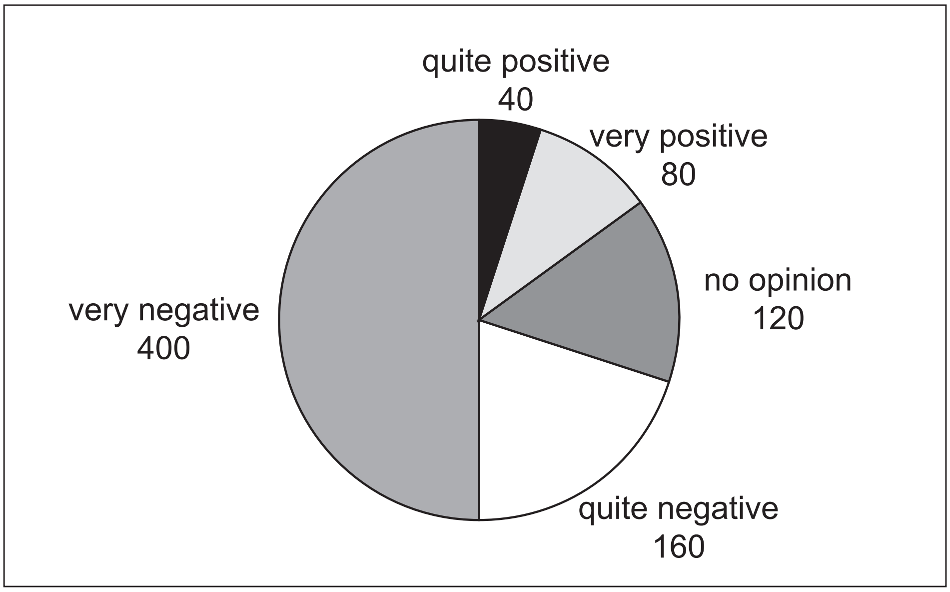


Fig. 2.1 Market analysis data of a sample of PD's customers

Pablo has called an emergency meeting of PD's marketing managers to repair the damage done to the PD brand from this recent promotional campaign.

(a) **(i)** Identify **one** recruitment method. [1]

(ii) Explain the term *cash flow*. [3]

(b) **(i)** Refer to Fig. 2.1. Calculate the percentage of PD's customers with positive feedback. [3]

(ii) Refer to Fig. 2.1 and other information. Explain **one** reason why this data collected for PD may not be reliable. [3]

(c) Analyse **two** possible costs to PD of holc ventory. [8]

(d) Evaluate the importance of branding to the future success of PD. [12]

5 **(a)** Analyse **two** benefits to a business of using break-even analysis. [8]

(b) Evaluate whether cash flow forecasting is the most important activity for the success of a fashion clothing manufacturer. [12]

OR

5.4 Costs

Name: ______________ Class: __________ Date: ____________ **Total: 27 marks**

KEY WORDS break-even 盈亏平衡 • fixed costs 固定成本 • contribution 贡献 • margin of safety 安全边际 • break-even point 盈亏平衡点

Objective

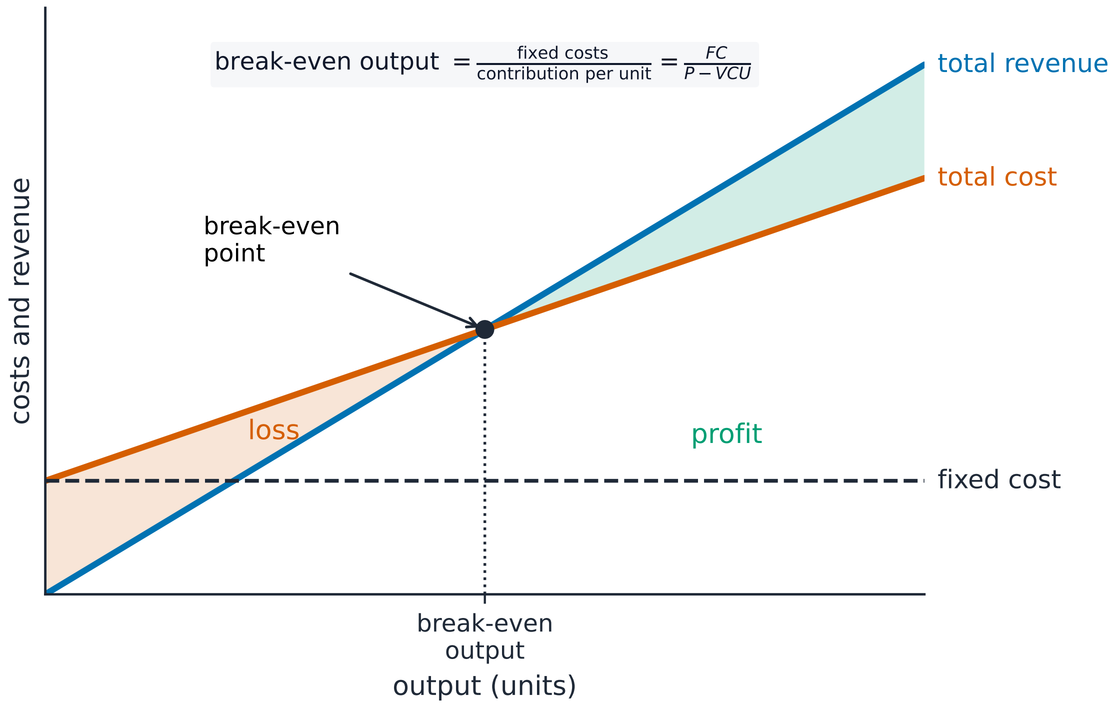
Build the skills to answer exam questions on **costs** 成本 — **fixed, variable, direct and indirect** 固定、可变、直接、间接 costs, **contribution** 贡献, **break-even** 盈亏平衡, and the **margin of safety** 安全边际.

You must be able to:

- classify costs and calculate contribution per unit
- calculate the **break-even output** and the **margin of safety**
- analyse the uses and limitations of break-even analysis

1 Worked examples

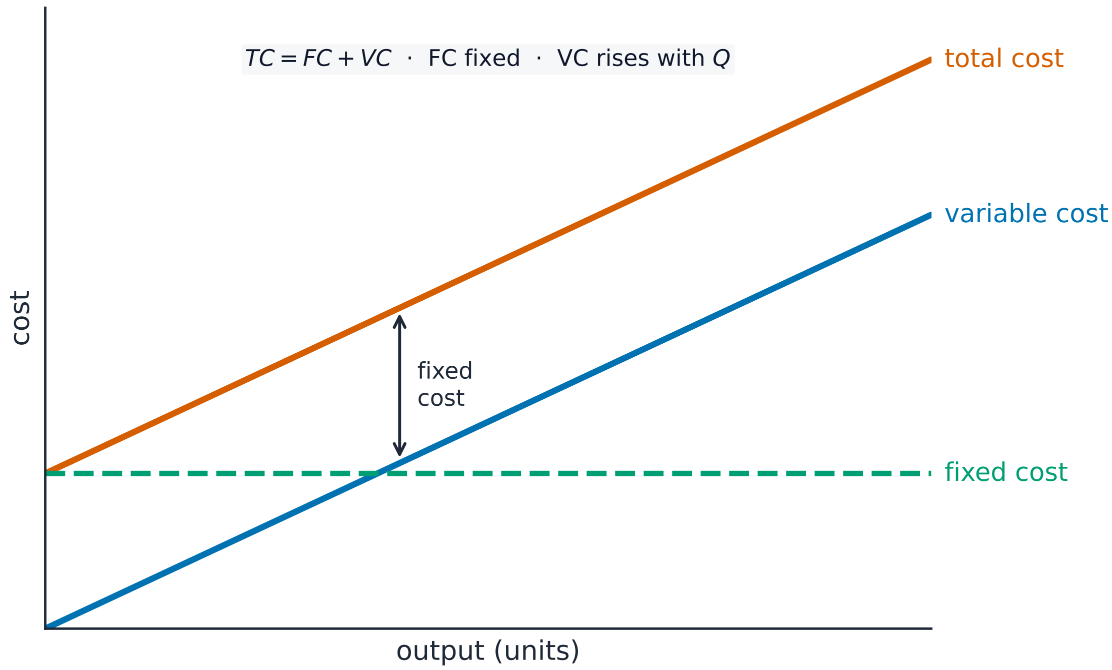
■ **Contribution and break-even**



Break-even is where total revenue equals total cost

$$\text{contribution per unit} = \text{selling price} - \text{variable cost} \qquad \text{break-even} = \frac{\text{fixed costs}}{\text{contribution per unit}}$$

- **Worked:** sell at \$20, variable cost \$12 $\rightarrow$ contribution $=$ \$8. Fixed costs \$40,000 $\rightarrow$ break-even $= \frac{40000}{8} = 5{,}000$ units.
- **Margin of safety** = actual output − break-even output. At 6,000 units $\rightarrow$ $6000 - 5000 = 1{,}000$ units.
- **Fixed** costs don't change with output (rent); **variable** costs do (materials).



Cost classification: total cost = fixed cost + variable cost

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *fixed cost.* [2]

2.2 A product sells for \$18 and has a variable cost of \$11. Calculate the contribution per unit. [2]

2.3 State the difference between a *direct* and an *indirect* cost. [2]

3 Exam-style questions

3.1 Explain one limitation of break-even analysis. [3]

3.2 A firm sells a product for $25. The variable cost is $15 per unit and fixed costs are $50,000.

(a) Calculate the contribution per unit. [2]

(b) Calculate the break-even output. [2]

(c) The firm produces 7,000 units. Calculate the margin of safety. [2]

3.3 Evaluate the usefulness of break-even analysis to a small business. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a cost that does not change with the level of output, such as rent (2 for a clear definition; 1 for a partial idea).

2.2 \$18 − \$11 = \$7 per unit (2; award 1 for a correct method with the wrong figure).

2.3 a direct cost can be clearly linked to one product (its materials); an indirect cost (overhead) cannot, e.g. a manager's salary (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 — state a limitation (assumes price and costs stay constant; assumes all output is sold; costs are not always neatly fixed/variable). **AO2** up to 2 — develop it, e.g. it assumes every unit made is sold → but unsold stock means real profit is lower than the chart shows → decisions can be misled (2 developed / 1 limited).

3.2 (a) \$25 − \$15 = \$10 contribution per unit (2). (b) break-even = $\frac{50000}{10}$ = 5,000 units (2; allow follow-through from (a)). (c) margin of safety = 7000 − 5000 = 2,000 units (2; allow follow-through from (b)).

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Useful:** quick and simple, shows the break-even point and margin of safety, helps set output and price targets, supports a loan application. **Limited:** assumes constant price and costs and that all output is sold; real markets change; it ignores quality and competition. Judgement: a useful planning tool for a small firm, especially at start-up, but its assumptions are unrealistic, so it should guide decisions, not make them alone — its value depends on how stable the firm's prices and costs are.

3 **(a)** Define the term *break-even analysis*. [2]

(b) Explain **one** limitation for a business of break-even analysis. [3]

6 **(a)** Analyse **two** uses of cost information for a business. [8]

(b) ‘A large bank loan is the most appropriate source of finance for the expansion of a furniture retailer.’

Evaluate this view. [12]

2 Natalia's Naturals (NN)

NN is a small business owned by Natalia. NN produces and sells a range of natural skincare products.

In 2020, Natalia started making her own skincare products at home using natural ingredients. She realised that there was a demand for her products among her friends and family. Natalia then decided to turn her hobby into a business and launched NN in 2021.

Natalia operates her business from a rented workshop with limited space, where she makes her products by hand. She buys her ingredients from local suppliers who share her values of environmentally friendly production.

NN has been growing steadily and has gained a loyal customer base. NN has received positive reviews from beauty magazines. Natalia's skincare products are sold through her own website, social media platforms and local retailers who specialise in selling natural products.

Natalia is developing a new face cream. Table 2.1 shows price and cost estimates for the new face cream.

Table 2.1 Price and cost estimates

Product	Price	Allocated fixed costs	Variable costs per unit
Face cream	$5	$12 000	$2

The skincare market is very competitive. There are many established brands that offer similar products to NN, but with wider distribution channels.

Natalia needs to balance her time between production, managing orders, delivery, marketing and other administrative tasks. She works long hours and is stressed and exhausted.

Natalia is considering outsourcing to increase NN's production capacity.

(a) **(i)** Identify **one** internal stakeholder of a business. [1]

(ii) Explain the term *distribution channels*. [3]

(b) **(i)** Refer to Table 2.1. Calculate the break-even level of output of the new face cream. [3]

(ii) Explain **one** limitation to NN of break-even analysis. [3]

(c) Analyse **one** advantage and **one** disadvantage to NN of being a small business. [8]

(d) Evaluate whether outsourcing is the most suitable way to increase NN's production capacity. [12]

5 **(a)** Analyse **two** benefits to a business of using break-even analysis. [8]

(b) Evaluate whether cash flow forecasting is the most important activity for the success of a fashion clothing manufacturer. [12]

OR

A-Level Business: **s25 22**

1 **Town Trucks (TT)**

TT is a private limited company in country J. TT has contracts to deliver products to secondary, tertiary and quaternary sector businesses.

QZ is one of the largest manufacturers in country J and plans to outsource its supply chain management. A contract has been agreed between TT and QZ based on the following cost and revenue data (see Table 1.1). TT's Sales Manager has forecast that TT will make 5000 deliveries with the new contract.

Table 1.1 Cost and revenue forecast for the QZ contract

	$
Direct costs (average per delivery)	5
Total indirect costs	9000
Total revenue	40000

TT employs 120 drivers. The majority of these drivers are white men aged between 40 and 60. A national newspaper has recently criticised the truck industry in country J for not having diversity and equality in the workplace.

Klide, the Marketing Manager, has been set an objective to increase TT's revenue. He has decided to target small online retailers. TT will pick up individual products from the small online retailers and deliver them to households. This would require a new fleet of smaller trucks but has the potential to increase TT's revenue. Klide plans to use digital promotion to target these small online retailers.

(a) **(i)** Identify **one** business activity within the quaternary sector. [1]

(ii) Explain the term *supply chain management*. [3]

(b) **(i)** Refer to Table 1.1 and other information. Calculate TT's forecast total profit from the QZ contract. [3]

(ii) Explain **one** reason why TT needs accurate cost information. [3]

(c) Analyse **two** advantages to TT of improving diversity and equality in the workplace. [8]

(d) Evaluate the usefulness of digital promotion to TT when targeting small online retailers. [12]

A-LEVEL BUSINESS • EXERCISE SHEET

5.5 Budgets

Name: ____________ Class: ________ Date: __________ **Total: 29 marks**

KEY WORDS budget 预算 • variance 差异 • incremental budget 增量预算 • zero-based budget 零基预算 • incremental and zero-based 增量和零基

Objective

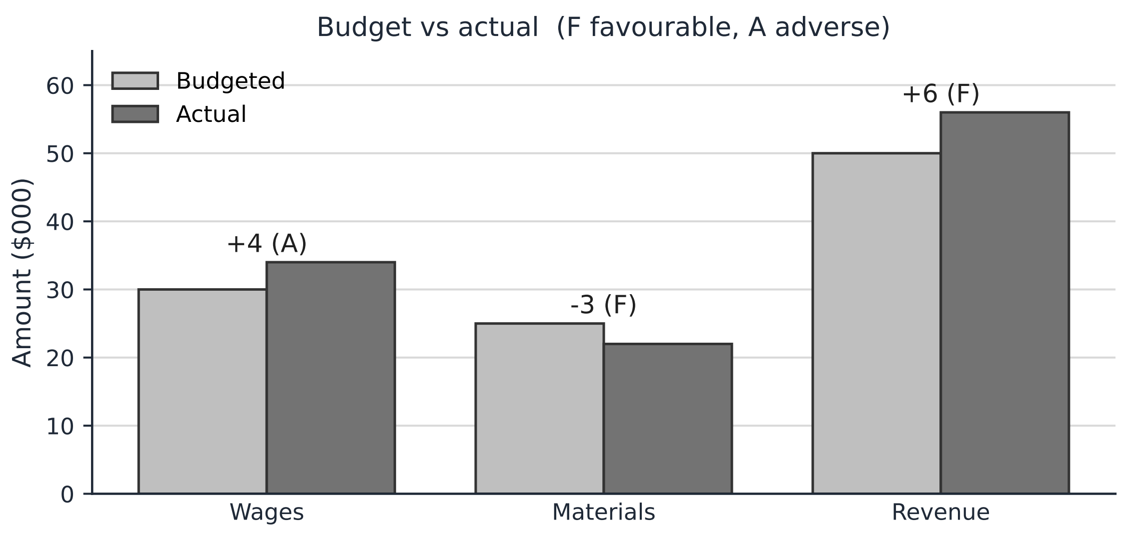
Build the skills to answer exam questions on **budgets 预算** — what a budget is, **incremental and zero-based 增量和零基** budgeting, and **variances 差异** (favourable and adverse).

You must be able to:

- explain the purpose of a budget and the two main types
- calculate a **variance** and say whether it is favourable or adverse
- analyse and evaluate the use of budgets to control a business

1 Worked examples

■ Budgets and variances



Exam: variance = actual − budget · cost under-spend = F; revenue under-earn = A

Variance = actual − budget: a cost under budget or revenue over budget is favourable (F); otherwise adverse (A)

$$\text{variance} = \text{actual figure} - \text{budgeted figure}$$

- **Worked (cost):** budgeted wages \$30,000, actual \$34,000 → variance = \$4,000 → costs higher → **adverse**.
- **Worked (revenue):** budgeted sales \$50,000, actual \$56,000 → variance = \$6,000 → revenue higher → **favourable**.
- **Incremental budget** = last year ± a little; **zero-based budget** = every cost justified from zero.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *budget*. [2]

2.2 A firm budgeted \$25,000 for materials but spent \$28,000. Calculate the variance and state whether it is favourable or adverse. [2]

2.3 State the difference between an *incremental* and a *zero-based* budget. [2]

3 Exam-style questions

3.1 Explain one benefit to a business of setting budgets. [3]

3.2 Analyse two benefits to a business of using **zero-based budgeting**. [8]

3.3 'Budgets always improve a business's performance.' Evaluate this view. [12]

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 a financial plan for the future — a target for income or spending over a set period (2 for a clear definition; 1 for a partial idea).

2.2 variance = \$28,000 − \$25,000 = \$3,000; **adverse** (costs higher than planned) (2; award 1 for the figure with no favourable/adverse, or correct method with the wrong figure).

2.3 an incremental budget starts from last year's figure and changes it by a small amount; a zero-based budget starts from zero and every cost must be justified each year (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 — name a benefit (helps planning; controls spending; motivates with targets; measures performance). **AO2** up to 2 — develop it, e.g. a clear spending limit stops a department overspending → costs stay under control → profit is protected (2 developed / 1 limited).

3.2 *[8]* For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *no wasted spending*: every cost is justified from zero → out-of-date costs are cut → money goes to where it is needed. *Better control*: managers review all spending each year → they understand their costs → tighter cost control and higher profit. Maximum 4 per benefit, 8 total.

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** budgets plan ahead, control costs, set targets and let managers spot variances early. **Against:** they can be guesses, may demotivate if unrealistic, can be inflexible if conditions change, and take time to prepare. Judgement: budgets help only if they are realistic, reviewed and acted on — a poorly set budget can harm performance, so the benefit depends on how well they are made and used.

2 Law Advice Forum (LAF)

Drake has a law degree and works for a partnership of lawyers during the day. Drake owns a website that gives free legal advice. He works on the website in the evenings and at the weekend.

He started the website as a hobby, but the website has grown to over 20 000 users and he now sells advertising on his videos and on the website.

Drake uses outsourcing for some areas of his website. He has recently been sent a report showing variances in the budget from the previous month (see Table 2.1).

Table 2.1 Budget report for Drake's website in the previous month

	Budget	Actual
Total revenue	$4500	$4000
Total costs	$600	$750
Profit	$3900	$3250

Drake has now left his job and is focusing full time on the website. He rebranded the website as Law Advice Forum (LAF). Drake's business plan for LAF included:

- Operating as a sole trader.
- Continuing to develop and expand the website to provide legal advice and paid legal services.
- Renting an office in city G where all employees would work.
- Hiring five fully qualified lawyers.
- Hiring three administrators.
- Leasing IT equipment.

However, Drake is concerned about the limitations LAF will face as a labour intensive operation.

(a) **(i)** Identify **one** external stakeholder of a business partnership. [1]

(ii) Explain the term *outsourcing*. [3]

(b) **(i)** Refer to Table 2.1. Calculate the profit variance for Drake's website in the previous month. State whether the variance is favourable or adverse. [3]

(ii) Explain **one** way Drake could use the budget data in Table 2.1. [3]

(c) Analyse **two** possible limitations for LAF as a labour intensive operation. [8]

(d) Evaluate the most important responsibility that Drake has as the owner of LAF. [12]

1 Solar Farms (SF)

SF is a private limited company that develops and maintains large-scale solar farms in country X. SF operates as a capital intensive business.

Bob is an entrepreneur and the majority shareholder of SF. He invested into SF's first solar farm. SF took out high-interest bank loans to cover initial cash flow problems and provide working capital. SF used internal (organic) growth over the next 10 years.

SF rents fields from farmers. Its main capital expenditure is solar panels, which are installed on the rented fields. The solar panels generate electricity, which SF sells to energy providers. Solar panel technology is constantly improving.

SF operates five solar farms in country X. A team of seven engineers maintain all of SF's solar farms.

Table 1.1 shows SF's budgeted and actual data for 2024.

Table 1.1 SF's annual budgeted and actual data for 2024

	Budget ($m)	Actual ($m)
Revenue	5	4
Total costs	3	3.75
Profit	2	0.25

Bob has identified that SF can increase its revenue by using batteries to store electricity generated by the solar panels. This electricity can then be sold at peak times for premium prices. This will require significant investment into battery technology.

Bob wants to retain control of SF but is concerned about the investment required for further growth. In 2024 the cost of renting new farmland and purchasing solar panels increased significantly.

ZB is a multinational battery manufacturer that is keen to start a joint venture with SF. If the joint venture goes ahead, ZB will insist that SF uses ZB batteries in all future solar farms.

(a) **(i)** Identify **one** quality an entrepreneur needs for success. [1]

(ii) Explain the term *working capital*. [3]

(b) **(i)** Refer to Table 1.1. Calculate the profit variance for SF in 2024. State whether the variance is favourable or adverse. [3]

(ii) Explain **one** drawback to SF of using budgets. [3]

(c) Analyse **two** limitations to SF of operating as a capital intensive business. [8]

(d) Evaluate whether a joint venture is the most appropriate way for SF to grow. [12]

2 **(a)** Define the term *incremental budgets*. [2]

(b) Explain **one** advantage to a business of using variance analysis. [3]

3 **(a)** Define the term ‘zero budgeting’. [2]

(b) Explain **one** benefit to a business of using budgets. [3]