Week 22

IGCSE Business Studies

Homework bundle for this week

本周作业合集

exercises.lol

Contents 目录

IGCSE Business Studies Name: ____________ Score: ______

1. Day-to-day money for wages and suppliers is called:
   - ☐ working capital
   - ☐ start-up capital
   - ☐ a fixed asset
   - ☐ profit
2. Inflows are 40 and outflows are 52. What is the net cash flow?

   ____

3. Revenue is 200 and cost of sales is 130. What is the gross profit?

   ____

4. Which is an asset?
   - ☐ machinery the business owns
   - ☐ a bank loan
   - ☐ money owed to a supplier
   - ☐ a tax bill
5. Gross profit is 80 and revenue is 200. What is the gross profit margin (%)?

   ____

6. Which is an internal source of finance?
   - ☐ retained profit
   - ☐ a bank loan
   - ☐ a share issue
   - ☐ a government grant
7. Opening balance 15, net cash flow −6. What is the closing balance?

   ____

8. Gross profit is 70 and expenses are 45. What is the profit?

   ____

9. Which is a short-term source of finance?
   - ☐ a bank overdraft

☐ a 15-year loan

☐ a share issue

☐ selling the factory

10. The main purpose of a cash-flow forecast is to:

☐ predict when the business might run short of cash

☐ calculate yearly profit

☐ value the company

☐ set the selling price

1. **working capital**

   Working capital funds day-to-day operations.

2. **-12**

   Net cash flow = 40 − 52 = −12.

3. **70**

   Gross profit = 200 − 130 = 70.

4. **machinery the business owns**

   Assets are what the business owns; the others are liabilities.

5. **40**

   80 ÷ 200 × 100 = 40%.

6. **retained profit**

   Retained profit comes from within the business.

7. **9**

   Closing = opening + net cash flow = 15 + (−6) = 9.

8. **25**

   Profit = 70 − 45 = 25.

9. **a bank overdraft**

   Overdrafts and trade credit are short-term.

10. **predict when the business might run short of cash**

    It flags cash shortages early.

IGCSE BUSINESS STUDIES • EXERCISE SHEET

5.1 Business finance: needs and sources

Name: ____________ Class: ________ Date: __________ **Total: 20 marks**

KEY WORDS finance 资金 • external 外部 • loan 贷款 • long-term 长期 • working capital 营运资金

Objective

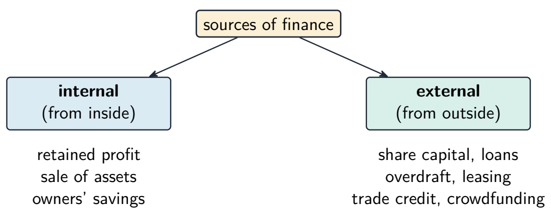
Build the skills to answer exam questions on **business finance: needs and sources** 企业资金：需求与来源 — why businesses need finance, and the **internal and external** 内部与外部, **short- and long-term** 短期与长期 sources.

You must be able to:

- state why a business needs finance (start-up, expansion, working capital)
- classify sources as internal/external and short/long-term
- analyse and recommend a source of finance

1 Worked examples

■ **Where finance comes from**



The best source depends on the amount, the time, the cost and the risk

- **Needs: start-up capital** 启动资金, **expansion** 扩张, **working capital** 营运资金, surviving a **cash-flow** 现金流 problem.
- **Internal** 内部: **retained profit** 留存利润, sale of **assets** 资产, owners' savings.
- **External** 外部: bank **loan** 贷款, **overdraft** 透支 (short-term), new **shares** 股份 (companies only), **leasing** 租赁, **trade credit** 贸易信贷, grants.

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

2.1 State two reasons why a business needs finance. [2]

2.2 Identify two **internal** sources of finance. [2]

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

3 Exam-style questions

3.1 Identify two external sources of finance. [2]

3.2 Explain two factors a business should consider when choosing a source of finance. [6]

3.3 A sole trader needs a large amount of money to buy a new machine. Do you think a bank loan is the best source of finance for this? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 any two of: to start up; to expand/grow; for working capital (day-to-day running); to survive a cash-flow problem (1 + 1).

2.2 any two of: retained profit; sale of assets; owners' savings (1 + 1).

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

3.1 any two of: bank loan; overdraft; new shares; leasing; hire purchase; trade credit; crowdfunding; grants (1 + 1).

3.2 *[6]* For **each** of two factors: K 1 + An up to 2 — e.g. *amount and time*: a large, long-term need → a long-term loan, not a short-term overdraft. *Cost*: a high-interest source raises costs → a cheaper source is better if available. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **For a loan:** it provides a large sum, is repaid over time matching the machine's life, and the owner keeps full control. **Against:** interest must be paid, the loan needs repaying even in a bad year, and a sole trader has unlimited liability. **Judgement (Ev):** a loan suits a large, long-term purchase like a machine, but the owner should check they can afford the repayments — it depends on the firm's expected income; leasing could be an alternative if cash is tight.

3 Hal wants to be a successful entrepreneur. He plans to leave his job to start up a bakery. The bakery will operate in the private sector. The business will have many stakeholder groups. Hal has been told it is important for a new business to select an appropriate source of start-up capital. He also knows new businesses are at a greater risk of failure.

(a) Define 'private sector'.

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.... [2]

(b) Identify **two** reasons why new businesses are at a greater risk of failure.

Reason 1: ....

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Reason 2: ....

.... [2]

(c) Identify **four** stakeholder groups a business might have.

Stakeholder 1: ....

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Stakeholder 2: ....

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Stakeholder 3: ....

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Stakeholder 4: ....

.... [4]

Name: IGCSE Business Studies: **s25 12**

(d) Explain **two** characteristics Hal will need to become a successful entrepreneur.

Characteristic 1: ....

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Explanation: ....

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Characteristic 2: ....

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Explanation: ....

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.... [6]

(e) Do you think a bank loan is the best source of start-up capital for a new business? Justify your answer.

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.... [6]

3 **(a)** Explain **two** advantages and **two** disadvantages to a business of using a bank loan as a source of finance.

Advantage 1:

Advantage 2:

Disadvantage 1:

Disadvantage 2:

[8]

(b) Consider the advantages and disadvantages of the following **three** methods of promotion PF could use for its new product range. Which is likely to be the best method for PF to use to increase sales? Justify your answer.

- Leaflets handed out in the street
- Billboards on the side of a main road
- Discounts on first purchase

Leaflets handed out in the street:

Billboards on the side of a main road:

Discounts on first purchase:

Conclusion:

[12]

3 (a) Explain **four** sources of external finance a business could use.

Source 1: ....

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Source 2: ....

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Source 3: ....

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Source 4: ....

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[8]

(b) Consider why the profitability and liquidity ratios for her restaurant will be important to Jemi. Which is likely to be the most important for the success of Jemi's restaurant? Justify your answer.

Profitability ratios: ....

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Liquidity ratios: ....

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Conclusion: ....

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[12]

2 Mitchell is an entrepreneur. He wants to start up a business selling books. As part of his business plan Mitchell has carried out some market research. An extract is shown in Fig. 2.1. Mitchell will use microfinance as a source of finance. He wants to know whether the opportunities of using ecommerce for a new business are greater than the threats.

Extract from Mitchell's market research data for 2023

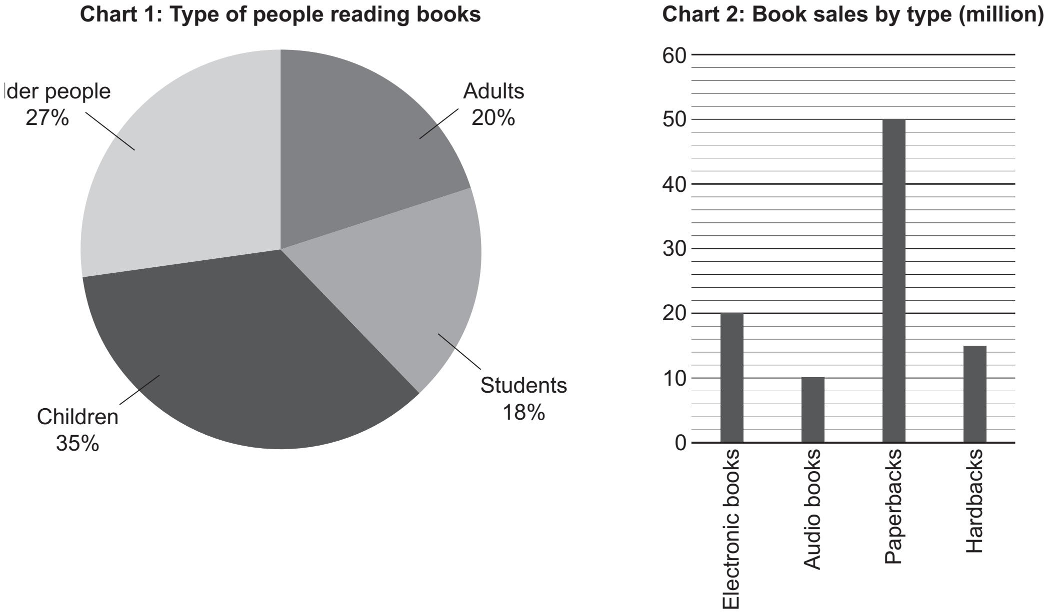

Fig. 2.1

(a) Define 'entrepreneur'.

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.... [2]

(b) Define 'business plan'.

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.... [2]

(c) Outline **one** advantage and **one** disadvantage to Mitchell of using microfinance as a source of finance.

Advantage: ....

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Disadvantage: ....

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.... [4]

(d) Explain how the market research data in Chart 1 and Chart 2 in Fig. 2.1 could help Mitchell when making decisions.

Chart 1: ....

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Explanation: ....

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Chart 2: ....

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Explanation: ....

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.... [6]

(e) Do you think the opportunities of ecommerce for a new business are greater than the threats? Justify your answer.

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.... [6]

4 (a) Explain **two** reasons why CC might need finance.

Reason 1: ....

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Explanation: ....

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Reason 2: ....

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Explanation: ....

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.... [8]

(b) Consider the following **three** pricing methods CC could use for its existing products. Which pricing method should CC use? Justify your answer.

- Cost-plus
- Promotional
- Competitive

Cost-plus: ....

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Promotional: ....

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Competitive: ....

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Recommendation: ....

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.... [12]

5.2 Cash-flow forecasting and working capital

Name: ____________ Class: __________ Date: __________ **Total: 19 marks**

KEY WORDS net cash flow 净现金流 • closing balance 期末余额 • opening balance 期初余额 • working capital 营运资金 • inflows 流入

Objective

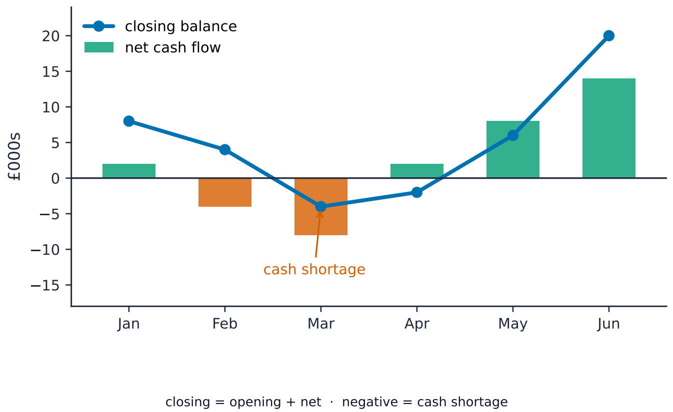
Build the skills to answer exam questions on **cash-flow forecasting and working capital** 现金流预测与营运资金 — why **cash is not profit** 现金不等于利润, the **cash-flow forecast** 现金流预测, and **working capital** 营运资金.

You must be able to:

- explain why a profitable business can run out of cash
- calculate net cash flow and the closing balance
- explain ways to solve a cash-flow problem

1 Worked examples

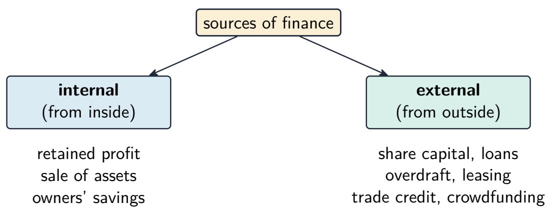
■ **A cash-flow forecast**



Each month's closing balance carries forward to next month

net cash flow = inflows−outflows   closing balance = opening balance+net cash flow

- **Worked:** inflows $15,000, outflows $11,000, opening $3,000 → net = $4,000, closing = $7,000.
- **Cash ≠ profit:** a profitable firm can run out of cash if customers have not paid yet.
- **Working capital 营运资金** = current assets − current liabilities.
- **Solve a shortage:** arrange an overdraft, delay paying suppliers, ask customers to pay sooner, sell spare assets.



External finance — an overdraft or short-term loan — is one way to cover a forecast cash shortage

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

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

2.2 A month opens with $5,000. Inflows are $18,000 and outflows are $20,000. Calculate the closing balance. [2]

2.3 State one reason a profitable business might run out of cash. [1]

3 Exam-style questions

3.1 Identify two ways a business could solve a cash-flow problem. [2]

3.2 Explain two benefits to a business of producing a cash-flow forecast. [6]

3.3 A business has forecast a cash shortage next month. Do you think arranging an overdraft is the best way to solve it? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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 = $\$18{,}000 - \$20{,}000 = -\$2{,}000$; closing = $\$5{,}000 + (-\$2{,}000) = \$3{,}000$ (2; award 1 for a correct method with the wrong figure).

2.3 any one of: customers have not paid yet; too much stock bought; too much spent on assets at once (1).

3.1 any two of: arrange an overdraft; delay paying suppliers; ask customers to pay sooner; sell spare assets; cut spending (1 + 1).

3.2 *[6]* For **each** of two benefits: K 1 + An up to 2 — e.g. *spot a shortage early*: the forecast shows a future shortage → the firm can arrange finance in time → it avoids running out of cash. *Plan and control*: it shows when money is tight → the firm can delay spending. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **For an overdraft:** it is fast and flexible, covering a short gap until cash comes in. **Against:** it charges high interest, and if the shortage is large or long-term, better solutions are chasing debtors or cutting stock. **Judgement (Ev):** an overdraft is good for a short, small shortage, but a deeper problem needs better working-capital management — it depends on the size and length of the shortage.

2 OTK is a small jewellery shop in the centre of Main City. The business does not currently use ecommerce. OTK buys its jewellery from local suppliers. It pays for the jewellery 30 days later. The shop manager is analysing OTK's cash flow forecast. She is concerned that the business might have a short-term cash flow problem.

(a) Define 'cash flow forecast'.

[2]

(b) Identify **two** reasons why cash is important for a business.

Reason 1:

Reason 2:

[2]

(c) Identify **four** functions of management.

Function 1:

Function 2:

Function 3:

Function 4:

[4]

Name: IGCSE Business Studies: **w25 12**

(d) Explain **two** ways OTK could overcome a short-term cash flow problem.

Way 1:

Explanation:

Way 2:

Explanation:

[6]

(e) Explain **two** threats to a business of using ecommerce. Which threat is likely to be the most important? Justify your answer.

[6]

3 **(a)** Explain **two** reasons why working capital is important to LB.

Reason 1: ....

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Explanation: ....

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Reason 2: ....

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Explanation: ....

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[8]

(b) Using Appendix 2 and other information, consider the **three** employees that LB could make redundant. Which employee should LB choose? Justify your answer.

- Naga
- Reeta
- Amy

Naga: ....

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Reeta: ....

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Amy: ....

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Recommendation: ....

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[12]

2 Jonathon is a sole trader. He owns a shop selling office equipment including printers. To encourage sales Jonathon allows customers 4 weeks to pay for the office equipment. Jonathon thinks his business is likely to remain small. He knows managing cash flow is important for his business and he has prepared a cash flow forecast. An extract is shown in Table 2.1.

Table 2.1

Extract from Jonathon's cash flow forecast July - September 2025 ($000)			
	July	**August**	**September**
Cash inflow	60	80	**Y**
Cash outflow	90	95	70
Net cash flow	(30)	**X**	20
Opening balance	20	(10)	(25)
Closing balance	(10)	(25)	(5)

(a) Identify **two** ways to measure the size of a business.

Way 1: ....

....

Way 2: ....

.... [2]

(b) Calculate **X** and **Y**.

X: ....

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Y: ....

.... [2]

(c) Outline **two** reasons (other than finance) why Jonathon's business is likely to remain small.

Reason 1: ....

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Reason 2: ....

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.... [4]

(d) Explain **two** reasons why Jonathon's business might have a cash flow problem.

Reason 1: ....

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Explanation: ....

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Reason 2: ....

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Explanation: ....

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.... [6]

(e) Do you think the advantages of operating as a sole trader business are greater than the disadvantages? Justify your answer.

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.... [6]

4 (a) Explain **two** cash inflows and **two** cash outflows that are likely to be included in CR's cash flow forecast for its first year of trading.

Cash inflow 1: ....

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Cash inflow 2: ....

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Cash outflow 1: ....

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Cash outflow 2: ....

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[8]

(b) Using Appendix 3 and other information, consider the effects on CR of the decrease in taxes and the increase in interest rates in country P. Which change is likely to have the greatest effect on CR's profit in its first year? Justify your answer.

Decrease in taxes: ....

Increase in interest rates: ....

Conclusion: ....

[12]

IGCSE BUSINESS STUDIES • EXERCISE SHEET

5.3 Income statements

Name: ____________ Class: ________ Date: __________ **Total: 20 marks**

KEY WORDS gross profit 毛利润 • expenses 费用 • income statement 损益表 • cost of sales 销售成本 • profit for the year 年度利润

Objective

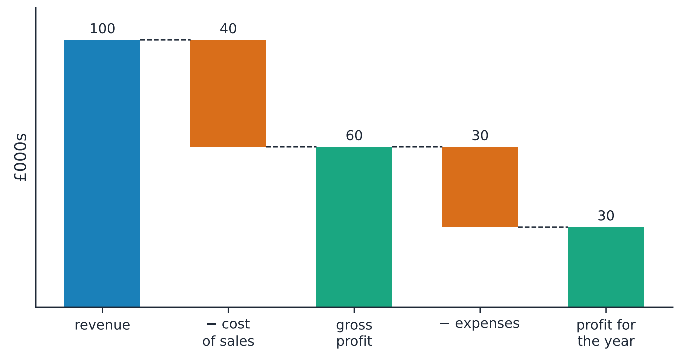
Build the skills to answer exam questions on the **income statement** 损益表 — **revenue, cost of sales, gross profit, expenses** 收入、销售成本、毛利润、费用, and the **profit for the year** 年度利润.

You must be able to:

- explain what an income statement shows
- calculate gross profit and the profit for the year
- explain how stakeholders use the income statement

1 Worked examples

Reading an income statement

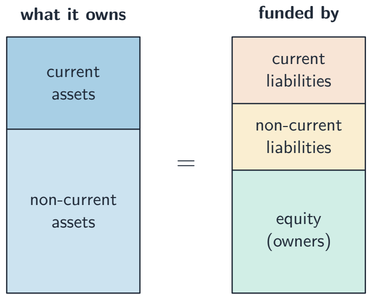


revenue → gross profit → profit for the year

Revenue → gross profit → profit for the year

gross profit = revenue − cost of sales   profit for the year = gross profit − expenses

- **Worked:** revenue \$200,000, cost of sales \$120,000 → gross profit = \$80,000; expenses \$50,000 → profit for the year = \$30,000.
- **Stakeholders use it:** owners check the profit, lenders check their loans are safe, managers spot problems.



The other main statement: the income statement shows profit over a year, the balance sheet a snapshot on one day

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

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

2.2 A business has revenue of \$150,000 and cost of sales of \$90,000. Calculate the gross profit. [2]

2.3 State one stakeholder who would use an income statement, and why. [2]

3 Exam-style questions

3.1 From the gross profit of \$60,000, expenses of \$40,000 are taken. Calculate the profit for the year. [2]

3.2 Explain two reasons why a business prepares an income statement. [6]

3.3 A business's gross profit is high but its profit for the year is low. Do you think this is a serious problem? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 revenue minus the cost of sales (the cost of making or buying the goods sold) (2 for a clear definition; 1 for a partial idea).

2.2 $150,000 − $90,000 = $60,000 (2; award 1 for a correct method with the wrong figure).

2.3 any one stakeholder + reason: owners — to check the profit; lenders — to check their loan is safe; managers — to spot problems (2 for stakeholder + reason; 1 for stakeholder only).

3.1 $60,000 − $40,000 = $20,000 (2; award 1 for a correct method with the wrong figure).

3.2 *[6]* For **each** of two reasons: K 1 + An up to 2 — e.g. *show profit*: it tells owners how much profit was made → they judge the firm's success. *Find problems*: comparing with last year shows if costs are rising → managers can act. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **Yes (serious):** a high gross profit but low final profit means **expenses** (rent, wages, advertising) are very high → little is left for the owners, and the firm is vulnerable if sales fall. **Not always:** if the firm is investing in growth (e.g. marketing), high expenses now may raise future profit. **Judgement (Ev):** it is a warning sign worth investigating, but whether it is serious depends on *why* expenses are high — wasteful spending is a real problem, planned investment may not be.

1 KPX manufactures computers. The business imports 60% of its raw materials. The Operations Director is considering ways to use lean production methods in KPX's factory. The Finance Director is reviewing KPX's financial data to calculate the value of its expenses. An extract is shown in Table 1.1.

Table 1.1

Extract from KPX's financial data for 2024 ($ million)	
Revenue	750
Cost of sales	360
Gross profit	390
Profit	90

(a) Identify **two** reasons why a business might import raw materials.

Reason 1: ....

....

Reason 2: ....

.... [2]

(b) Calculate KPX's expenses in 2024. Show your working.

Working: ....

....

....

Final answer: .... [2]

(c) Outline **two** ways KPX's Finance Director could use the financial data in Table 1.1.

Way 1: ....

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Way 2: ....

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.... [4]

(d) Explain **two** methods of lean production KPX could use.

Method 1: ....

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Explanation: ....

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Method 2: ....

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Explanation: ....

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.... [6]

(e) Explain **two** reasons why profit is important for a business. Which reason is likely to be the most important? Justify your answer.

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.... [6]

2 FLD is a furniture retailer. It has 460 shops and 20 000 employees. Internal recruitment is used when recruiting new shop managers. The Managing Director wants to know whether job rotation is the best method of motivation for a large business to use. The Finance Director is reviewing FLD's income statement. An extract is shown in Table 2.1. She is concerned that FLD's gross profit is decreasing.

Table 2.1

Extract from FLD's income statement for year ending April 2025 ($ million)	
Revenue	400
Gross profit	200
Expenses	60
Profit	140

(a) Define 'profit'.

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.... [2]

(b) Identify **two** expenses a business might have.

Expense 1: ....

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Expense 2: ....

.... [2]

(c) Outline **two** possible reasons why FLD's gross profit is decreasing.

Reason 1: ....

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Reason 2: ....

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.... [4]

(d) Explain **two** advantages to FLD of using internal recruitment when recruiting new managers.

Advantage 1: ....

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Explanation: ....

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Advantage 2: ....

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Explanation: ....

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.... [6]

(e) Do you think job rotation is the best method for a large business to use to motivate its employees? Justify your answer.

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.... [6]

5.4 Statement of financial position

Name: ____________ Class: ________ Date: __________ **Total: 20 marks**

KEY WORDS statement of financial position 财务状况表 • current assets 流动资产 • current liabilities 流动负债 • non-current liabilities 非流动负债 • non-current assets 非流动资产

Objective

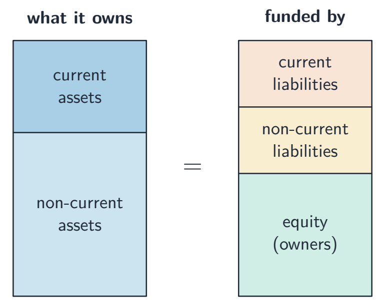
Build the skills to answer exam questions on the **statement of financial position** 财务状况表 — **assets and liabilities** 资产与负债, the types of each, and **owners' equity** 所有者权益.

You must be able to:

- explain what a statement of financial position shows
- distinguish non-current/current assets and liabilities
- explain how the statement is used

1 Worked examples

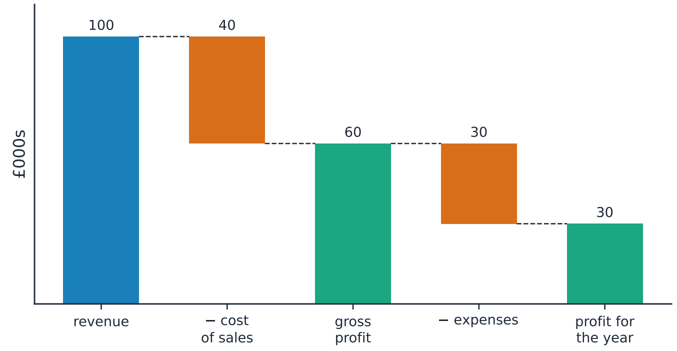
■ What the business owns and owes



A photo of what a business owns and owes on one day

- **Non-current assets** 非流动资产: long-term (buildings, machines). **Current assets** 流动资产: short-term (**inventory** 库存, money owed, cash).
- **Current liabilities** 流动负债: debts due within a year (overdraft, suppliers). **Non-current liabilities** 非流动负债: long-term loans.
- **Owners' equity** 所有者权益: money the owners put in, plus retained profit.

- **Used to** check the firm's worth, its debts, and whether it can pay them.



revenue → gross profit → profit for the year

The companion statement: the income statement shows the profit that feeds retained earnings on the balance sheet

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

2.1 Define the term *current asset.* [2]

2.2 State the difference between a *current* and a *non-current* liability. [2]

2.3 Identify two examples of non-current assets. [2]

3 Exam-style questions

3.1 Identify two things a statement of financial position shows. [2]

3.2 Explain two reasons why a bank would want to see a business's statement of financial position. [6]

3.3 Do you think the statement of financial position is more useful than the income statement to a person thinking of investing in a business? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 a short-term asset that is cash or can soon be turned into cash, such as inventory or money owed by customers (2 for a clear definition; 1 for a partial idea).

2.2 a current liability is a debt due within a year (overdraft, suppliers); a non-current liability is due after more than a year (a long-term loan) (2 for a clear difference; 1 for a partial idea).

2.3 any two of: buildings; machines; vehicles; equipment (1 + 1).

3.1 any two of: what the business owns (assets); what it owes (liabilities); the owners' equity; whether it can pay its debts (1 + 1).

3.2 *[6]* For **each** of two reasons: K 1 + An up to 2 — e.g. *check it can repay*: the bank sees the assets and debts → it judges whether the firm can repay a loan. *Check security*: it sees the non-current assets that could act as collateral → it lends more safely. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **For the statement of financial position:** it shows what the firm owns and owes and whether it is financially stable. **Against:** the income statement shows the *profit*, which is what most matters to an investor's return. **Judgement (Ev):** an investor needs **both** — the income statement for profit and the statement of financial position for stability and debts; neither alone is enough, so it depends on what the investor most wants to know.

2 CPW is a private sector business which has many objectives. It sells electrical goods including kettles and ovens in its 36 shops in country X. CPW also offers a delivery service. The business buys all its inventory from local suppliers to avoid import tariffs. The Finance Director is analysing CPW's statement of financial position. An extract is shown in Table 2.1. He has been asked to find a source of finance to purchase 10 new delivery vehicles.

Table 2.1

Extract from CPW's statement of financial position for 2024 ($ million)	
Non-current assets	120
Current assets	70
Current liabilities	110
Non-current liabilities	75

(a) Define 'import tariff'.

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.... [2]

(b) Identify **one** non-current asset and **one** current liability.

Non-current asset: ....

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Current liability: ....

.... [2]

(c) Outline **two** ways the information in Table 2.1 might be useful to CPW.

Way 1: ....

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Way 2: ....

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.... [4]

(d) Explain **two** factors CPW should consider when deciding on a source of finance for the new vehicles.

Factor 1: ....

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Explanation: ....

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Factor 2: ....

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Explanation: ....

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.... [6]

Name: IGCSE Business Studies: **w25 11**

(e) Explain **two** objectives a private sector business might have. Which objective is likely to be the most important? Justify your answer.

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.... [6]

3 JTA is a public limited company. It sells holidays in a mass market. The business has 44 shops and 200 employees. The Finance Director is considering ways a business can increase its profit. She has been asked to analyse JTA's financial performance using ratio analysis. An extract from JTA's financial statements is shown in Table 3.1.

Table 3.1

Extract from JTA's financial statements for 2023 ($ million)	
Revenue	900
Profit	100
Capital employed	800

(a) Define 'capital employed'.

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.... [2]

(b) Calculate JTA's return on capital employed (ROCE). Show your working.

Working: ....

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Final answer: .... [2]

(c) Outline **two** benefits to JTA of selling in a mass market.

Benefit 1: ....

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Benefit 2: ....

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.... [4]

(d) Explain **one** advantage and **one** disadvantage of JTA being a public limited company.

Advantage: ....

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Explanation: ....

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Disadvantage: ....

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Explanation: ....

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.... [6]

(e) Do you think increasing prices is the best way for a business to increase its profit? Justify your answer.

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.... [6]

3 HRO manufactures children's toys. It is a private limited company. The main objective of HRO's shareholders is to increase profit. This might conflict with the objectives of other stakeholder groups, including its 30 suppliers. HRO's Managing Director knows that market research can help when making marketing decisions. The Finance Director is preparing HRO's statement of financial position. An extract is shown in Table 3.1.

Table 3.1

Extract from HRO's statement of financial position at 30 June 2024 ($000s)	
Non-current assets	480
Current assets	250
Current liabilities	200
Non-current liabilities	300

(a) Define 'non-current assets'.

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.... [2]

(b) Calculate HRO's current ratio. Show your working.

Working: ....

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Final answer: .... [2]

(c) State whether each of the following would be classified as a current asset or as a current liability.

Trade receivables: ....

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Trade payables: ....

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Overdraft: ....

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Inventory: ....

.... [4]

Name: IGCSE Business Studies: **w24 12**

(d) Explain **one** way the objective of HRO's shareholders to increase profit might conflict with the objectives of each of the following stakeholder groups:

Customers: ....

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Explanation: ....

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Suppliers: ....

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Explanation: ....

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.... [6]

(e) Do you think the advantages to a business of using primary market research are greater than the disadvantages? Justify your answer.

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3 IDT manufactures clothes for the mass market. It is a multinational company with factories in 4 countries. IDT has short-term and long-term financial needs. The Finance Director is analysing IDT's statement of financial position. An extract is shown in Table 3.1. He has been asked to calculate working capital and to explain how an increase in non-current liabilities might affect IDT.

Table 3.1

Extract from IDT's statement of financial position ($ million)		
	2022	**2023**
Current assets	380	420
Current liabilities	250	280
Non-current liabilities	300	400

(a) Define 'mass market'.

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.... [2]

(b) Calculate IDT's working capital in 2023.

Working: ....

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Final answer: .... [2]

(c) Outline **one** reason why IDT might need the following types of finance:

Short-term finance: ....

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....

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Long-term finance: ....

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.... [4]

Name: IGCSE Business Studies: **s24 11**

(d) Explain **two** ways an increase in non-current liabilities might affect IDT.

Way 1: ....

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Explanation: ....

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Way 2: ....

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Explanation: ....

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.... [6]

(e) Explain **two** advantages to a business of being a multinational company. Which advantage do you think is likely to be the most important? Justify your answer.

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IGCSE BUSINESS STUDIES • EXERCISE SHEET

5.5 Analysis of accounts

Name: ____________ Class: ________ Date: __________ **Total: 22 marks**

KEY WORDS ratios 比率 • current ratio 流动比率 • profit margin 利润率 • roce 资本回报率 • profitability 盈利能力

Objective

Build the skills to answer exam questions on the **analysis of accounts** 账目分析 — **profitability** 盈利能力 ratios (gross profit margin, profit margin, **ROCE** 资本回报率) and **liquidity** 流动性 ratios (current ratio, acid test).

You must be able to:

- calculate profitability and liquidity ratios
- explain what each ratio shows
- analyse a business's performance and who uses the ratios

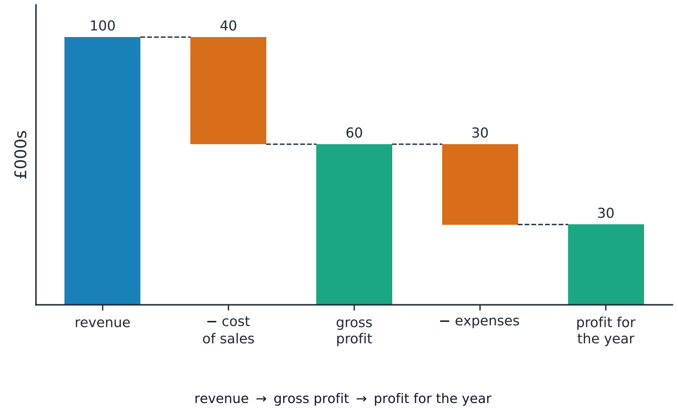
1 Worked examples

■ Key ratios

A ratio compares two figures from the accounts

$$\text{gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100\% \qquad \text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

- **Worked GP margin:** gross profit \$80,000, revenue \$200,000 → $\frac{80000}{200000} \times 100 =$ 40%.
- **ROCE** 资本回报率 = profit ÷ capital employed × 100 (how well the investment is used).
- **Current ratio** 流动比率: about 1.5–2 is healthy; **acid test** 速动比率 leaves out inventory.



Profitability ratios (gross/net margin, ROCE) are read straight off the income statement

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

2.1 State what the **gross profit margin** measures. [2]

2.2 A business has a profit of \$30,000 and capital employed of \$150,000. Calculate the ROCE. [2]

2.3 State what the **current ratio** measures. [2]

3 Exam-style questions

3.1 A business has current assets of $40,000 (including $10,000 inventory) and current liabilities of $20,000.

(a) Calculate the current ratio. [2]

(b) Calculate the acid test ratio. [2]

3.2 Explain two reasons why a business calculates profitability ratios. [6]

3.3 A business's profit margin has fallen this year. Do you think the owners should be worried? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the gross profit as a percentage of revenue — how much gross profit is made from each $1 of sales (2 for a clear definition; 1 for a partial idea).

2.2 $\frac{30{,}000}{150{,}000} \times 100\% = 20\%$ (2; award 1 for a correct method with the wrong figure).

2.3 whether a business can pay its short-term debts from its current assets (2 for a clear definition; 1 for a partial idea).

3.1 (a) current ratio $= \frac{40{,}000}{20{,}000} = 2.0$ (2). (b) acid test $= \frac{40{,}000-10{,}000}{20{,}000} = 1.5$ (2; allow follow-through).

3.2 *[6]* For **each** of two reasons: K 1 + An up to 2 — e.g. *judge performance*: ratios show how much profit is made per $1 of sales → owners see if the firm is doing well. *Compare*: comparing with last year or rivals → managers spot a fall and act. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **Worried (yes):** a falling profit margin means costs are rising faster than sales or prices have been cut → less profit for owners. **Not always:** a temporary fall may be due to a one-off cost or a deliberate price cut to win market share. **Judgement (Ev):** a falling margin is a warning sign, but the owners should find *why* before worrying — a lasting fall is serious, a one-off or strategic fall may not be.

3 TJK manufactures candles. Contributing to sustainable development is important to TJK. The business uses batch production in its factory in country X. The target market for TJK's products is females between 20 and 50 years of age. The Managing Director is reviewing TJK's financial data. An extract is shown in Table 3.1. He is also considering the benefits to a business of becoming a multinational company.

Table 3.1

Extract from TJK's financial data for 2024 $000	
Working capital	900
Profit	400
Revenue	1000

(a) Define 'working capital'.

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.... [2]

(b) Calculate TJK's profit margin. Show your working.

Working: ....

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Final answer: .... [2]

(c) Identify **four** benefits to a business of becoming a multinational company.

Benefit 1: ....

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Benefit 2: ....

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Benefit 3: ....

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Benefit 4: ....

.... [4]

(d) Explain **two** ways TJK could contribute to sustainable development.

Way 1: ....

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Explanation: ....

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Way 2: ....

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Explanation: ....

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.... [6]

(e) Do you think batch production is the best method of production for a business to use? Justify your answer.

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.... [6]

3 JTA is a public limited company. It sells holidays in a mass market. The business has 44 shops and 200 employees. The Finance Director is considering ways a business can increase its profit. She has been asked to analyse JTA's financial performance using ratio analysis. An extract from JTA's financial statements is shown in Table 3.1.

Table 3.1

Extract from JTA's financial statements for 2023 ($ million)	
Revenue	900
Profit	100
Capital employed	800

(a) Define 'capital employed'.

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.... [2]

(b) Calculate JTA's return on capital employed (ROCE). Show your working.

Working: ....

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Final answer: .... [2]

(c) Outline **two** benefits to JTA of selling in a mass market.

Benefit 1: ....

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Benefit 2: ....

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.... [4]

(d) Explain **one** advantage and **one** disadvantage of JTA being a public limited company.

Advantage: ....

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Explanation: ....

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Disadvantage: ....

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Explanation: ....

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(e) Do you think increasing prices is the best way for a business to increase its profit? Justify your answer.

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3 HRO manufactures children's toys. It is a private limited company. The main objective of HRO's shareholders is to increase profit. This might conflict with the objectives of other stakeholder groups, including its 30 suppliers. HRO's Managing Director knows that market research can help when making marketing decisions. The Finance Director is preparing HRO's statement of financial position. An extract is shown in Table 3.1.

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(a) Define 'non-current assets'.

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.... [2]

(b) Calculate HRO's current ratio. Show your working.

Working: ....

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....

Final answer: .... [2]

(c) State whether each of the following would be classified as a current asset or as a current liability.

Trade receivables: ....

....

Trade payables: ....

....

Overdraft: ....

....

Inventory: ....

.... [4]

(d) Explain **one** way the objective of HRO's shareholders to increase profit might conflict with the objectives of each of the following stakeholder groups:

Customers: ....

....

Explanation: ....

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Suppliers: ....

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Explanation: ....

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.... [6]

(e) Do you think the advantages to a business of using primary market research are greater than the disadvantages? Justify your answer.

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4 RHN is a clothing retailer. It has 50 shops and 290 employees. All RHN's employees are provided with training. Commission is used as one method of financial reward. The business often uses internal recruitment when there is a job vacancy. Last year RHN made a profit of $1.5 million. The Managing Director, as an internal user of accounts, has been analysing RHN's statement of financial position.

(a) Define 'commission'.

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.... [2]

(b) Identify **two** external users of accounts.

External user 1: ....

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External user 2: ....

.... [2]

(c) Identify **four** ways the information in a statement of financial position can be used.

Way 1: ....

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Way 2: ....

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Way 3: ....

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Way 4: ....

.... [4]

(d) Explain **two** possible reasons why providing training for its employees is important to RHN.

Reason 1: ....

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Explanation: ....

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Reason 2: ....

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Explanation: ....

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.... [6]

(e) Do you think the advantages for a business of using internal recruitment are greater than the disadvantages? Justify your answer.

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