

Topic 1.3 Putting a business idea into practice

Q1.

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)

Q2.

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)

Q3.

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)

Q4.

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)

Q5.

Which **one** of the following is an example of a fixed cost for a biscuit manufacturer?

Select **one** answer:

- A** Sugar used in production
- B** Rent of the business premises
- C** Packaging used with the biscuits
- D** Chocolate chips used in each biscuit

(Total for Question = 1 mark)

Q6.

Steve Wade is a painter and decorator. He operates as a sole trader. He bases his

pricing on the costs he has to pay on an average job. He estimates the variable cost per day at £75 which includes the fuel he uses in his vehicle, the cost of paint, sandpaper, wallpaper and adhesive. His fixed costs include insurance, the cost of the van that he runs, administration and advertising. He estimates the fixed costs to be £1 500 each month. He charges customers £200 per day.

If Steve does 15 days work in March, what will his total costs be for the month?

Select **one** answer:

- A £1 125
 B £2 500
 C £2 625
 D £3 000

(Total for Question = 1 mark)

Q7.

Steve Wade is a painter and decorator. He operates as a sole trader. He bases his pricing on the costs he has to pay on an average job. He estimates the variable cost per day at £75 which includes the fuel he uses in his vehicle, the cost of paint, sandpaper, wallpaper and adhesive. His fixed costs include insurance, the cost of the van that he runs, administration and advertising. He estimates the fixed costs to be £1 500 each month. He charges customers £200 per day.

Steve does 20 days work in May. What is the profit he makes in this month?

Select **one** answer:

- A £1 000
 B £1 375
 C £2 425
 D £2 500

(Total for Question = 1 mark)

Q8.

The following table shows the total revenue, total costs and profit for a business for three months of the year.

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

	June £	July £	August £	
Total revenue		15 000	16 000	(1)
Total costs	10 000		14 000	(1)
Profit	12 500	3 000		(1)

(Total for Question = 3 marks)

Q9.

The following table shows the total revenue, total costs and profit for a business for three months of the year.

	June £	July £	August £
Total revenue		15 000	16 000
Total costs	10 000		14 000
Profit	12 500	3 000	

What **two** conclusions can be drawn from the above table regarding the performance of the business?

Select **two** answers:

- A** The cash flow of the business in June must be positive
- B** Total costs are 40% higher in August compared to June
- C** The level of competition in the market is likely to have fallen
- D** Profit has fallen between June and July
- E** Total revenue rises by 20% between July and August

(Total for Question = 2 marks)

Q10.

The following table shows the total revenue, total costs and profit for a business for three months of the year.

	June £	July £	August £
Total revenue		15 000	16 000
Total costs	10 000		14 000
Profit	12 500	3 000	

The following table shows the profit for the same business during the next three months.

	September £	October £	November £
Profit	1 000	-1 000	-10 000

Which are the **two most likely** impacts on the business of the changes shown in the table?

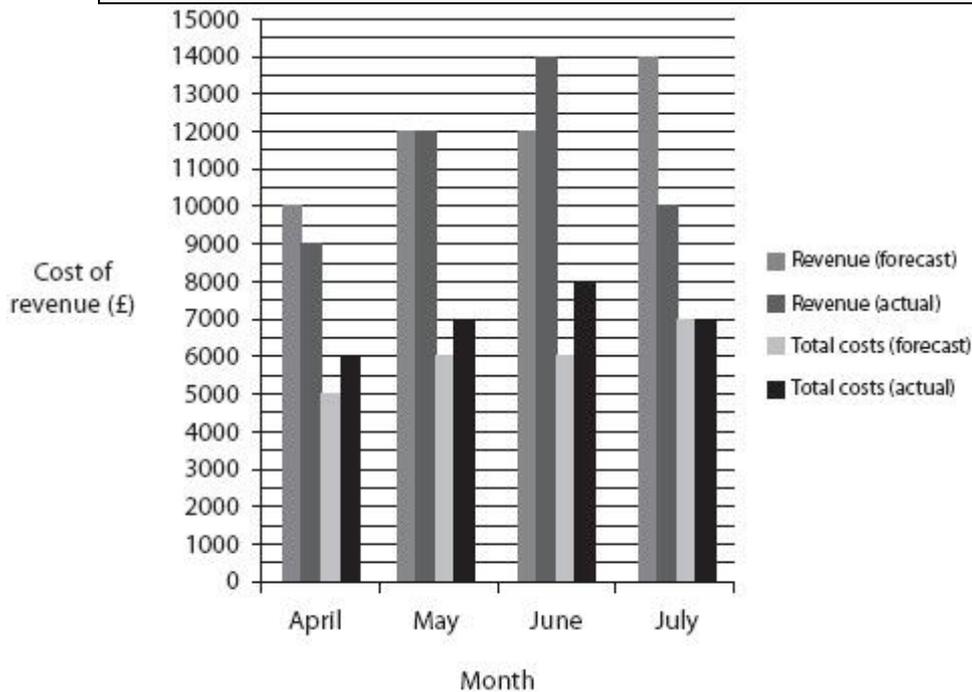
Select **two** answers:

- A** The business will find it difficult to pay suppliers
- B** Customers will buy less from the business
- C** There is likely to be less money available to invest in the business
- D** The business will need to increase costs
- E** Banks will be more willing to provide a loan to the business

(Total for Question = 2 marks)

Q11.

The chart below shows cost and revenue information for Timbles Ltd from April to July.



Identify **three** conclusions that can be drawn from the chart.

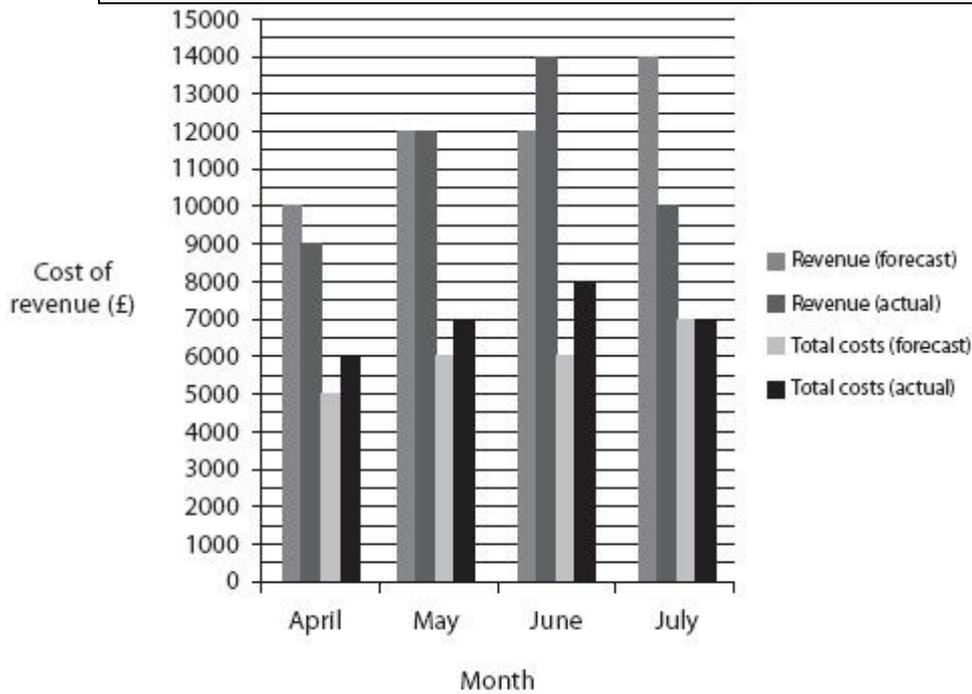
Select **three** answers:

- A** Actual total costs increased by 40% between April and May
- B** Actual profit was higher than forecast profit in May
- C** Actual revenue fell by more than 10% between June and July
- D** The fall in profit between June and July was most likely caused by a fall in sales
- E** The forecast profit for the period April to July was £24 000
- F** Revenue forecast for May was inaccurate

(Total for Question = 3 marks)

Q12.

The chart below shows cost and revenue information for Timbles Ltd from April to July.



Which of the following would best explain the lower revenue in July compared to the forecast figure?

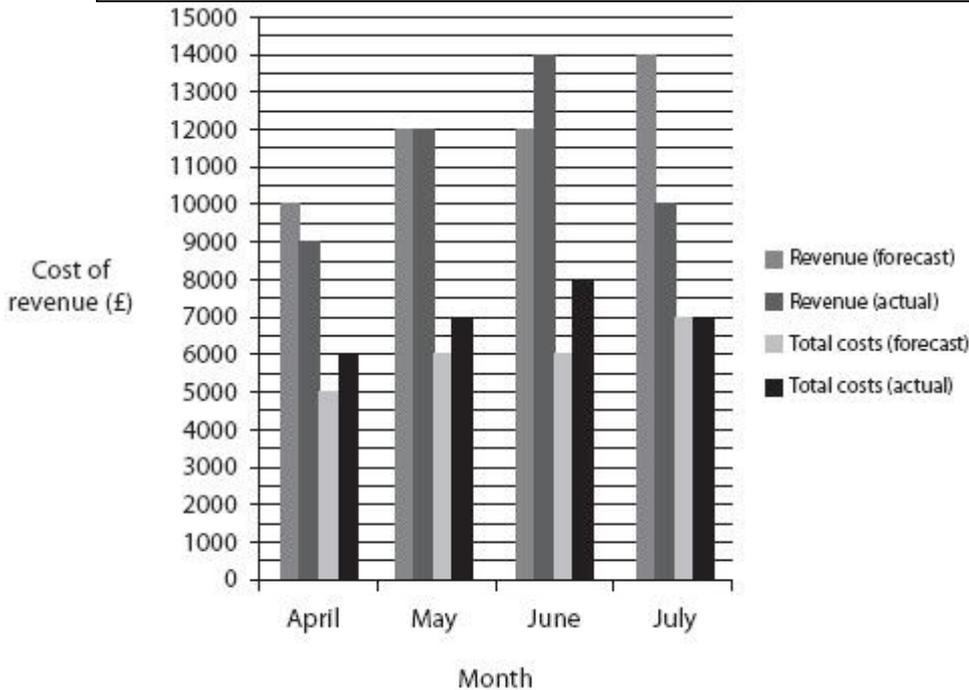
Select **one** answer:

- A Improvement in the business cycle
- B An increase in interest rates
- C Less competition in the market
- D Increased promotion by Timbles

(Total for Question = 1 mark)

Q13.

The chart below shows cost and revenue information for Timbles Ltd from April to July.



Timbles decided to increase its prices by 10% but sales stayed the same.

Which **two** of the following are possible effects of the decision by Timbles to increase the price it charges for its product?

Select **two** answers:

- A Increased customer satisfaction
- B Increased total revenue
- C Higher fixed costs
- D Increased interest payments
- E Higher profit for every product sold

(Total for Question = 2 marks)

Q14.

A business has the following cost and revenue information during one month:

Costs:

- £10 000 - raw materials imported from the USA
- £ 7 000 - raw materials from the UK
- £11 000 - fixed costs

Revenue:

- £39 000
- In this month the exchange rate between the pound and the dollar was £1 = \$1.50

What profit/loss does the business make in this month?

Select **one** answer:

- A £11 000
- B £28 000
- C £29 000
- D £67 000

(Total for Question = 1 mark)

Q15.

A business has the following cost and price information: **Variable Costs:**

- Raw materials – £2.70 per unit
 - Packaging – £1.20 per unit
 - Delivery – £0.50 per unit
- Fixed Costs:**
- £450 per month
- The selling price for each unit of output is £10

The business produces 500 units in one month. What is the total monthly value of variable costs?

Select **one** answer:

- A £4.40
- B £454.40
- C £1 350
- D £2 200

(Total for Question = 1 mark)

Q16.

A business has the following cost and price information: **Variable Costs:**

- Raw materials – £2.70 per unit
 - Packaging – £1.20 per unit
 - Delivery – £0.50 per unit
- Fixed Costs:**
- £450 per month
- The selling price for each unit of output is £10

If the business sells 500 units but its fixed costs rise by £200, what is its monthly profit?

Select **one** answer:

- A £2 150
- B £2 350
- C £2 550
- D £2 600

(Total for Question = 1 mark)

Q17.

Hancock's is a small pottery business which specialises in garden plant pots. It has the following financial information for one month. Number of pots produced and sold: 150 Average price per pot: £10 Variable cost per pot: £2 Fixed costs per month: £500

What are the total costs for Hancock's during the month?

Select **one** answer:

- A £450
- B £650
- C £800
- D £1500

(Total for Question = 1 mark)

Q18.

Hancock's is a small pottery business which specialises in garden plant pots. It has the following financial information for one month. Number of pots produced and sold: 150 Average price per pot: £10 Variable cost per pot: £2 Fixed costs per month: £500

The owners of Hancock's decide to try to increase profit. Which **three** of the actions below will most likely achieve this, assuming it sells the same number of pots each month?

Select **three** answers:

- A Buy cheaper raw materials used to make its products.
- B Increase the sales price of an average pot to £11.
- C Increase the number of workers employed during the weekend.
- D Buy more expensive raw materials used to make its pots.
- E Increase advertising expenditure.
- F Relocate to cheaper premises.

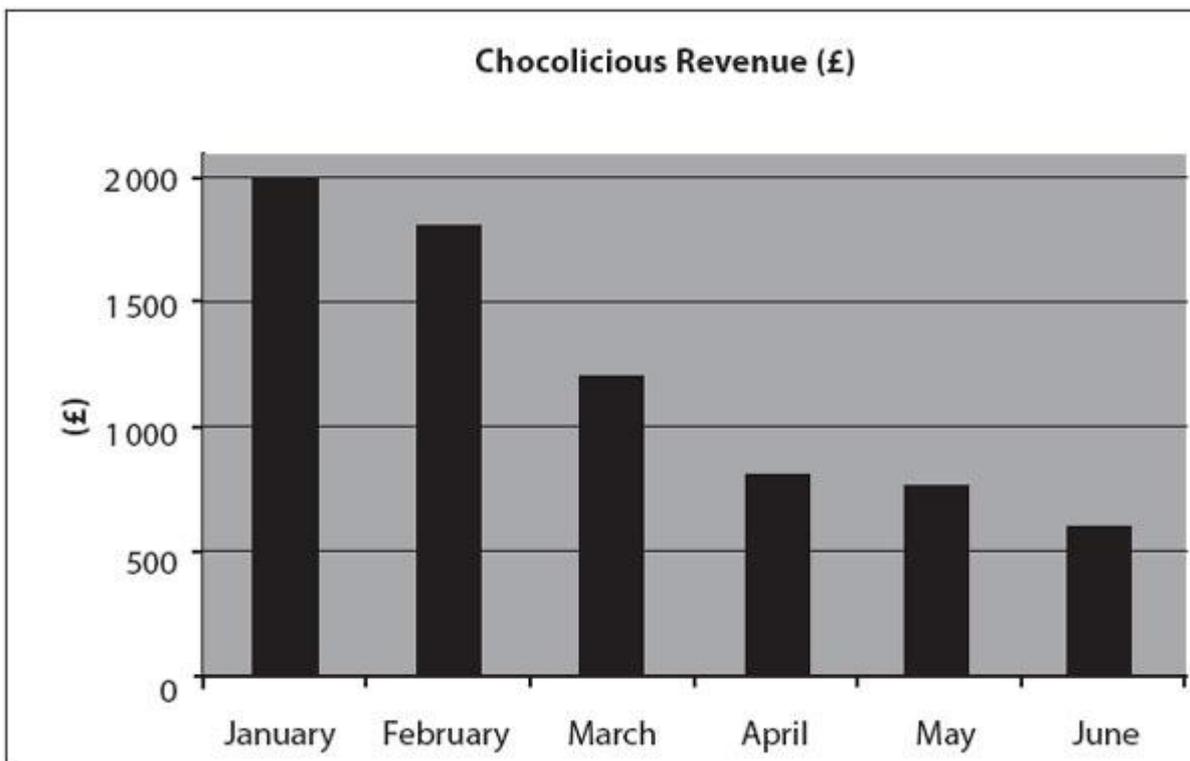
(Total for Question = 3 marks)

Q19.

The chart shows a rise in the world price of cocoa. Cocoa is a commodity which is used by a range of industries. For chocolate producers cocoa is the main ingredient.

Chocolicious is a small business making hand-made chocolates. The market it operates in is very competitive. One source of competitive advantage it holds is in the quality of its chocolates. The owners of Chocolicious are worried by the recent rise in the price of cocoa.

The graph shows the change in revenue at Chocolicious for the first six months of the year.



Which **two** of the following are the most likely explanations for the change in revenue at Chocolicious?

Select **two** answers:

- A** A rise in variable costs.
- B** A downturn in the business cycle.
- C** An improved cash flow position.
- D** A fall in sales.
- E** A rise in profits.

(Total for Question = 2 marks)

Q20.

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)

Q21.

Steve Wade is a painter and decorator. He operates as a sole trader. He bases his pricing on the costs he has to pay on an average job. He estimates the variable cost per day at £75 which includes the fuel he uses in his vehicle, the cost of paint, sandpaper, wallpaper and adhesive. His fixed costs include insurance, the cost of the van that he runs, administration and advertising. He estimates the fixed costs to be £1 500 each month. He charges customers £200 per day.

Steve wanted to raise some additional finance using a loan from his bank. The bank asked Steve to prepare a cash flow forecast for the year.

Which **three** of the following are **most likely** to be the reasons why Steve's bank would want to see a cash flow forecast?

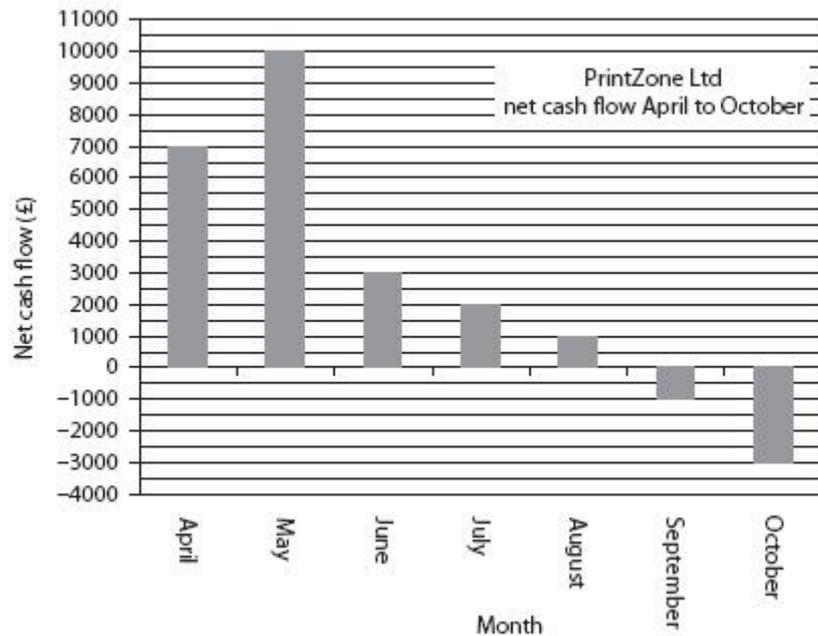
Select **three** answers:

- A** A cash flow forecast removes all the risks of running a business
- B** To see whether Steve would be able to pay back the money he might borrow
- C** To see if Steve could add up figures properly
- D** To help them decide if Steve's business is a worthwhile risk for the bank
- E** Poor cash flow is one of the main reasons why small businesses fail
- F** There is a legal requirement that a new business should have a cash flow forecast

(Total for Question = 3 marks)

Q22.

PrintZone Ltd is a small retail business specialising in supplying printers, ink and paper. The following chart shows cash flows for PrintZone Ltd for the period April to October.



Using the chart, calculate the net cash flow for April to October.

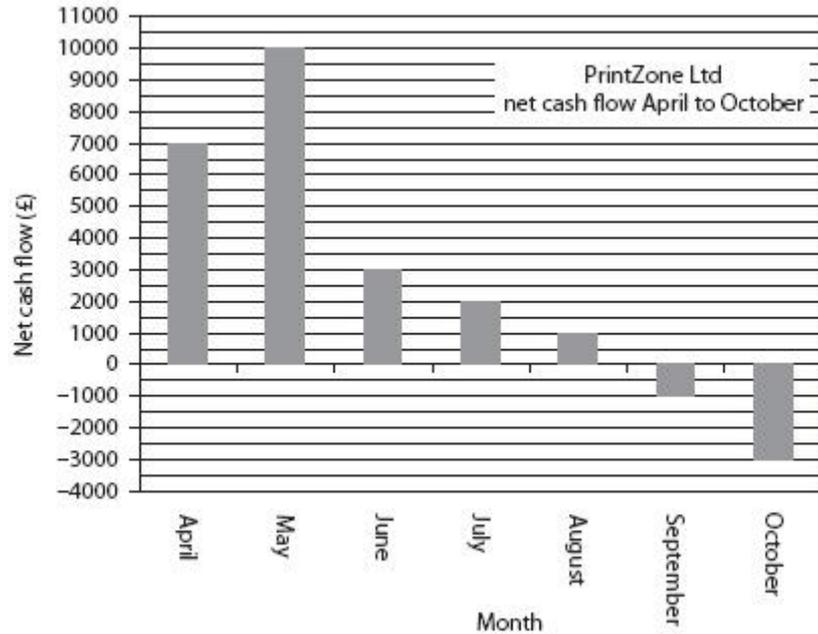
Select **one** answer:

- A -£3 000
- B £10 000
- C £19 000
- D £23 000

(Total for Question = 1 mark)

Q23.

PrintZone Ltd is a small retail business specialising in supplying printers, ink and paper. The following chart shows cash flows for PrintZone Ltd for the period April to October.



Monthly sales at PrintZone remained unchanged from April to October.

Given this fact, which **two** of the following are possible reasons for the worsening in cash flow position of the business during this time?

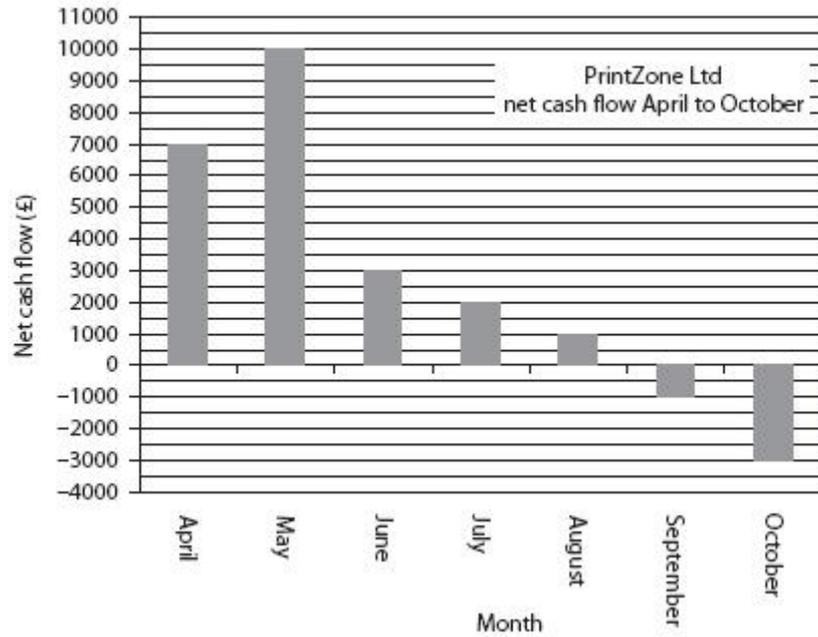
Select **two** answers:

- A** Increased spending on stocks of ink cartridges and printers by PrintZone
- B** Change in the interest rate on PrintZone's bank loan from 5% to 4%
- C** Monthly rent on PrintZone's premises changing from £700 to £650
- D** More favourable trade credit terms provided by suppliers to PrintZone
- E** PrintZone's monthly advertising costs changing from £800 to £1400

(Total for Question = 2 marks)

Q24.

PrintZone Ltd is a small retail business specialising in supplying printers, ink and paper. The following chart shows cash flows for PrintZone Ltd for the period April to October.



Which **two** of the following are the most likely ways that PrintZone Ltd could improve its cash flow position?

Select **two** answers:

- A** Use a mind map to improve financial planning
- B** Carry out quantitative market research
- C** Increase revenue by improving sales
- D** Negotiate lower prices with suppliers
- E** Employ two more full-time members of staff

(Total for Question = 2 marks)

Q25.

Hayley Franks wants to own and run her own shoe shop. She can set up as a sole trader or as a franchise with a major UK shoe brand. Research shows that the franchise has an 80% success rate. The sole trader has a 50:50 chance of survival.

The following table shows Hayley's cash flow forecast for April to June.

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

	April	May	June	
Receipts (£)	17 000		22 000	(1)
Payments (£)				
Raw materials	8 500	10 000	11 000	
Fixed costs	2 000	2 000		(1)
Other costs	3 400	4 100	3 900	
Total payments	13 900	16 100	16 900	
Net cash flow		3 900	5 100	(1)
Opening balance	1 500	4 600	8 500	
Closing balance	4 600		13 600	(1)

(Total for Question = 4 marks)

Q26.

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)

Q27.

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)

Q28.

Entrepreneurs have different objectives when choosing to start a business. Some are financial and others non-financial.

Which **three** of the following are examples of non-financial objectives for starting a business?

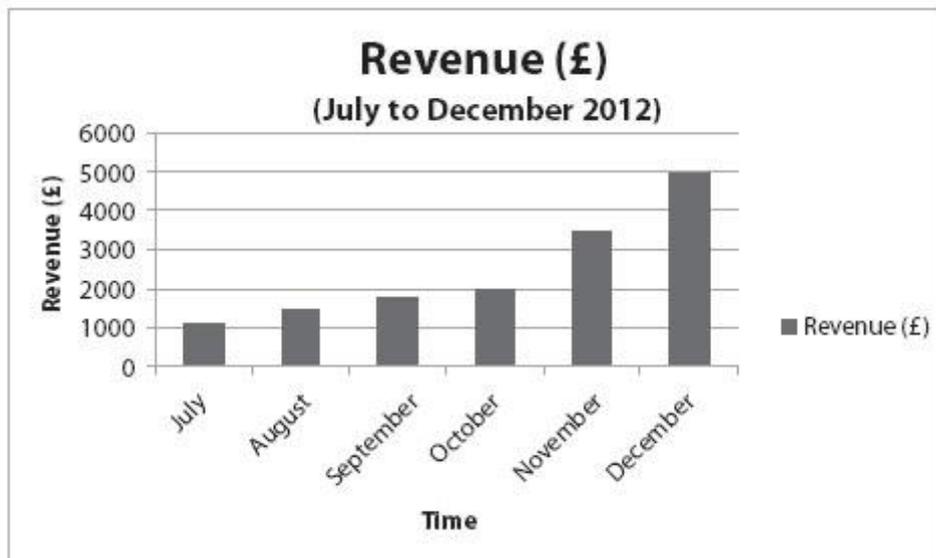
Select **three** answers:

- A** To achieve personal satisfaction
- B** To be able to make key decisions
- C** To increase yearly income
- D** To receive dividends from the profit of the business
- E** To be able to help others
- F** To increase personal wealth

(Total for Question = 3 marks)

Q29.

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)

Q30.

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)

Q31.

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

marks)

(Total for Question = 2

Q32.

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)

Q33.

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.

Recently the interest rate increased.

Which **two** of the following would be the most likely effects of this increase on *Skygo Airlines*?

Select **two** answers.

- A** A fall in customer numbers due to lower consumer spending
- B** An increase in fixed costs due to higher repayments on overdrafts
- C** A rise in customer numbers due to higher consumer spending
- D** A reduction in the fixed costs due to lower repayments on loans
- E** A greater chance that more companies will enter the market

(Total for Question = 2 marks)

Q34.

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.

Another flight, SK326, has started to make a loss.

What would be the impact of this loss on *Skygo Airlines* if it continues to operate this flight?

Select **one** answer.

- A** Lower fixed costs
- B** Higher net cash flow
- C** Higher Corporation Tax
- D** Lower overall profit

(Total for Question = 1 mark)