

Name :-----

**Edexcel Tech Award**

# **Enterprise**



Focus on building exam skills

Your January exam paper is focussed on marketing and Finance  
Here are some exam questions to practise and improve your skills



**Brain warm ups - multiple choice** questions to help you recall your knowledge of key terms and concepts

## Marketing

### Seven question on marketing research and market segmentation

#### Question 1

Which of the following is a purpose of market research?

- It is a legal requirement to start a new business
- To advertise a new product
- To aid decision making
- To increase risk

#### Question 2

Desk market research is another name for:

- Primary market research
- Quantitative market research
- Qualitative market research
- Secondary market research

#### Question 3

Purchased research material, such as a Mintel report, is an example of:

- Desk market research
- Focus groups
- Field market research
- Observation

#### Question 4

A business can benefit from receiving customer feedback. Which type of customer feedback may be read by potential customers and competitors?

- Customer comment cards
- Reviews and comments posted via social media
- Email contact forms
- Online surveys

### Question 5

Data that is presented as statistics is most likely to be described as:

- Customer comments
- Qualitative
- Quantitative
- Secondary

### Question 6

Which of the following is a potential benefit arising from market segmentation?

- Allows for targeted marketing
- Decreases customer retention
- Lower prices can be set
- Reduces the cost of advertising

### Question 7

Dividing a group of customers according to where they live is an example of which type of market segmentation?

- Age
- Geographic
- Lifestyle
- Occupation

## **Eight question on the marketing mix**

### **Question 1**

Which of the following is part of the marketing mix?

- Performance
- Planning
- Policy
- Price

### **Question 2**

Which of the following is one of the 4Ps in a typical marketing mix for a new product?

- Penetration
- Policy
- Procedure
- Product

### **Question 3**

Which of the following is used to stop a competitor copying a new product idea?

- Competitive pricing
- Limited liability
- Patent
- Registering with HMRC

### **Question 4**

Which of the following strategies could be used to differentiate a product?

- Copy another successful rival business
- Create a limited liability partnership
- Develop a unique selling point (USP)
- Register a new business

### **Question 5**

A supermarket runs a scheme where customers can earn 1 point for every £1 they spend. Once the customer earns 100 points they are offered £1.00 off their shopping. Which of the following is the name given to this type of sales promotion?

- Buy one get one free (BOGOF)
- Competition
- Loyalty scheme
- Point of sale advertising

### Question 6

Which of the following does not affect the price set for a new service?

- Availability of individuals to work for the business
- Cost to deliver the service
- Income levels of target customers
- Price of competitor services

### Question 7

Which of the following pricing strategies involves setting prices close to those of rivals?

- Competitive pricing
- Price penetration
- Price skimming
- Psychological pricing

### Question 8

Which of the following sales promotion techniques aims to reward and retain customers who have bought from the business for a long period of time?

- Competitions
- Loyalty schemes
- New product trials
- Point of sale advertising

## Five question on the Product Life Cycle

### Question 1

Which of the following is a stage of the product lifecycle?

- Advertising
- Competition
- Growth
- Recession

### Question 2

Which of the following is a stage of the product lifecycle?

- Development
- Downturn
- Profit
- Recession

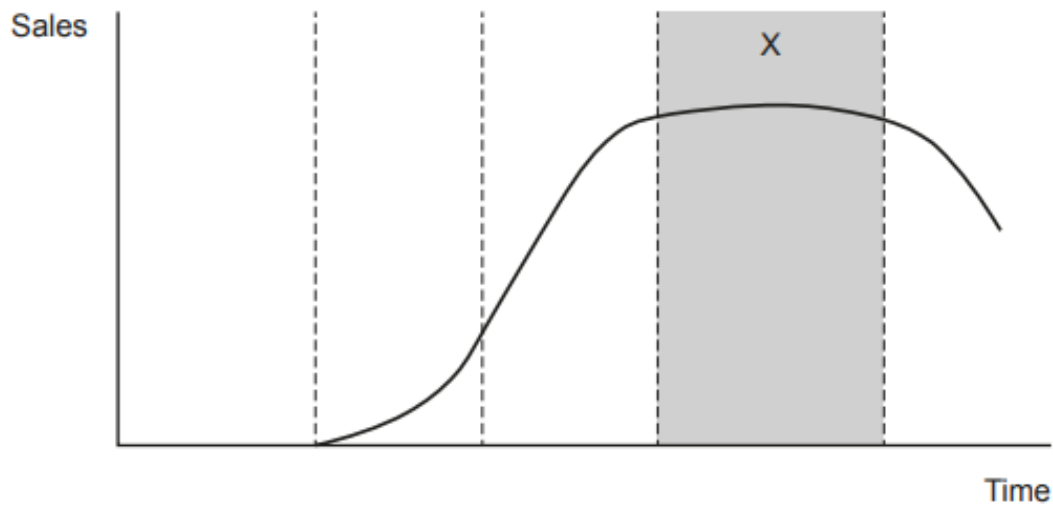
### Question 3

Advertising and changing the packaging of a product are both examples of which of the following?

- Competitive pricing
- Extension strategies
- Market research
- Market segmentation

#### Question 4

A product lifecycle diagram is shown below

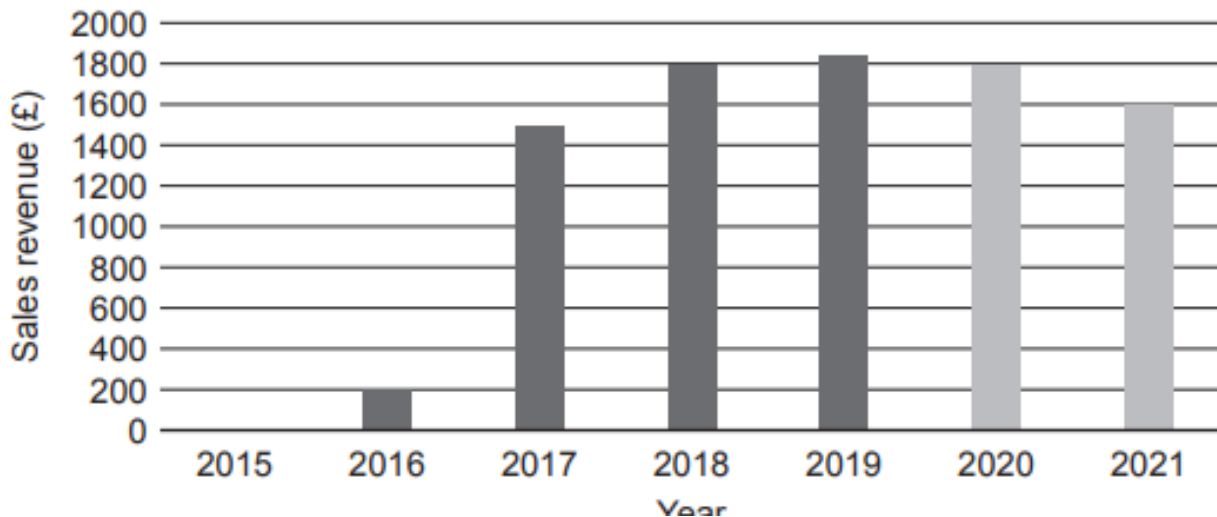


Which of the following stage of the product lifecycle is shaded and labelled 'X' on the diagram?

- Development
- Introduction
- Growth
- Maturity

#### Question 5

The graph shows the sales revenue generated by a business. The figures for 2020 and 2021 are forecasts.



Which stage of the product lifecycle is the business at by the end of 2019?

- Decline
- Introduction
- Growth
- Maturity

# Finance questions

## Six questions on resources of finance

### Question 1

Which of the following sources of capital usually includes business advice from an experienced entrepreneur?

- Bank loan
- Business angel
- Crowdfunding
- Own savings

### Question 2

A sole trader needs additional capital to help to set up a new business. The sole trader does not wish to pay any interest or sign a formal contract.

Which of the following sources of finance should they avoid?

- Borrow money from a friend
- Gift from their sister
- Loan from a bank
- The sole trader's own savings

### Question 3

Which source of capital for a business start-up is most likely to be offered by a group of investors?

- Bank loan
- Business angel
- Crowdfunding
- Small business grant

### Question 4

Which of the following groups always receives a share of any profit earned by a business?

- Customers
- Employees
- Lenders
- Owners

### Question 5

A business has trade credit terms with its suppliers. This means that:

- the goods are paid for when they are ordered
- it pays for goods at the time they are received
- it is allowed to pay for goods when it can afford to do so
- there is an agreed delay between receiving and paying for goods

### Question 6

has a business has applied for funds from the government to help her business. This is called a:

- lease
- grant
- loan
- share

## Five questions on revenues and costs

### Question 1

Cerys operates a small catering business. During the month of January, she earned £2745 sales revenue. Her total costs for the month of January were £2820.

Which of the following best describes the situation which Cerys is in?

- |                                     |                                 |
|-------------------------------------|---------------------------------|
| <input type="checkbox"/> Break-even | <input type="checkbox"/> Loss   |
| <input type="checkbox"/> Cash flow  | <input type="checkbox"/> Profit |

### Question 2

Kristoff runs a toy shop. He sells small toy cars at a price of £5.10 each and sells an average of 32 cars per week. What is the sales revenue generated during the month of February (assume there are four weeks during the month of February)?

- |                                  |                                  |
|----------------------------------|----------------------------------|
| <input type="checkbox"/> £150    | <input type="checkbox"/> £600    |
| <input type="checkbox"/> £163.20 | <input type="checkbox"/> £652.80 |

### Question 3

How much profit is made if a business earns £18000 of sales revenue and its total costs are £7500?

- |                                 |                                  |
|---------------------------------|----------------------------------|
| <input type="checkbox"/> £8000  | <input type="checkbox"/> £25500  |
| <input type="checkbox"/> £10500 | <input type="checkbox"/> £135000 |

### Question 4

Sarah runs a business selling flowers. Last week she earned £1350 of sales revenue. If last week Sarah's average selling price per bunch of flowers was £15, how many bunches of flowers did she sell?

- |                             |                              |
|-----------------------------|------------------------------|
| <input type="checkbox"/> 9  | <input type="checkbox"/> 90  |
| <input type="checkbox"/> 45 | <input type="checkbox"/> 135 |

### Question 5

Sophie runs a small shop selling pet food. During the month of April she sold 55 packets of dog food at a price of £1.55 and her total costs were £350.

How much revenue did Sophie generate in April?

- |                                   |                                  |
|-----------------------------------|----------------------------------|
| <input type="checkbox"/> -£264.75 | <input type="checkbox"/> £85.25  |
| <input type="checkbox"/> £6.36    | <input type="checkbox"/> £542.50 |

## Seven Questions on Break even

### Question 1

Break-even information may help with decisions about:

- Customer feedback
- Pricing
- Market research
- Product safety standards

### Question 2

A fixed cost can be defined as:

- A cost that always stays the same
- A cost that does not vary with output
- A cost that cannot be measured
- A cost that varies with demand

### Question 3

Which of the following is an example of a variable cost for a gym?

- Advertising in the local newspaper
- Rent for the gym buildings
- Insurance for the gym premises
- The fitness instructor's wage

### Question 4

'Salaries' are an example of:

- Fixed costs
- Sales revenue
- Profit
- Variable costs

### Question 5

Maisey runs a business that sells fruit smoothies. The selling price of each smoothie is £1.50 and the variable cost to make each one is 80p. Maisey's fixed costs are £7000 per year.

The formula to calculate the break-even point is

$$\text{Fixed costs} / (\text{Selling price per unit} - \text{Variable cost}) \text{ per unit}$$

How many smoothies does Maisey need to sell each year to break-even?

- 100
- 1000
- 10000
- 100000

### Question 6

Bobby runs a small business. His products sell for £6.00 each and his variable costs are £4.50 per unit.

The break-even formula is:

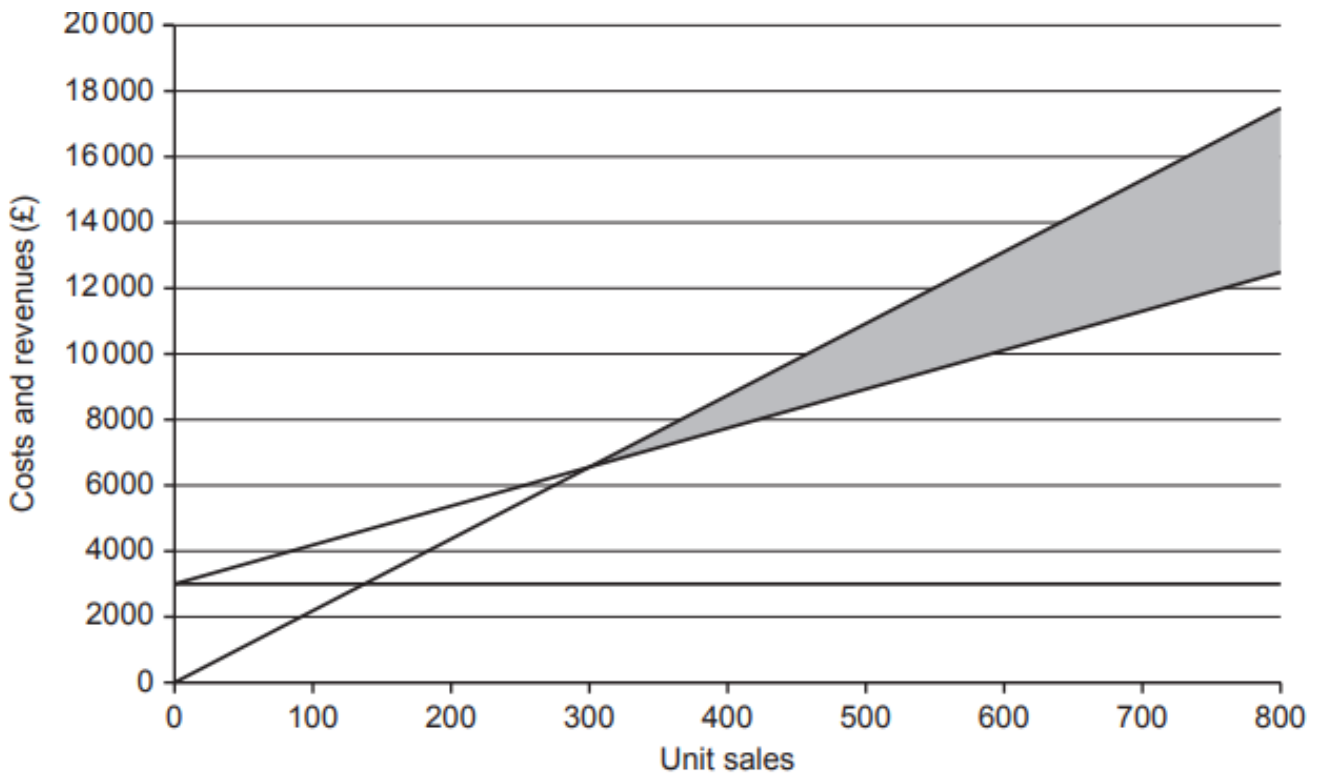
$$\text{Fixed costs} / (\text{Selling price per unit} - \text{Variable cost per unit})$$

If Bobby's break-even point is 5000 units, what are his fixed costs?

- £750                       £3333                       £7500                       £52500

### Question 7

A break-even graph for a product is shown below.



What is shown by the shaded area?

- Break-even                       Fixed costs                       Loss                       Profit

## Two questions on cash flow

### Question 1

A cash-flow forecast can help a business to decide whether to:

- increase variances
- invest in new resources
- reduce its margin of safety
- maximise profitability

### Question 2

A business payments for materials are shown in its cash flow statement as:

- A cash inflows
- cash outflows
- closing balances
- opening balances

## Questions on financial documents

### Question 1

A business pays for drum kits received from its suppliers they send a document to confirm which invoices are to be paid. This document is called:

- an invoice
- a receipt
- a remittance advice slip
- a purchase order.

### Question 2

When goods are delivered to a business, the owner signs for them to confirm that the goods are correct and undamaged. The document used is called a: (1)

- credit note
- delivery note
- cheque
- statement of account

### Question 3

When a business needs to order goods it fills out a document called a:

- credit note
- delivery note
- purchase order
- statement of account.

### Question 4

When a business asks for payment from a customer it sends out a document. This document is:

- a goods received note
- an invoice
- a cheque
- a receipt

## Sequencing of financial documents

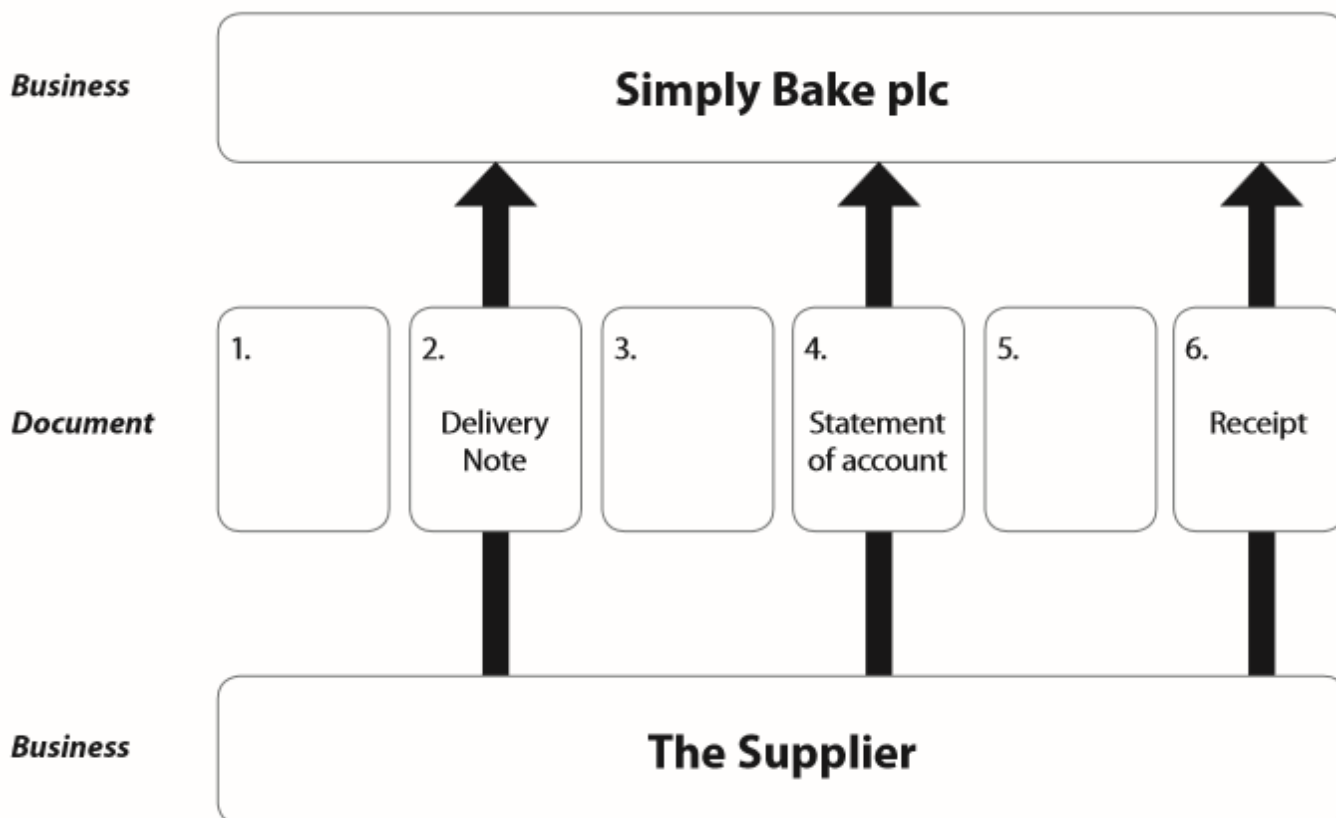
### Question 1

A new start up business needs to understand the flow of financial documents.

Your chart shows the order in which documents are sent when the new business buys from a supplier. Each arrow points in the direction that the document takes.

Complete the chart below.

- (i) In each of the three blank boxes 1, 3 and 5, write the name of one of the documents listed below in the correct order, from left to right.
  - Cheque
  - Invoice
  - Purchase order.
- (ii) Draw an arrow from boxes 1, 3 and 5 to show who sends the document and who receives it in light of your answer to (c) (i) above.



## Developing Skills completing Financial documents

### Question 2

Jen Morgan (Jen) owns and runs Drumz'n'Stix (DNS), a store selling drums and other percussion instruments.

Drumz'n'Stix (DNS) specialises in selling drums, cymbals, drumsticks and percussion accessories such as cases and pedals.

DNS also stocks a wide range of books and videos on drumming. Jen has also set up a drum school, with one-to-one lessons from beginners to professionals.

The lessons are held in special teaching rooms, led by two experienced tutors. Jen is very knowledgeable about percussion, but has limited experience in handling business documents, paying bills, and making entries in the business account

Jen has asked for your help in completing the following sales invoice. (a) Calculate the "Total to Pay" by completing the Sales Invoice below.

Question 2

Jen has asked for your help in completing the following sales invoice.

(a) Calculate the "Total to Pay" by completing the Sales Invoice below.

### SALES INVOICE

Code	Description	Quantity	Unit Price (£)	£	p	
SK5	Starter Drum Kits	2	120.00	240	00	
WS3	Wooden drumsticks (pair)	15	5.00	75	00	
DH45	Replacement Head Skins	1	35.00	35	00	
<b>Goods Total</b>						(1)
<b>Trade Discount @ 10%</b>						
<b>Subtotal</b>						(1)
<b>VAT @17.5%</b>						
<b>Total to Pay</b>						(1)

### Question 3

DNS needs to order new items for the store. Below is an extract from the supplier's sales catalogue.

#### Ruby Drum Supplies Marina Way Swansea SA1 7FR

Details and prices			
Item	Order code	Ruby Drum Supplies Part Number	Price per unit (£)
MONOGEL PRACTICE PAD	PP14	3375	12.00
CYMBAL BAG 20"	CB20	0925	28.00
STARTER DRUM KIT	SDK5	4400	120.00
DELUXE DRUM KIT	DDK5	7110	300.00
REPLACEMENT DRUMHEAD SETS	RDH3	0375	35.00
STICKS NYLON (PAIRS)	NS1	1476	8.50
STICKS WOOD (PAIRS)	WS1	1477	5.00
DRUM BAGS SET	DBS5	3498	100.00


Jen has left you the following instructions about the order.

Stock is running low at the store; we need the following to be delivered as soon as possible.

Please order 3 starter drum kits and 1 deluxe kit. We'll also need 24 pairs of wooden sticks and 3 x 20" cymbal bags.

Thanks!

Complete the Purchase Order below. The last order was numbered 7865

<h2 style="margin: 0;">Drumz'n'Stix</h2> 		<b>Date:</b> <input style="width: 100%;" type="text"/>				
		<b>Purchase Order No:</b> _____				
		<b>To:</b> <b>Address:</b>  <b>Postcode</b>				
Qty	Item Description	Order code	Unit Price		Total Price	
			£	p	£	p
<b>Total</b>						
<b>Delivery Terms:</b>						

## Income statements

### Question 4

Jen has asked you to construct a Profit and Loss summary for DNS. She has supplied you with the following information.

***Drumz'n'Stix*** figures for the last month.

Sales of:	
Drum Kits	£3 500
Accessories	£2 125
Cost of these sales	£2 225
Wages and salaries	£ 900
Rent, Rates and Insurance	£ 800
Light, Heat and Power	£ 250
Telephone and Broadband	£ 80

Use this information to construct the Income Statement summary for DNS for last month

### Profit and Loss Summary for Drumz'n'Stix

	£	£	
<b>Total Sales</b>			(1)
			(1)
<b>Gross Profit</b>			(1)
<b>Expenses:</b>			
		(1)	
		(1)	
		(1)	
		(1)	
<b>Total Expenses:</b>			
			(1)

## Question 5

Simply Bake plc is a company making cakes. It is based in the UK.

Simply Bake plc has a bakery that produces pre-packaged party and celebration cakes, chocolate-covered mini rolls and cake bars, muffins and sponge cakes.

This busy bakery would like to increase production, but does not have the resources to do this. At present the machinery and most of the other assets owned by Simply Bake plc are fully used in cake production. It therefore has no spare capacity.

Kerry Ann has just started work as a trainee in the finance department at Simply Bake plc. Her work will include handling business documents, paying bills and making entries in the accounts.

Kerry Ann received the following email from Mr Henderson at Tyson Ltd, one of Simply Bake plc's customers, informing her that some of the goods sent to them were incorrect:

On checking our latest delivery from you against invoice number 677, we have been sent 20 chocolate caterpillar cakes rather than the 10 ordered. These were charged at £3.95 each. We have returned these goods and would be pleased to receive a credit note as soon as possible.

C Henderson  
Tyson Ltd  
105 Worcester Road  
BIRMINGHAM  
B30 4DL

complete the credit note on the next page

## Simply Bake plc

### Credit Note

To: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(1)

Your Returns Ref	Customer Account Number	Date	Invoice Number	Credit Note Number
805	2515	4/12/24	677	524

Item Code	Quantity	Description	Unit Price	REFUNDED CHARGE
CC131		Chocolate caterpillar cakes	£3.95	

(2)

Reason for Return:

(1)

Shirley's Tuck Shop is a regular customer of Simply Bake plc. When Shirley's Tuck Shop receives an order of cakes it completes a Goods Received Note (GRN) to record the details of the goods received.

### **DELIVERY NOTE** for order number 556

*Simply Bake plc  
Stable Lane  
Newtown  
NT14 3DS*

Ref:	Item	Quantity	Price £	Total
32908	12 x chocolate mini rolls	25	1.05	£ 26.25
Goods Total				£ 26.25

On 7th December 2024, 25 boxes of chocolate mini rolls were delivered to Shirley's Tuck Shop but 2 boxes were damaged.

Using the information on the delivery note complete the Goods Received Note

<b>Goods Received Note</b>			
<b>Shirley's Tuck Shop</b> 106 Glyn Terrace Thomastown			
Supplier:			
GRN No. 2451		Date: 8th December 2010	
Quantity	Description	Item Ref	Order Number
Consignment No. 314589		Carrier: 2U Deliveries	
Received by: G Smith		Checked by: W Giles	
Condition of goods: please indicate number in each box	Good condition <input style="width: 50px; height: 20px;" type="checkbox"/>		
	Damaged <input style="width: 50px; height: 20px;" type="checkbox"/>		

## Question 6

### *Film Show Cinemas*

**Film Show Cinemas (FSC)** is a Public Limited Company (plc) that owns and runs 50 modern cinemas in the UK. **FSC** knows the importance of keeping up with the latest digital technology if it wants to attract and keep customers, so has recently been upgrading its cinemas.




**FSC** has a cinema in Oldport. **FSC Oldport** had all of its projectors replaced with the latest digital equipment in 2010, and three of the cinema's nine screens are now able to show 3D films. The cinema has had to increase the number of screenings of films to keep up with demand.

The cinema is considering further improvements by fitting one 3D screen with premier seats that are guaranteed as the best in the house, and admittance to an exclusive bar with a variety of free refreshments.

Morgan has just started work as a trainee in the Finance Office at **FSC Oldport**. The work includes handling business documents, paying bills and making entries in the accounts.

Morgan has been told that as you are studying business he should ask you for any help and advice he needs.

FSC Oldport needs to order items for the snack bar. Below is an extract from the sales catalogue of Cinequip, one of FSC's suppliers.

<p style="text-align: center;"><b>CINEQUIP</b>            UNIT 23            BRITANNIA INDUSTRIAL ESTATE            BRISTOL BS2 7YE</p> 			
<b>Details and prices</b>			
<b>Item</b>	<b>Order code</b>	<b>Case size</b>	<b>Price per case (£)</b>
Popcorn Scoop boxes, regular	PCSBR	200	40.00
Popcorn Scoop boxes, medium	PCSBM	100	16.00
Popcorn Scoop boxes, large	PCSBL	100	18.00
Nachos Plastic Trays, regular	NPTR	500	29.25
Nachos Plastic Trays, large	NPTL	500	52.50
Hot Dog Bags	HDB	1 000	29.95
Clear Drinking Cup, regular	CDCR	2 400	88.95
Clear Drinking Cup, large	CDCL	1 600	123.25

Morgan has been left the instructions below.

As a result of our recent busy period we need to order the following, to be delivered **immediately**.

400 Regular Popcorn Scoop boxes

1 000 Large Nachos Plastic Trays

1 000 Hot Dog Bags

1 600 Large Clear Drinking Cups

The last order we made was number 5672

(a) Complete the Purchase Order below

(7)

<b>To:</b>				<b>Order Number:</b>			
<b>Qty</b>	<b>Item Description</b>	<b>Order code</b>	<b>Case size</b>	<b>Unit Price</b>		<b>Total Price</b>	
				<b>£</b>	<b>p</b>	<b>£</b>	<b>p</b>
2	Regular Popcorn Scoop boxes	PCSBR	200	40	00	80	00
2	Large Nachos Plastic Trays	NPTL		52	50	105	00
1		HDB	1 000	29	95	29	95
1	Large Clear Drinking Cups	CDCL	1 600				
<b>Total</b>							
<b>Delivery Terms:</b>							

Morgan also ordered glasses which enable customers to view 3D films. He bought them from *Symphony Stores* and paid in advance. Morgan has received the order and completed the Goods Received Note (GRN) below.

### Goods Received Note

Number: GRN 257

Our Ref: SS9027

Date: 09/05/2011

No. of Boxes	Item Description	Order Code	Condition of Goods
10	Proview Professional 3D Glasses	PROV	All OK
10	Pro-X Professional 3D Glasses	PROX	1 box damaged and sent back
10	GEMS Disposable 3D Glasses	GEMS	2 boxes damaged and sent back

Morgan has now received the following Credit Note from *Symphony Stores*.

**All unit prices are correct.**

### Credit Note

*Symphony Stores*  
*Landsdown Industrial Estate*  
*East Wick London EW12 8RW*

Number	<b>0097864</b>
Date	<b>30/05/2011</b>
Your ref	<b>SS9027</b>
Our Invoice	<b>OB7896</b>

Quantity	Description	Unit Price (£)	Total Price (£)
1 box	Pro-X Professional 3D Glasses	70.00	70.00
1 box	GEMS Disposable 3D Glasses	15.00	15.00

<b>Reason for credit:</b> Boxes damaged in transit	Goods total	<b>85.00</b>
	VAT @20%	<b>17.00</b>
	<b>TOTAL</b>	<b>102.00</b>

(b) (i) This Credit Note contains a numerical error. Calculate the correct amount that *FSC Oldport* should have received from *Symphony Stores* by completing the boxes below.

(5)

Quantity	Description	Unit Price (£)	Total Price (£)
	Pro-X Professional 3D Glasses	70.00	
	GEMS Disposable 3D Glasses	15.00	

Goods total	
VAT @20%	
TOTAL	

(ii) Outline **one** effect on *FSC Oldport* if Morgan does **not** spot the error on the Credit Note.

(2)

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## Cash Flow

### Question 7

A business has started to prepare a cash-flow forecast for the three months September – November 2018.

Complete the cash-flow forecast for BIC by inserting the correct figures in the blank boxes below

<b>Cash-Flow Forecast September – November 2018</b>				
<b>2018</b>	<b>September (£)</b>	<b>October (£)</b>	<b>November (£)</b>	
Total Receipts	6 000	5 500		(1)
Total Payments	4 000	3 300	2 500	
Net Inflow/Outflow	2 000		1 500	(1)
Opening Balance	2 250	4 250	6 450	
Closing Balance		6 450	7 950	(1)

### Question 8

Colleen has started to prepare a cash-flow forecast for the three months October-December 2017.

- (a) Complete the cash-flow forecast for *JIPC* by inserting the correct figures in the blank boxes below.

(5)

#### Cash-flow Forecast for *JIPC* for October–December 2017

2017	October (£)	November (£)	December (£)
Total Receipts	1 700	1 800	1 800
Total Payments		1 100	
Net Inflow/Outflow	700		700
Opening Balance	250	950	
Closing Balance		1 650	2 350

Colleen is considering spending £1 500 on new costumes.

- (b) Using the completed cash-flow forecast for *JIPC*, assess when it would be best for *JIPC* to make this purchase.

(6)

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## Question 9

Jayne planned to start a driving school called *Drivetime*. The business needed to be profitable because it would be her only source of income.

Jayne hoped to work 40 hours per week. She thought that it would take six months to reach this target while she built up her business, as the following table shows:

**Figure 1 – Estimated number of hours worked per week**

June	July	August	September	October	November
12	15	18	21	29	40

The local market for driving lessons was very competitive. Most driving instructors charged about £20 for a one-hour lesson. Jayne decided she would charge the same price, payable on the day of the lesson.

Jayne produced a cash-flow forecast for the first four months in which *Drivetime* would operate.

After drawing up her cash-flow forecast, Jayne considered two possibilities.

1. The annual insurance for the car is £2000. She could pay this in monthly instalments of £185 per month (£2220 per year), rather than in one lump sum
2. Jayne thought that she could improve both profit and cash flow by offering a 10% discount to customers who paid for ten lessons in advance. She estimated that 50% of her customers would take up this offer. It might also attract additional customers.

Complete the cash-flow forecast for *Drivetime* by inserting your answers in the **shaded** boxes below.

<b>Drivetime</b>				
<b>Cash-flow forecast for the four months ended 30 September</b>				
	<b>June £</b>	<b>July £</b>	<b>August £</b>	<b>September £</b>
<b>Cash In</b>				
Sales	1040	1300	1560	1820
Total inflow	1040	1300	1560	1820
<b>Cash Out</b>				
Lease of car	312	312	312	312
Advertising	400	30	30	30
Insurance	2000			
Petrol and road tax	260	165	195	230
Total outflow	2972	507	537	
<b>Net Monthly Cash Flow</b>	(1932)	793		1248
Opening balance	500		(639)	384
Closing balance		(639)	384	1632

(4 marks)

Using **Item A** and your answer to **question 1 (b)**, explain the possible effects on *Drivetime's* cash flow if Jayne decides to pay the car insurance in monthly instalments.

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(4 marks)

Jayne considered offering a 10% discount to customers who pay for ten lessons in advance.

Do you think that this offer will improve *Drivetime's* profit **and** cash flow? Use **Item A** and your answer to **question 1 (b)** to justify your answer.

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## Break even

### Question 10

A business has decided to carry out a break-even analysis on the business.

To do this, expected costs have to be classified into fixed costs and variable costs.

Using the table below, classify each of these costs as either a fixed cost or a variable cost.

<b>Costs</b>	<b>Fixed</b>	<b>Variable</b>
Insurance	<input type="checkbox"/>	<input type="checkbox"/>
Fees paid when a customer uses a credit or debit card	<input type="checkbox"/>	<input type="checkbox"/>
Business rates	<input type="checkbox"/>	<input type="checkbox"/>
Sundries (cleaning materials etc.)	<input type="checkbox"/>	<input type="checkbox"/>
Rent of premises	<input type="checkbox"/>	<input type="checkbox"/>
Manager's salary	<input type="checkbox"/>	<input type="checkbox"/>

### Question 11

Colleen has decided to carry out a break-even analysis. To do this, expected costs have to be classified into either fixed or variable costs.

She has sent you the following monthly cost information:

- Loan repayment £500
- Cake ingredients £250
- Wages £600
- Cleaning of costumes £150
- Sundries (cake boxes, etc.) £80
- Insurance £30

Using the tables below, calculate the monthly fixed and variable costs.

Monthly Fixed Costs	£
<b>Total</b>	

Monthly Variable Costs	£
<b>Total</b>	

Fixed

(Total for Question 2 = 8 marks)

### Question 12

A new business charges an hourly rate for its home cleaning service

It has calculated various costs and revenues.

- Fixed costs £880 a month
- Variable costs £3 per hour
- Sales income £11 per hour

(a) Calculate the break-even point for the home cleaning service using the following formula:

(2)

$$\text{Break-even point} = \frac{\text{fixed costs}}{\text{selling price} - \text{variable cost}}$$

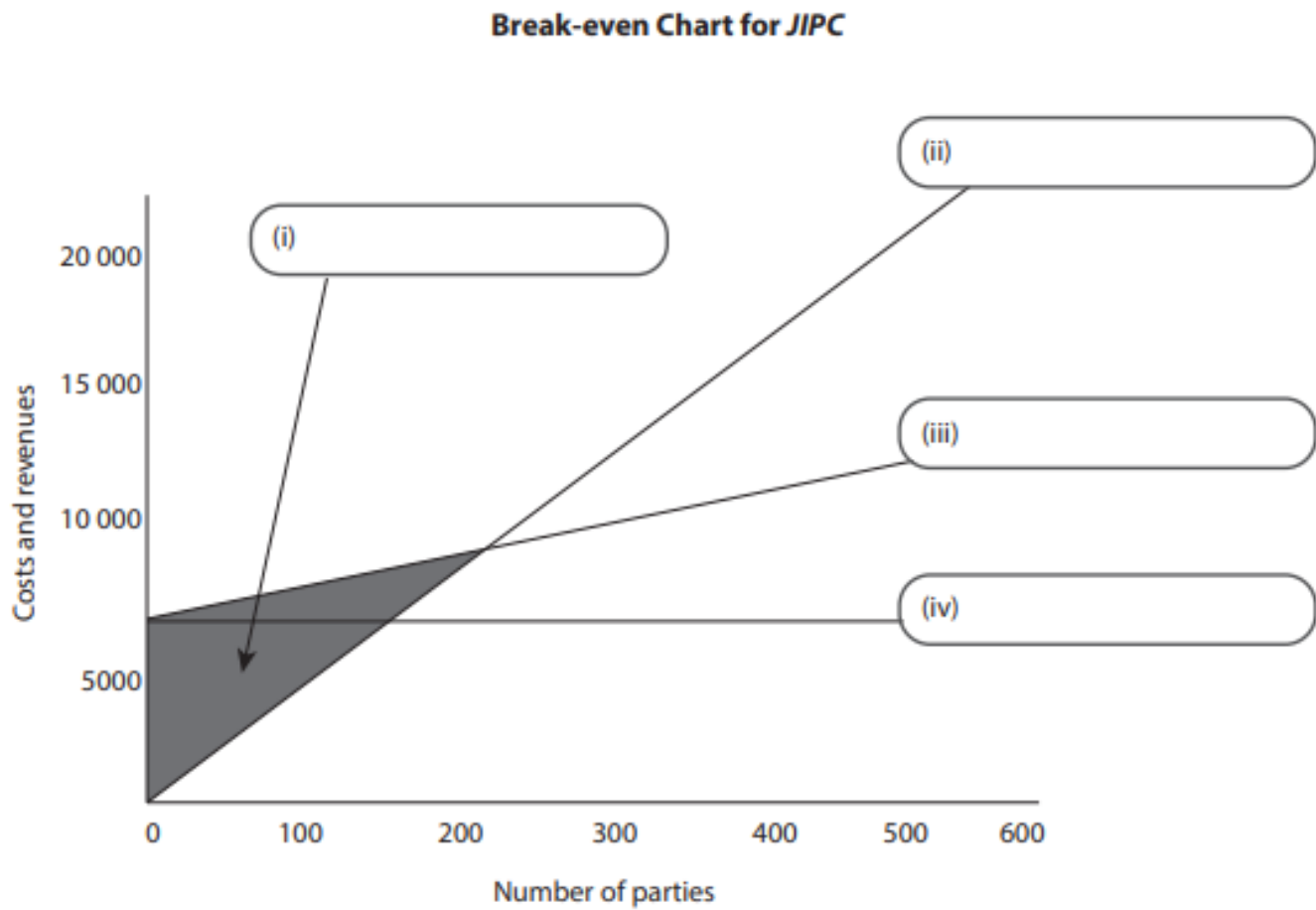
**Space to show your workings**

Break-even point = ..... hours

### Question 13

A start up business has started to construct a break-even chart

- (a) Complete the chart below by inserting the appropriate labels in the boxes (i) to (iv). (4)



### Question 14

Isabella is the owner of Bella Ice Cream (BIC); a family run ice cream business. It owns an ice cream parlour that can seat up to 20 people. BIC serves a range of ice creams, hot and cold drinks. The business has been trading successfully for 10 years. It is now considering providing catering for events.

Isabella is planning to offer a mobile ice cream package to serve ice cream at weddings and other events. This will mean purchasing vending bikes. These are three-wheeled bicycles fitted with a freezer box

Isabella is looking at sales forecasts for premium ice cream cones. She has given you some costs and revenue information to use when drawing a break-even graph.

- Total fixed costs per month £1 000
- Variable costs of 60p
- Selling price of £2.20 per premium ice cream cone

Isabella believes that BIC could sell up to 1 000 premium ice cream cones a month.

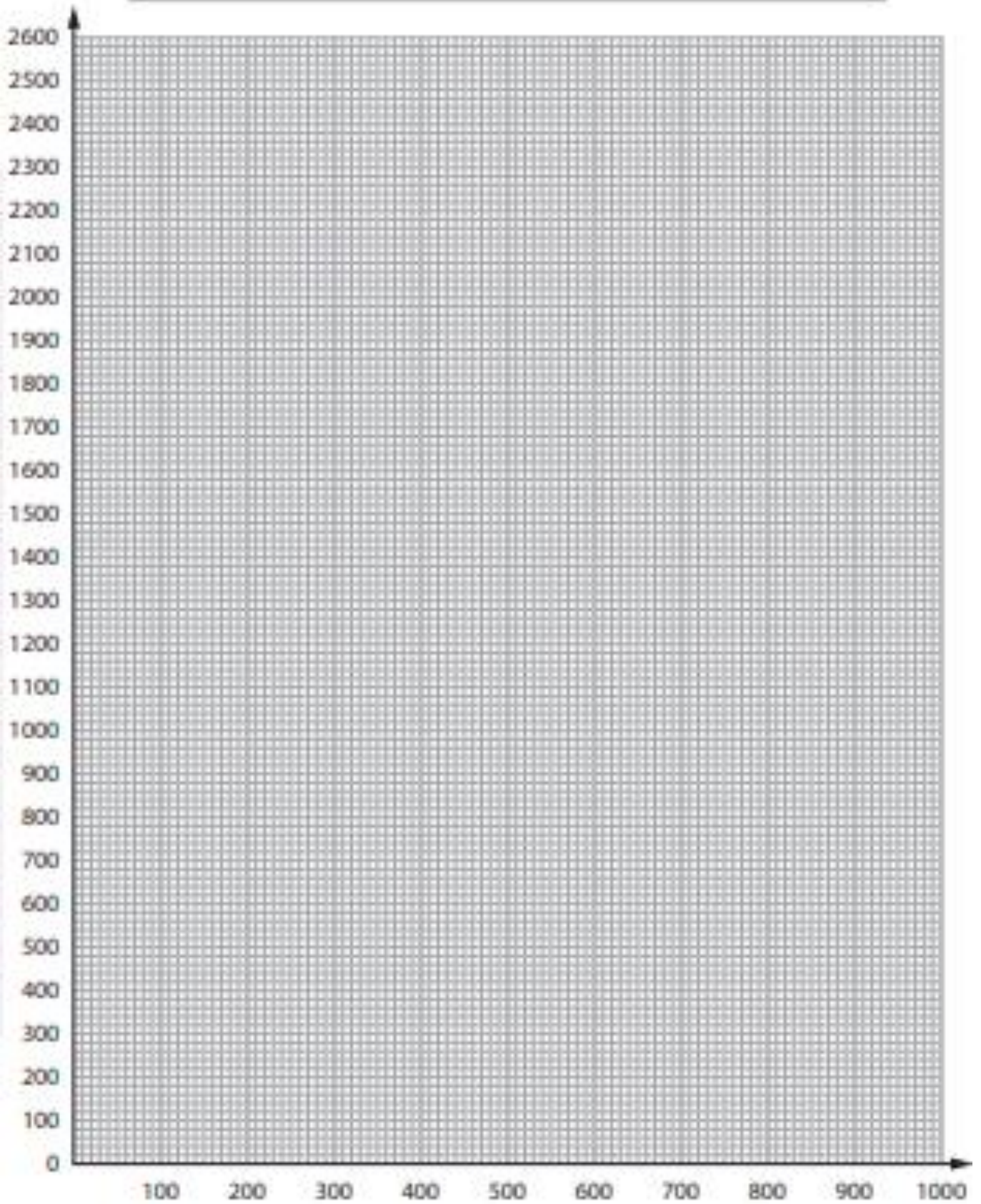
**Draw a fully labelled break-even graph for BIC on the graph supplied.**

**You may find it helpful to complete the activity table before you draw the graph**

### Activity Table

<b>Revenue and Costs for <i>BIC</i> Premium Ice Cream Cones</b>			
Number of Cones	0	500	1 000
Sales	0	£1 100	£2 200
Variable Costs	0	£300	£600
Fixed Costs	£1 000		
Total Costs	£1 000		

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After carrying out some research on BIC's competitors, Isabella is considering reducing the price of premium ice cream cones to £2.10. This will affect the break-even point.

(c) Outline what will happen to the break-even point for premium ice cream cones if the price is reduced to £2.10.

(2)

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Isabella is concerned about the new margin of safety if the price of the premium ice cream cones is reduced.

(d) Explain why Isabella would need to consider the margin of safety.

(3)

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## Question 15

### Advanced Driving Lessons

Having reached her target of working 40 hours per week, Jayne realised that her car could provide an additional income even if she was not driving it. She estimated that her car could be used to provide an extra 30 hours of driving lessons per week.

Jayne considered offering advanced driving lessons. Jayne would pay another driving instructor to provide these lessons using her car. Jayne would also pay for the insurance and petrol.

Jayne calculated the costs and revenue of providing advanced driving lessons would be:

- Price per lesson of £20 per hour
- Variable costs of £10 per hour
- Fixed costs of £160 per week.

Jayne used the following formula to calculate that she needed to provide 16 lessons per week for this new service to break even.

$$\text{Break-even point} = \frac{\text{Fixed costs per week}}{\text{(price of lesson per hour less variable costs per hour)}}$$

Jayne was concerned that fixed costs might rise to £180 per week. She could increase her price to £25 per hour. However, market research showed that at £25 per hour, Jayne could sell only 15 lessons per week.

**Identify one type of fixed cost and one type of variable cost to Drivetime of offering advanced driving lessons.**

Fixed cost .....

Variable cost.....

*(2 marks)*

Explain how an increase in fixed costs to £180 per week might affect Drivetime. Show your calculations.

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Identify **two** suitable actions that Jayne could take if fixed costs increase to £180 per week. In each case, explain why your choice of action would be suitable for *Drivetime*.

Action 1 .....

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Action 2 .....

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.....

**knowledge questions based on a scenario**

**Question 16** – complete the questions

Photography has always been one of your hobbies. You recently used some money that you inherited to buy a new digital camera and set up a photography services business. You have decided to specialise in wedding photography and have produced a website to promote your photography services.

**17 (a)** Identify **three** ways that customers' needs may vary.

1 .....

2 .....

3 .....

**[3]**

**(b)** Identify and explain the most appropriate method for segmenting the market for your photography services.

Method .....

Explanation .....

.....

**[2]**

**18** You plan to differentiate your photography services.

Analyse **two** benefits of differentiating your photography services from competitors. **[6]**

Benefit 1 .....

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Benefit 2 .....

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You decide to use secondary (desk) market research to investigate trends in the wedding photography industry.

Identify **one** secondary market research source which you could use and explain **one** benefit of using this method.

Secondary market research source

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Benefit

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.....  
.....  
.....

**[3]**

During a typical month you forecast that you will photograph at six weddings. You have also forecast that your typical monthly costs will be:

- fixed costs of £3 000
- total variable costs of £600.

(a) Calculate the total cost for a typical month.

Show your workings

Answer .....

[2]

(b) August is expected to be your busiest month and you forecast that you will photograph at 10 weddings during the month. Calculate your total costs for August.

Show your workings

Answer .....

[4]

(c) Identify **three** examples of variable costs which you will need to pay.

- 1 .....
- 2 .....
- 3 .....

[3]

You are keen to obtain feedback from your customers after each wedding.

(a) Explain **one** reason why obtaining customer feedback is important when running a new business.

.....  
.....  
.....  
..... [2]

(b) Identify **three** customer feedback techniques which you could use.

1 .....  
2 .....  
3 ..... [3]

To pay for some advertising, you need to raise additional finance. You are aware of a small business grant available from your local council for young entrepreneurs.

State and explain **one** advantage and **one** disadvantage of raising finance via a small business grant.

Advantage .....  
.....  
Explanation .....  
.....  
Disadvantage .....  
.....  
Explanation .....  
..... [4]

You are considering using psychological pricing.

(a) Explain what is meant by psychological pricing.

.....  
.....  
.....  
..... [2]

(b) Identify **two** other pricing strategies which you could use.

1 .....

2 .....

[2]

