

# **BUSINESS STUDIES REVISION GUIDE**

**Answer booklet**

**Name:**

# Contents

This answer booklet is designed to help you mark your own work.

Don't use it to cheat!

That would be silly and ultimately pointless because you will learn nothing!



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# 1) Financial Documents

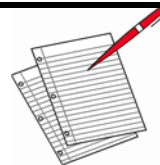
## Financial Documents (Can you remember???)

Match the documents up to the correct definitions!

Remittance Advice  
Sales Invoice  
Delivery Note  
Order Form  
Cheque  
Goods Received Note  
Receipt  
Statement  
Credit Note

C

- |  |                               |
|--|-------------------------------|
| a) A document sent by the supplier with the goods so that they can be checked by the purchaser | <b>Good Received Note</b>     |
| b) A document used by the purchaser to order goods from a supplier                             | <b>Order Form</b>             |
| c) A document used to confirm that payment has been made                                       | <b>Receipt</b>                |
| d) Used to reduce the amount of money owed by the customer                                     | <b>Credit note</b>            |
| e) Shows a list of transactions and the amount owed at the end of the month                    | <b>Statement</b>              |
| f) Shows how much is owed for an order   | <b>Sales Invoice</b>          |
| g) A document which is signed by the purchaser to prove that the goods have been delivered     | <b>Delivery Note</b>          |
| h) Sent with a payment to help match the payment with an invoice or statement                  | <b>Remittance Advice Slip</b> |
| i) A document used to transfer money from one bank account to another.                         | <b>Cheque</b>                 |



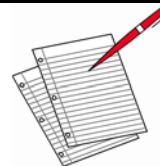
Joe Jones is the owner of a Clothes Shop called *Trendy*.

When *Trendy* orders stock a number of documents will be used. These will include:

- delivery notes
- invoices
- statements of account
- purchase orders
- remittance advice.

(a) Which document would be used in the following situations? Tick **one** box for each answer.


	<b>Delivery note</b>	<b>Invoice</b>	<b>Purchase order</b>	<b>Statement of account</b>	<b>Remittance advice</b>
<i>Trendy</i> will send this document to a supplier when they want to buy something.			✓		
The supplier will send this document to <i>Trendy</i> to request payment for the items supplied.		✓			
The supplier will send this document to <i>Trendy</i> at the end of the month to inform them how much is owed.				✓	
<i>Trendy</i> will send this document to the supplier together with their payment.					✓
The supplier will send this document with the goods required by <i>Trendy</i> .	✓				



(b) *Trendy* has received the following items from one of its suppliers:

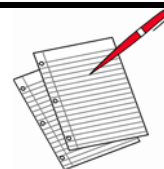
- 10 x baseball caps – Reference CF 657
- 15 x leather belts – Reference SSM 342
- 20 x silky scarves – Reference SWL 517
- 12 pairs x gloves – DE 87

Use the information above to complete the **shaded** areas of the Goods Received Note below for *Trendy*.

GOODS RECEIVED NOTE		
FROM SUPPLIER Magic Wears Smith Street Manchester M10 2RL		
<b>Order no:</b> 57894 <b>Delivery Note No:</b> 432 <b>Delivery Date:</b> Today's date		
<b>Quality</b>	<b>Description</b>	<b>Reference</b>
10	Baseball caps	CF 657
15	Leather Belts	SSM 342
20	Silky Scarves	SWL 517
12	Pairs of gloves	DE 87
<b>Received by:</b> 		
<b>Signed:</b> ..... <b>Date:</b> ..Today.....		

(c) The person responsible for receiving goods at *Trendy* wrote 20 baseball caps on the Goods Received Note, instead of 10. Explain **one** possible problem **for *Trendy*** that may result from this mistake.

This mistake could lead to *Trendy* having inaccurate records of stock which in turn could mean the business accepts an order that they cannot fulfil. This will leave the customer dissatisfied and unlikely to order again.



#### Task 4

*June Smith* sells mobile phones and mobile phone accessories. She buys most of her mobile phones and accessories from *Mobile Accessories Ltd*.

When *June Smith* buys mobile phones and accessories from *Mobile Accessories Ltd* a number of documents will be used. These will include:

- goods received notes
- statements of account
- delivery notes
- credit notes.

(a) Using the information above, identify which document would be used in the following situations. Tick **one** box for each answer.

- (i) *Mobile Accessories Ltd* will send this document to *June Smith* with the mobile phones and accessories.

Goods received note	
Delivery note	✓
Credit note	

- (ii) *June Smith* will keep this document for accounting and stock purposes *after the goods have been delivered*.

Goods received note	✓
Delivery note	
Statement of account	

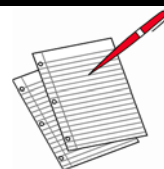
- (iii) *Mobile Accessories Ltd* will send this document to *June Smith* at the end of the month to inform her how much is owed.

Statement of account	✓
Delivery note	
Credit note	

- (iv) *Mobile Accessories Ltd* will send this document to *June Smith* should they owe *June* some money.

Goods received note	
Statement of account	
Credit note	✓





(b) Below is the Invoice for an order that *June Smith* has made. Complete the **shaded** boxes of the Invoice for the goods received and accepted by *June Smith*.

INVOICE					
				From: Mobile Accessories Ltd 90 Tele Road Rogford RP0 8PN	
Invoice No: 5623147			Date: 24 <sup>th</sup> May 2014		
TO: June Smith Mobile Phone Shop 478 High Street Rogford RP9 4RT					
Your Order Number		Delivery Date		Terms	
76431		2 <sup>nd</sup> June 2014		28 days net	
Quantity	Ref. Number	Description	Unit Price	Total	
				£	p
12 dozen	NC7 654	Nokia Cases	£15.00	180	00
50	SHFS 654	Samsung Hands Free Set	£20.00	1000	00
100	BS 136	Blueberry Sets	£35.00	3500	00
<b>Sub Total</b>				4680	00
<b>VAT @ 20%</b>				936	00
<b>Total</b>				5616	00

(c) *Mobile Accessories Ltd* has recently sent out a number of Invoices containing errors.

Explain **two** possible problems **for** *Mobile Accessories Ltd* when mistakes are made on Invoices.

Problem 1:

The wrong amount could be paid which would lead to inaccurate records and potentially lost money.

Problem 2:

Customers are likely to avoid using the company again in the future as they would perceive the business as being unreliable.



To:  
**Gold'n'Stuff**  
**Wholesale Jewellery Supplies**  
**Unit 3**  
**Navigation Business Park**  
**St Annes**  
**SX23 9NW**

(1)

Order Number: **2735**

(1)

Qty	Item Description	Order code	Case Quantity	Case Price		Total Price	
				£	p	£	p
3	30 Inch 13mm Luxury 24K Gold Plated Curb Chain	30GPC	5	45	00	135	00
2	20 Inch 13mm Luxury 24k Gold Plated Curb Chain	20GPC	<b>10</b>	93	20	186	40
4	36 Inch 6mm 24k Gold Plated Wheat Necklace	36GPW	5	<b>35</b>	<b>00</b>	<b>140</b>	<b>00</b>
<b>Total</b>						<b>461</b>	<b>40</b>

(1)

(1)

(2)

(1)

Delivery Terms: **IMMEDIATELY** (do NOT accept ASAP)

(1)



(b) Outline the purpose of a Credit Note for a business such as GGJ.

(2)

Answer	Mark
A credit note refunds the buyer (1) for errors/damages/shortages (1) e.g. a credit note is used to pay a business back (1) due to goods being damaged/incorrect/not delivered (1)	(2)

The Credit Note GGJ received from BetterBox contains an error.

(c) Identify the error on the Credit Note.

(1)

Answer	Mark
1 mark for identifying the error The VAT has been taken away instead of added on/the total cost is wrong (should be £62.40) (1)	(1)

(d) Explain the effect on GGJ if Isabel does not spot this error.

(4)

Answer	Mark
If Isabel does not spot the error the accounts will not be accurate/will be wrong (1) and this will result in GGJ losing £20.80 / cash / money (1) having less profit (1) spending time requesting a new credit note (1)	(4)

.....

.....

.....

.....



### SALES INVOICE

Code	Description	Quantity	Unit Price (£)	£	p
EW354	Ladies Evening Watch (gold plate)	1	115.83	115	83
LOB56	Ladies 4mm Oval Bangle (9 carat gold)	1	184.95	184	95

<b>Goods Total</b>	<b>300</b>	<b>78</b>	<i>(1)</i>
<b>Discount @ 5%</b>	15	04	<i>(1)</i> <i>OFR</i>
<b>Sub Total</b>	<b>285</b>	<b>74</b>	<i>(1)</i> <i>OFR</i>
<b>VAT at 20%</b>	57	15	<i>(1)</i> <i>OFR</i>
<b>Total to Pay</b>	<b>342</b>	<b>89</b>	<i>(1)</i> <i>OFR</i>

*Accept non rounded figures of £57.14 and £342.88*



You have started to draw the chart below to help Kerry Ann understand the flow of financial documents.

Your chart shows the order in which documents are sent when *Simply Bake plc* buys from a supplier. Each arrow points in the direction that the document takes.

(c) Complete the chart below.

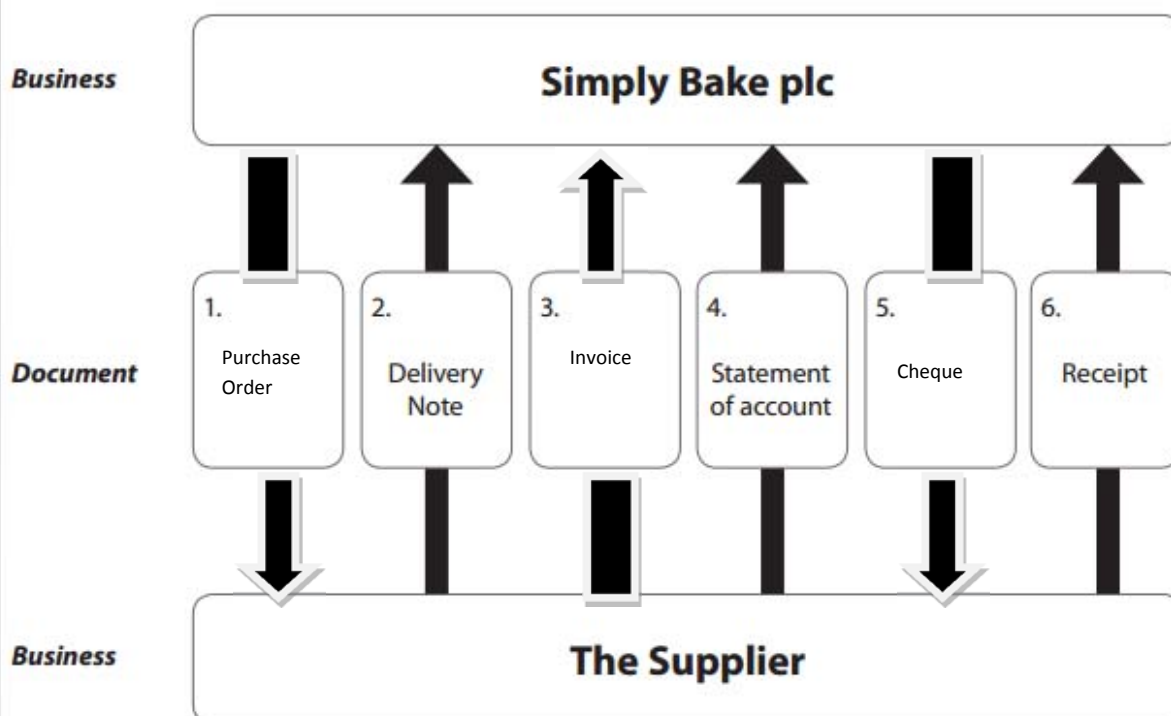
- (i) In each of the three blank boxes 1, 3 and 5, write the name of **one** of the documents listed below in the correct order, from left to right.

(3)

- 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.

(3)



# 2) Computerised Accounting Systems

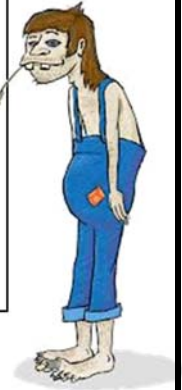


Billy-Bob Brannan has been told by his friend Jimmy-John Jingle that he would benefit from introducing a computerised accounting system to help him complete his financial documents. Billy-Bob isn't sure what a computerised accounting system is or what it does. Help Billy-Bob out by explaining what a computerised accounting system is and how it might help him with his business selling Banjo's.

A Computerised accounting system is an automated system used to create financial documents and manage business accounts. Billy-Bob would benefit from using a computerised accounting system as it would reduce the amount of human input needed in creating the documents and organising the company's account. This saves both time and money that can be used elsewhere.

Billy-Bob likes the sound of introducing a computerised accounting system but just as he was looking to invest, Jimmy-John explains that a computerised accounting system could potentially lead to a drop in profits. Billy-Bob is confused again. Help him out again by explaining why a computerised accounting system could lead to a drop in profits

Computerised accounting systems are not always guaranteed to be a success. Computerised accounting systems are very expensive to install and maintain. If Billy-Bob doesn't get regular orders he might struggle to afford the new system. There are also costs if the system goes wrong which could be so expensive that Billy-Bob cannot afford to maintain the system. If Billy-Bob's costs increase then this will reduce the amount of profit his business is making.





ETP uses a computerised accounting system.

- 2 (a) Outline **one** advantage of preparing a business document using a computerised accounting system rather than a manual system.

(2)

One mark for an appropriate advantage and one mark for development **of the advantage**. Possible advantages include:

- The invoice is produced automatically/quicker than with a manual system
- Layout is saved in the system
- Printed automatically/does not have to be written out
- Layout can be saved
- Can be emailed
- Manipulates data easily
- Accurate calculations/less possibility of errors when compared to a manual system
- Can be backed up for security

Sam is considering installing a computerised accounting system rather than keeping the manual accounting system she has at present.

- 5 (a) Explain **one** advantage to GGJ of introducing a computerised accounting system.

(3)

1 mark for the advantage and up to 2 marks for the development.

Possible advantages include:

- Efficiency - work can be completed faster than using a manual system
- Accuracy - work is more likely to be accurate than with a manual system
- Information is now stored electronically
- Accounting records are automatically updated and so account balances (e.g. customer accounts) will always be up-to-date
- Data is instantly available
- Professionalism
- Legibility
- Electronic backups can be made
- Software can generate reports
- Improved security – passwords etc
- Allows data to be manipulated
- Can integrate with other programmes
- Staff reduction

For example:

- Computerised accounting systems make the business more efficient (1) as work can be completed faster than using a manual system (1) which gives Sam more time to do other things in the business (1)



(b) Explain **one** disadvantage to *GGJ* of introducing a computerised accounting system. (3)

1 mark for the disadvantage and up to 2 marks for the development.

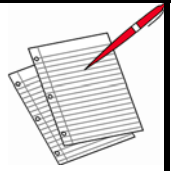
Possible disadvantages include:

**Disadvantages:**

- A small businesses such as *GGJ* may be wasting money purchasing a computerised accounting system
- It takes time to set up a computerised accounting system
- Information could be lost if computer gets virus/breaks down/files can become corrupted
- There may be input errors/human error/'rubbish in, rubbish out'
- They will be dependent on technology
- Set up costs can be high
- Requires time/money for training

*For example:*

- *GGJ* are a small business (1) who can manage accounting manually (1) – therefore the cost of a computerised system could be greater than the advantages it brings (1).
- There may be input errors/human error (1) and so the wrong original figures may be entered (1) which will make all the accounts wrong (1)



# 3) Business Costs

State two examples of running costs and explain how you know they are running costs

Suitable running costs can include:

- Utility Bills
- Staff Wages
- Rent
- Equipment Maintenance
- Stock purchases / Supplier deliveries

These are all running costs because they are ongoing payments that are made on a consistent basis.

Running or start-up?

Cost	Start-up cost	Running cost
Rent		✓
Computer equipment	✓	
Utility bills		✓
Staff wages		✓
New factory building	✓	
Equipment Maintenance		✓
Initial advertising	✓	
Annual staff training		✓
Delivery Vehicle	✓	



Macy is the owner of Grandio Supermarkets. She has been told that she can reduce costs by using ICT. She has money to invest but is unsure of what to buy. Advise Macy on what she could buy and explain how this will benefit the company.

Macy could invest in:

Computerised accounting systems to speed up the process of creating financial documents – This would mean time and money would be saved to be used in other areas of the business.

Barcode scanners – This would allow Macy to keep a close check on stock as it is all done automatically. This again saves time rather than having to count all stock manually. It could also save the cost of paying people to do stock checks.



2 *Simply Bake plc* has to pay different types of costs.

(a) Using the information below, list the costs for *Simply Bake plc* as **either** start-up or running costs by ticking the correct column. The first one has been completed for you.

(5)

	Start Up Costs	Running Costs
A stock of flour		✓
Specialist equipment needed to make the cakes		✓
A monthly advert in a food magazine to promote the company's products		✓
Supplies of tea and coffee for clients and staff		✓
Staff wages		✓
Industrial ovens		✓



2 When Sam started GGJ she identified and listed the following costs:

- tills
- a monthly advert in the local newspaper to promote the store's products
- display cabinets for the shop floor
- stock of tea and coffee for the staff.

(a) (i) What is meant by the term **start-up cost**?

(1)

Start up costs are incurred at the time of/before the business starts trading

(1)

(ii) Identify a start-up cost from **Sam's list above**.

(1)

An example are the cabinets for the shop floor/ a till

(1)

(b) (i) What is meant by the term **running cost**?

(1)

Running costs are incurred in the normal course of regular trading

(1)

(ii) Identify a running cost from **Sam's list above**.

(1)

An example is tea and coffee for the staff/ a monthly advert in the local paper to promote the store's products

(1)



4 Eira is considering moving the business to a purpose-built studio.

She understands that this will involve both start-up and running costs.

(a) Give an example of **one** start-up cost and **one** running cost that Eira might face.

	Answer	Mark
Start-up cost .....	1 mark for a start-up cost and one for a running cost that Eira might face.  Start-up cost e.g. <ul style="list-style-type: none"> <li>• Furniture</li> <li>• Studio equipment</li> <li>• Till</li> </ul> Running cost e.g. <ul style="list-style-type: none"> <li>• Power</li> <li>• Materials (e.g. Photo frames, printing paper, DVDs)</li> <li>• Wages</li> </ul> Accept any appropriate answer	(2)
Running cost .....		(2)

(b) Explain the difference between start-up and running costs.

Answer	Mark
Start-up costs are the things Eira needs to get the new studio going/start the business (1) these are mainly one off payments that do not come again (1)  Running Costs are the day to day costs of running the business/occur regularly (1) they usually calculated in terms of monthly or annual costs (1)  Accept any appropriate answer. Do not accept examples of these costs for a second mark.	(4)



# 4) Payment Methods

Create your own payment methods cheat sheet



Methods of Payment	Customer	
	Advantage	Disadvantage
<p>Cash</p>	<ul style="list-style-type: none"> <li>• Quick and easy</li> <li>• Confirmation of payment</li> <li>• Cannot overspend</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to lose</li> <li>• Only accepted in one country</li> <li>• Cannot use online</li> </ul>
<p>Credit Card</p>	<ul style="list-style-type: none"> <li>• Customers can spend money they do not have.</li> <li>• Allows you to purchase things and pay back over time</li> <li>• Fraud protection</li> <li>• Can be used online</li> </ul>	<ul style="list-style-type: none"> <li>• Interest on all borrowing</li> <li>• Can quickly lead to lots of debt</li> <li>• Not accepted everywhere</li> </ul>
<p>Debit Card</p>	<ul style="list-style-type: none"> <li>• Cannot overspend</li> <li>• Use online</li> <li>• No money lost if card goes missing</li> <li>• Fraud protection</li> </ul>	<ul style="list-style-type: none"> <li>• Not accepted everywhere</li> <li>• Cannot spend money you don't have.</li> </ul>
<p>Cheque</p>	<ul style="list-style-type: none"> <li>• Can take advantage of 3 day clearing.</li> <li>• Secure – Not worth anything if lost</li> </ul>	<ul style="list-style-type: none"> <li>• Outdated – no longer accepted</li> <li>• Slow transfer</li> <li>• Cheques can 'bounce' which means the money doesn't transfer</li> </ul>
<p>Credit Transfer</p>	<ul style="list-style-type: none"> <li>• Instant</li> <li>• Secure</li> </ul>	<ul style="list-style-type: none"> <li>• Have to set up the payment each time</li> <li>• Need access to online system or go to the bank</li> </ul>
<p>Direct Debit</p>	<ul style="list-style-type: none"> <li>• Less hassle – easy to set up – Payments are all set up for you – Never miss a payment</li> </ul>	<ul style="list-style-type: none"> <li>• Has to be monitored to make sure correct amount is taken</li> </ul>
<p>E-Transfer</p>	<ul style="list-style-type: none"> <li>• Done online</li> <li>• Secure</li> <li>• Instant</li> </ul>	<ul style="list-style-type: none"> <li>• Need internet connection</li> <li>• Need an account</li> </ul>



Methods of Payment	Business	
	Advantage	Disadvantage
<p>Cash</p>	<ul style="list-style-type: none"> <li>• Instant – allows money to be re-invested</li> <li>• Can be put into the bank straight away</li> <li>• No potential for payment errors</li> </ul>	<ul style="list-style-type: none"> <li>• Needs counting</li> <li>• Could be fake</li> <li>• Not as secure – could be robbed</li> </ul>
<p>Credit Card</p>	<ul style="list-style-type: none"> <li>• Guaranteed payment</li> <li>• More customers</li> <li>• Fast transfer</li> <li>• Customers buy more as they are borrowing</li> <li>• More customers online</li> </ul>	<ul style="list-style-type: none"> <li>• Need to buy the equipment (Chip &amp; Pin)</li> <li>• Not all customers use credit cards</li> <li>• Cost to process transaction</li> </ul>
<p>Debit Card</p>	<ul style="list-style-type: none"> <li>• More customers</li> <li>• Fast transfer</li> <li>• Online payment</li> </ul>	<ul style="list-style-type: none"> <li>• Need to buy the equipment (Chip &amp; Pin)</li> <li>• Customers might not have the funds and so the transaction will fail</li> <li>• Cost to process transaction</li> </ul>
<p>Cheque</p>	<ul style="list-style-type: none"> <li>• More customers – People who still use them</li> </ul>	<ul style="list-style-type: none"> <li>• Long time to process</li> <li>• Not always guaranteed – some may bounce</li> <li>• Cost to process</li> <li>• Have to physically travel to the bank</li> </ul>
<p>Credit Transfer</p>	<ul style="list-style-type: none"> <li>• No errors – can check the amount</li> <li>• Instant payment</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to keep a track of the accounts</li> </ul>
<p>Direct Debit</p>	<ul style="list-style-type: none"> <li>• Allows them to quickly take payment from the customer for the right amount</li> </ul>	<ul style="list-style-type: none"> <li>• Have to be set up – can take time</li> <li>• Admin time – each month the money has to be requested</li> </ul>
<p>E-Transfer</p>	<ul style="list-style-type: none"> <li>• More customers – attracts people shopping online</li> <li>• Cheap and easy to set up</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to keep a track of payments</li> <li>• Needs an internet connection</li> <li>• Needs admin to be trained on how to use it</li> <li>• Payment can be delayed</li> </ul>



### Practice MOP questions

Explain one advantage and one disadvantage to **Sharpe's world of knives** of allowing customers to pay using cash. (4)

Advantages can include:

Quick cash – received immediately and can then be re-spent in other areas of the business

No need for expensive machinery (chip and pin)

No processing fees

Disadvantages can include:

Could result in human error counting it all up

Is not very secure having lots of cash on the premises, plus it has to be transported to the bank.

**The wonderful world of Wilson** have recently conducted some market research and found that most of their customers prefer to pay by debit card rather than cash. Explain why some customers may prefer debit cards rather than cash (3)

Reasons could include:

Do not have to carry lots of cash; this could be insecure or lost.

Debit cards are also useful to use online.

Outline one advantage to **customers** of allowing them to pay by cheque when purchasing sports cars from Carr's cars. (2)

The customer would get to keep the money in their account for another three days.

Purchasing a car is likely to be expensive and involve a lot of money. Paying by cheque is much more secure than carrying large volumes of cash.

Outline one disadvantage to **Cooper's clothes** of allowing customers to pay by credit card. (2)

Coopers Clothes would have to pay commission each time they process a card payment. This will reduce their profits.

Outline one advantage to **Richard's Reem Refrigerators** of allowing their customers to pay by debit card (2)

This could increase customers as debit cards are a preferred payment method for a lot of customers.

Customers feel more secure in making payments rather than having to carry large amounts of cash.

Transfer of cash is relatively quick





Eira pays some of her suppliers using online payments through her bank account.

**3** Explain **two** advantages to Eira of using online payments.

(6)

Answer	Mark
<p>1 mark for advantage and 2 for development x 2</p> <p>Possible answers include:</p> <ul style="list-style-type: none"><li>• Using online payments will save Eira time (1) as she will not have to travel to the bank/to her suppliers/she can set payments to go out automatically (1) making the business more efficient (1)</li><li>• Online payments are more convenient for Eira (1) as she does not have to wait for her bank to open for business (1) she has access 24/7/access from any computer (1)</li><li>• She can transfer funds electronically/instantly (1) without having to visit the bank/send cheques/visit suppliers (1) saving her transport costs/postage costs/time (1)</li><li>• More secure/there is less risk (1) as the transfer is electronic (1) and therefore cash cannot be stolen on the way to the bank/cheques cannot get lost in the post (1)</li></ul>	<p>(6)</p>



Jen's customers can buy drum kits and accessories using credit cards.

(c) Outline **three** advantages to the **customers** of *DNS* of being able to pay using a credit card.

(6)

**2 marks for advantage – 1 for the advantage and 1 for the development.**

**(1+1) x 3**

**Possible answers include:**

- **Bank balance (1) – customer does not need to have the money at that time (1)**
- **More secure (1) - customer does not need to carry large amounts of cash/greater consumer protection with credit cards/credit card company keeps a list of transactions (1)**
- **Customer preferences (1) – people expect to be able to buy using “plastic” (1)**
- **Customer can buy over the telephone (1) – this means they do not have to take time out to visit the shop (1)**
- **Deferred payment (1) – customer has longer to pay (1)**
- **Choice of payments (1) customer can chose to pay some or all (1)**
- **Loyalty/reward schemes (1) – customer may be collecting rewards (1)**

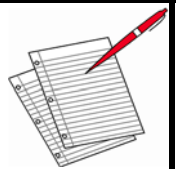


ETP's customers like to pay in a variety of ways.

(b) Explain why some customers may prefer to use cash rather than a card.

(3)

Answer	Mark
<p><b>This should be answered from the viewpoint of the customer not ETP</b></p> <p>There will be one mark for identifying an appropriate benefit and up to two marks each for two clearly linked statements which may use linking statements such as: because, this leads to, this results in, thus, etc. Alternatively candidates may give reasons for using cash and explain them</p> <p>Possible benefits/reasons include:</p> <ul style="list-style-type: none"><li>• No need for a bank account</li><li>• No charges incurred when using cash</li><li>• Cannot overspend</li><li>• Safe method of payment</li><li>• No risk of card cloning</li><li>• Flexible/accepted everywhere</li><li>• Reduces impulse buying</li><li>• They may not want to get into debt</li></ul> <p>For example:</p> <p>The customer may feel that it is the safest method of payment (1) because it guards them against credit or debit card cloning (1) which could lead to money being taken from their account (1)</p>	<p><b>(3)</b></p>



# 5) Profit & Loss Accounts

## Profit and Loss account activities

Fill in the blanks to show the order of a profit and loss account:

Sales
Cost of Sales
Gross Profit
Other Expenses
Net Profit



Complete the following profit and loss account:

Sales	£35,000
Cost of Sales	£12,000
Gross Profit	£23,000
Other Expenses	£6,000
Net Profit	£17,000

Katy has asked you to help her construct a profit and loss account using the figures below

Sales Revenue – £50,000

Electricity - £2,000

Phone Bill - £1,000

Rent - £12,000

Cost of sales – £21,000

	£	£
<b>Total sales:</b>		£50,000
Cost of Sales		£21,000
<b>Gross profit</b>		£29,000
<b>Expenses:</b>		
Electricity	£2,000	
Phone Bill	£1,000	
Rent	£12,000	
<b>Total expenses:</b>		£15,000
Net Profit		£14,000



Will is a farmer who sells cow's milk to supermarkets and vegetables in his farm shop. He needs help constructing a profit and loss account for 2012.

He has provided the following figures:

Sales of milk - £138,000	→	Both income so add them both together to work out total sales
Electricity - £23,000		
Revenue from farm shop – £24,000		
Rent - £12,000		
Equipment - £15,000		
Cost of sales – £81,000		

	£	£
<b>Total sales:</b>		£162,000
Cost of Sales		£81,000
<b>Gross profit</b>		£81,000
<b>Expenses:</b>		
Electricity	£23,000	
Equipment	£15,000	
Rent	£12,000	
<b>Total expenses:</b>		£50,000
Net Profit		£31,000

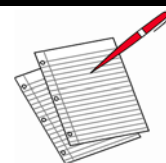
If Will the farmer wanted to increase his Net Profit what would you recommend he does?

Will could try and increase his Net Profit by:

Making more sales

Increases the price of his products and hope that customers still buy them

Reduce his costs



Issac creates wooden garden furniture and sells them on his online store; [www.issacswood.com](http://www.issacswood.com). He has asked for your help creating a profit and loss account for the previous 6 months:

Here are his figures: (This one is tough – take your time)

Online Sales - £86,000

Raw materials - £37,000

Rent - £12,000

Website maintenance - £4,000

Equipment - £25,000

Petrol - £1,500

Cost of sales are the costs directly associated with creating the product. Raw materials are therefore the cost of sales

	£	£
<b>Total sales:</b>		£86,000
Cost of Sales		£37,000
<b>Gross profit</b>		£49,000
<b>Expenses:</b>		
Equipment	£25,000	
Website Maintenance	£4,000	
Rent	£12,000	
Petrol	£1,500	
<b>Total expenses:</b>		£42,500
<b>Net Profit</b>		£6,500





- 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 Profit and Loss summary for *DNS* for last month.

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

	£	£
<b>Total Sales</b>		<b>5 625</b>
<b>Cost of Sales</b>		<b>2 225</b>
<b>Gross Profit</b>		<b>3 400</b>
<b>Expenses:</b>		
<b>Wages and Salaries</b>	<b>900</b>	
<b>Rent, Rates and Insurance</b>	<b>800</b>	
<b>Light, Heat and Power</b>	<b>250</b>	
<b>Telephone and Broadband</b>	<b>80</b>	
<b>Total Expenses:</b>		<b>2 030</b>
<b>Net profit</b>		<b>1 370</b>

- (a) Explain to Morgan the purpose of a Profit and Loss Account.

(2)

e.g. The Profit and Loss Account shows the profit or loss of A business over a given period of time e.g. 3 months, 1 year, etc. (1) It describes how the profit or loss arose – e.g. categorising costs between cost of sales and operating costs/it shows both revenues and costs (1)



Tess has asked you to help construct a Profit and Loss account (Income Statement) for ETP for 2011. She has sent you the following:

## Memo

**From:** Tess

Here are our figures.

Admission tickets	£925 000
Food sales	£110 000
Cost of sales	£232 500
Wages and salaries	£357 000
Rent, rates and insurance	£161 900
Light, heat and power	£ 65 000
Telephone and broadband	£ 30 000

(b) Use this information to construct the Profit and Loss account for ETP.

### Profit and Loss Account for Elmwood Theme Park 2011

	£	£	
<b>Total Sales</b>		1 035 000	(1)
<b>Cost of Sales</b>		232 500	(1) both
<b>Gross Profit</b>		802 500	(1) OFR
<b>Expenses:</b>			
<b>Wages and Salaries</b>	357 000		(1) both
<b>Rent, Rates and Insurance</b>	161 900		(1) both
<b>Light, Heat and Power</b>	65 000		(1) both
<b>Telephone and Broadband</b>	30 000		(1) both
<b>Total Expenses:</b>		613 900	
<b>Net profit</b>		188 600	(1) (both) OFR

Complete the profit and loss account for The Kimberley Hotel for year ending 20



<b>The Kimberley Hotel</b>		
<b>Profit and Loss Account for the year ended</b>		
<b>31st December 2011</b>		
	<b>2011 £</b>	
<b>Sales</b>		
Hotel Rooms		70 000
Bar and Restaurant		80 000
Conference Rooms		50 000
<b>Total Sales</b>		<b>200 000 (1)</b>
Cost of Sales	150 000	
<b>Gross Profit</b>		<b>50 000 (1)</b>
<b>Less Expenses</b>		
Rent, Rates and Insurance	6 000	
Wages and Salaries	9 250	
Light, Heat and Power	3 500	
Telephone and Broadband	1 250	
<b>Total Expenses</b>		<b>20 000 (1)</b>
<b>Net Profit</b>		<b>30 000 (1)</b>



Final challenge!

Create a profit and loss account using the figures below:

Online Sales - £186,000  
In Store Sales – £195,000  
Rent - £87,000  
Equipment - £55,000  
Utility Bills - £11,500  
Wages - £169,000  
Cost of Sales - £81,000

Total Sales	£381,000
Cost Of Sales	£81,000
Gross Profit	£300,000
Other Expenses	
Rent	£87,000
Equipment	£55,000
Utility Bills	£11,500
Wages	£169,000
Total Expenses	£322,500
Net Profit	(£22,500)

Remember minus numbers are written in brackets!



# 6) Balance Sheets

## Complete the definitions

**Fixed Assets:** ..... Business belongings that are expected to be kept for over 12 months

**Current Assets:** ..... Business belongings that are expected to be kept for under 12 months

**Liabilities:** ..... Debts that the business has to pay.....

**Creditors:** ..... People who you owe money to – They have given you credit

**Debtors:** ..... People who owe you money – They in debt to you.....

Tick the appropriate box to show where each item would appear in the balance sheet.

	<b>FIXED ASSETS</b>	<b>CURRENT ASSETS</b>	<b>LIABILITIES</b>
Stock of Goods		✓	
Mortgage			✓
Office furniture	✓		
Premises	✓		
Creditors			✓
Debtors		✓	
Machinery	✓		
Cash		✓	
Shareholders funds		✓	
Bank Overdraft			✓



Look at the information below and in the end column decide if the item is an asset or liability:

<b>Item</b>	<b>Amount £</b>	<b>Asset or liability?</b>
Cash in the till	565	Asset
Suppliers awaiting payment	1,000	Liability
Delivery van	5,000	Asset
Money in the bank	8,000	Asset
Stock	6,500	Asset
Warehouse building	120,000	Asset
Utility Bill	6,000	Liability

What is the total value of current assets for this business?  $£565 + £8,000 + £6,500 = £15,065$

What is the value of current liabilities for this business?  $£1,000 + £6,000 = £7,000$

What is the working capital for this business? Current assets – Current Liabilities

$$£15,065 - £7,000 = £8,065$$

Work out the following for Ice Snax LTD

Ice Snax Ltd	£
Bank	500.00
Creditors	200.00
Loan from bank	750.00
Debtors	300.00
Stock	1,000.00
Cash	250.00

Current assets = £500 + £300 + £1,000 + £250 = £2,100

Current Liabilities = £200 + £700 = £900

Working Capital = £2,100 - £900 = £1,200

Look at the list below.

Cash in the bank; overdraft to be paid; cash in the till; advertising bill to be paid within 20 days; bank loan to be paid over five years; stock in the store room; a business van; shelving for the shop; mortgage to buy the shop; business rates to be paid within one month; tools used by the business; office furniture; tax to be paid; customers who owe the business money.

Separate the list into *assets and liabilities*

Assets	Liabilities
Cash in the bank	Overdraft to be paid
Cash in the till	Advertising bill to be paid
Stock in the store room	Bank Loan
Business Van	Mortgage
Shelving in the shop	Business Rates
Tools used by the business	Tax to be paid
Office Furniture	
Customers who owe the business money	



(d) In the table below, identify whether the liability is **current or long-term**.

Liabilities	Current	Long-term
Bank loan	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Money owed to suppliers	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Utility bills	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Complete the shaded cells in the following balance sheet:  
 (Use your notes if you need to)

Balance sheet for Harriet's Hardware Store		
	£	£
<b>Fixed Assets</b>		
Property		220,000
Equipment		40,000
		260,000
<b>Current Assets</b>		
Stock		35,000
Cash in the bank		8,000
		43,000
<b>Current Liabilities</b>		
Utility Bills	7,000	
Supplier Bill	24,000	
<b>Working Capital</b>	12,000	
<b>Net Total Assets</b>	272,000	
<b>Financed by:</b>		
Capital		200,000
Profit		72,000
		272,000





CJG Photography offer photo shoots as well as selling camera equipment and accessories in their store.

(c) In the table below, identify whether the asset is **fixed** or **current**.

Assets	Fixed	Current
Cash	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Camera equipment	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Money in bank	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Stock of DVDs and photo frames	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Lighting equipment	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Laptop computer	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(6)

This one is tough because it's easy to mistake this for camera equipment they are selling. However if they are selling the object it is normally labelled stock. Therefore this would have said stock of camera equipment

(c) State the financial term calculated using the following formula:

Current Assets minus Current Liabilities.

(1)

**Working Capital**

Kim has left the following information for you.

Assets and Liabilities for The Kimberley Hotel 30th April 2012	
Fixtures and fittings	£100 000
Money in bank	£25 000
Kitchen equipment	£50 000
Bank loan	£80 000
Debts owed to suppliers	£20 000

(c) Using the formula: Working Capital = Current Assets - Current Liabilities and the figures above, calculate the working capital for The Kimberley Hotel.

(2)

Show your workings.

**1 mark for calculation + 1 mark for value**

(2)

(Current Assets + Fixed Assets) - Current Liabilities  
Money in bank - debts = working capital  
**(£25 000 - £20 000) = £5 000**



Complete the shaded boxes to help Sarena complete her balance sheet

Balance sheet for Sarena's Sugary Snacks 2013		
	£	£
<b>Fixed Assets</b>		
Property		120,000
Vehicle		8,000
		128,000
<b>Current Assets</b>		
Stock		15,000
Cash in the bank		3,000
		18,000
<b>Current Liabilities</b>		
Utility Bills	7,000	
Supplier Bill	14,000	
<b>Working Capital</b>	(£3000)	
<b>Net Total Assets</b>	125,000	
<b>Financed by:</b>		
Capital		112,000
Profit		13,000
		£125,000

(1)

(1)

(1)



# Solvency Ratios

Use the following information to calculate the current and acid test ratios:

Current assets	12,000
Current liabilities	14,000
Stock	2,000

**The Current Ratio:** Current assets ÷ Current Liabilities

$$£12,000 \div £14,000 = 0.8;1$$

What does this show?

*This shows that the business has a below ideal value and may struggle to pay back debts as they do not have enough assets to pay for their liabilities.*

**The Acid Test Ratio:** Current assets - Stock ÷ Current Liabilities

$$£12,000 - £2,000 \div £14,000 = 0.7;1$$

What does this show?

*This further confirms that this business would struggle to pay back debts as they do not have the assets to pay for their liabilities.*

Is this business solvent?

*No, this business is not solvent as it does not have ideal values for the current ratio or the acid test ratio.*

Current assets	18,000
Current liabilities	10,000
Stock	4,000



Have another go:

**The Current Ratio:** Current assets ÷ Current Liabilities

$$£18,000 \div £10,000 = 1.8;1$$

What does this show?

*This shows that the business has 1.8 worth of assets to every liability. This is a positive figure and shows they are able to pay back their debt.*

**The Acid Test Ratio:** Current assets - Stock ÷ Current Liabilities

$$£18,000 - £4,000 \div £10,000 = 1.4;1$$

What does this show?

*This shows the business has enough assets to pay back debts regardless of how much of its stock it sells. This acid test ratio is an ideal value.*

Is this business solvent?

*Yes this business is solvent as both values are within the ideal value range. It shows they have enough assets to pay off their liabilities. It also shows they would be able to pay off their liabilities even if they were unable to sell their stock.*

Ok one more:

FIXED ASSETS	<b>£155,000</b>
CURRENT ASSETS	<b>£75,000</b>
CURRENT LIABILITIES	<b>£60,000</b>
STOCK	<b>£20,000</b>

**The Current Ratio:** Current assets ÷ Current Liabilities

$$£75,000 \div £60,000 = 1.25:1$$

What does this show?

*This shows that the business does have more current assets than liabilities but it is just short of the ideal value. The business might struggle to pay off debts*

**The Acid Test Ratio:** Current assets - Stock ÷ Current Liabilities

$$£75,000 - £20,000 \div £60,000 = 0.9:1$$

What does this show?

*This shows the business would not be able to pay debts if they were unable to sell all of their stock. They would only have 0.9 worth of assets to every 1 debt. This would mean they are unable to pay.*

Is this business solvent?

*The business does not have ideal values for either ratio and therefore would not be considered to be a solvent business. They need to sell more stock and turn this in to cash which would in turn increase their current assets. They would then be able to be considered solvent.*

If a business has a current ratio of 2.3 what does this mean?

It means the business has 2.3 worth of assets to every 1 debt. This is positive because it means they have enough current assets to pay current liabilities. However, it is slightly above the ideal range. This might mean they have current assets that are not be fully utilised. This could be unsold stock or money in the bank that isn't being used. They should consider using these assets in order to generate more income for the business.

David is concerned as his Acid-Test ratio is under the ideal value. He is unsure of how to improve the ratio. Advise David on how this can be done.

David would need to increase his acid test ratio by increasing his current assets or by decreasing his current liabilities. David needs to be aware that stock will not count towards current assets in the acid test ratio and therefore producing more stock will not correct the problem. David needs to turn sell his current stock and turn this in to profit that be used to pay off liabilities or be re-invested.



Ratio	2010	2009
Acid Test Ratio	1:1	0.75:1
Current Ratio	1.2:1	1:1

Jenny is considering expanding her business but is unsure if she can afford to do so. Using the solvency ratios advise Jenny on

(8)

- Current Ratio has increased from 1:1 to 1.2:1, Acid Test Ratio has increased from 0.75:1 to 1:1.
- These liquidity ratios show that debts can be paid as they fall due, liquidity is better in 2010 than in 2009 but is still very close to 1:1, it would be better if this were higher e.g. 1.5:1.
- Further improvements will be costly and liquidity could be further affected.
- Ratios are only indicators.

Level	Mark	Descriptor
No mark	0	Non-rewardable material. No mark is to be awarded if the candidate makes a basic statement without any assessment i.e. Ratios will be useful to the cinema
Level 1	1 – 2	An answer which is giving a simple judgement with no support  A list of bullet points will gain a maximum of 2 marks assuming they are relevant.
Level 2	3 – 5	Candidate addresses both liquidity ratios and makes judgments about both and offers some support which includes at least <u>one</u> reason/cause/consequence.  At the middle of the level the answer will make some reference to how it impacts on the decision
Level 3	6 – 8	to expand Candidate addresses both liquidity ratios giving a judgement with some support in the form of at least <u>two</u> reasons/causes/consequences etc.  assessment will be given in the form of some counterbalancing factor such as a con/disadvantage/cost etc. Or uses the 'it depends' rule.  At the top of the level a conclusion will be offered which directly relates to the question and uses the analysis to provide a coherent summary of the analysis.



Mohammed is unsure of what his businesses ratios actually mean. He asked his finance department to calculate the ratios and send them to you.

They have calculated some ratios to show the company's performance over two years.

	2009	2008
<b>Current Ratio</b>	<b>1.6 to 1</b>	<b>1.3 to 1</b>
<b>Acid Test Ratio</b>	<b>1.5 to 1</b>	<b>1.2 to 1</b>

Explain to Mohammed what the ratios show about the solvency of his business. (6)

- *Current ratio and acid test ratios have increased showing greater liquidity*

*Simply Bake plc* also has better liquidity in 2009. This is shown in the increase in both current ratio and acid test ratios. This is important as the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.





# 8) Profitability Ratios

Ok your turn:

Work out the profitability ratios for this company:

Sales	100,000
Gross profit	75,000
Net profit	11,000
Capital	5,000

Remember to show your working...and give your answer to two decimal places!

	Calculation	Answer
Gross Profit Margin	$\text{£}75,000 \div \text{£}100,000 \times 100$	75%
Net Profit Margin	$\text{£}11,000 \div \text{£}100,000 \times 100$	11%
Return on Capital Employed	$\text{£}11,000 \div \text{£}5,000 \times 100$	220%

What does this show about the business?

It shows us that the business is profitable. It is difficult to compare it's performance as we cannot see previous year's figures but we can see that the business is making money. It is also clear that the owner has made a good return on the original investment he has put in to the company.



Ok try this one:

	<u>2012</u>	<u>2013</u>
SALES REVENUE	£56,000	£64,500
GROSS PROFIT	£34,500	£48,000
EXPENSES	£12,500	£22,550
NET PROFIT	£22,000	£25,450

Blane the owner invested £45,000 to start the business.

Work out the profitability ratios for both years

2012

	Calculation	Answer
Gross Profit Margin	$£34,500 \div £56,000 \times 100$	61.6%
Net Profit Margin	$£22,000 \div £56,000 \times 100$	39.28%
Return on Capital Employed	$£22,000 \div £45,000 \times 100$	48.88%

2013

	Calculation	Answer
Gross Profit Margin	$£48,000 \div £64,500 \times 100$	74.41%
Net Profit Margin	$£25,450 \div £64,500 \times 100$	39.45%
Return on Capital Employed	$£25,450 \div £45,000 \times 100$	56.55%

Blane (the owner of the business) has asked you to explain to him what the profitability ratios show.

The ratios show that Blane's business is making a profit in both 2012 and 2013. It has also shown sign of improvement from 2012 to 2013 as all percentages are higher. Sales are also higher from 2012 to 2013 so it shows that the business is selling more of its products.

It does show that although Gross profit has increased sharply from 2012 to 2013 the net profit hasn't risen quite as much. This could mean cost of sales has decreased or Blane needs to look further at other expenses as Net Profit has increased in the same way as Gross Profit.

It shows that Blane in 2013 has returned 56.55% of his original investment.

Overall this is a healthy business that is making profit and showing signs of improvement.



Kim uses accounting ratios to help interpret her financial statements.

- 5 (a) Using the information and the formulae given below, calculate the Gross Profit and Net Profit Margins for the conference rooms of The *Kimberley Hotel* for 2010. Show your workings in the relevant section of the table.

(2)

Conference Rooms	
2010	£
Sales	120 000
Gross Profit	42 000
Net Profit	14 400

Ratio	Calculation %	2010	2011
Gross Profit Margin	$\frac{\text{Gross Profit} \times 100}{\text{Sales}}$	35%	25%
Net Profit Margin	$\frac{\text{Net Profit} \times 100}{\text{Sales}}$	12%	15%

- (b) Explain **one** possible reason for the change in Gross Profit Margin and **one** for the change in the Net Profit Margin from 2010 to 2011.

(6)

<p>This is a 2 x 3 mark question. 1 mark for the change and 2 marks for developments of the reasons why this may have happened.</p> <p>GPM – has fallen/ from 35% to 25%/has fallen by 10%. This could be due to:</p> <ul style="list-style-type: none"> <li>• Decrease in sales</li> <li>• Decrease in prices charged</li> <li>• Less rooms let</li> <li>• Fewer conferences run etc.</li> <li>• Rise in cost of sales</li> <li>• More expensive suppliers</li> <li>• Rising price of raw materials etc.</li> </ul> <p>NPM – has risen from 12% to 15%/ has risen by 3%. This could be due to:</p> <ul style="list-style-type: none"> <li>• Decrease in fixed costs and/or expenses</li> <li>• Decrease in cost of utilities</li> <li>• Decreased payments to employees</li> <li>• Lower bank fees etc.</li> </ul>	<p><b>(6)</b></p>
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The past two years Sam's accountant worked out that the businesses Gross Profit Margin. There were as follows:

2009	2010
69%	71%

This year however Sam's account has said he 'can't be arsed' and therefore Sam has asked

Sales	175,000
Gross profit	136,000
Net profit	95,000
Capital	125,000

you to help out.

Using the following figures work out the Gross Profit Margin for 2011.

Ratio	Calculation
$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\begin{aligned} & \text{£}136,000 \div \text{£}175,000 \times 100 \\ & = 77.71\% \end{aligned}$
	GPM = .....

(2)

(b) Comment on the changes in the gross profit margin for ETP over the period 2009–2011.

The business has shown an upward trend in the gross profit margin as it has climbed from 69% in 2009 to 71% in 2010 and 77.71% in 2011. This is a positive sign for the business and shows they are either making more sales or reducing the cost of sales. An increase in Gross Profit will also allow the business to cover the costs of their other expenses and increase their net profit.



If they are feeling particularly evil the examiners can test you on both ratios together in one question. Try this one:

- \*6 *Simply Bake plc* has an upcoming meeting with its shareholders and wants to tell them about the **profitability** and **liquidity** of the company. The accounting department has sent you the following information taken from *Simply Bake plc* financial statements (final accounts) for 2008 and 2009.

	2009	2008
	£	£
<b>Sales</b>	2 175 000	1 800 000
<b>Gross profit</b>	653 000	540 000
<b>Net Profit</b>	108 750	36 000
<b>Capital Employed</b>	1 000 000	1 000 000

They have calculated some ratios to show the company's performance over two years.

	2009	2008
<b>Current Ratio</b>	<b>1.6 to 1</b>	<b>1.3 to 1</b>
<b>Acid Test Ratio</b>	<b>1.5 to 1</b>	<b>1.2 to 1</b>

They realise that you may need to calculate more ratios to be able to assess the financial performance of the company. They have supplied you with the following table which contains the formulas, which might be of use to you.

Ratio	Calculation
<b>Return on Capital Employed</b>	$\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100\%$
<b>Net Profit Margin</b>	$\frac{\text{Net Profit}}{\text{Sales}} \times 100\%$
<b>Gross Profit Margin</b>	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$

Using the above information, calculate any relevant ratios and assess the **liquidity** and **profitability** of *Simply Bake plc* compared with the previous year.

(10)



Continued from previous question:

Indicative content	
<p><i>From the information given:</i></p> <ul style="list-style-type: none"><li>• <i>Sales have increased by £375 000, gross profit by £113 000 and net profit by £72 750</i></li><li>• <i>Net profit margin was 2% and is now up to 5%</i></li><li>• <i>Gross profit margin has stayed at 30%</i></li><li>• <i>Current ratio and acid test ratios have increased showing greater liquidity</i></li><li>• <i>ROCE has risen from 3.6% to 10.9%</i></li></ul>	
<p><i>Simply Bake plc</i> is more profitable in 2009 than in 2008.</p>	
Although the Gross Profit Margin (governed by the cost of raw material and wages) has stayed the same (30%) the Net Profit Margin has increased (from 2% to 5%)/the company is making more net profit per pound. This shows that <i>Simply Bake plc</i> is keeping the operating costs relatively low/stable	
ROCE has increased from 3.6% in 2008 ( $36\ 000/1\ 000\ 000 \times 100$ ) to 10.9% in 2009 ( $108\ 750/1\ 000\ 000 \times 100$ ) which shows it is getting better at generating profits from the capital invested.	
<i>Simply Bake plc</i> also has better liquidity in 2009. This is shown in the increase in both current ratio and acid test ratios. This is important as the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts.	
If <i>Simply Bake plc</i> can continue in this trend they will do well.	

Level	Mark	Descriptor
No mark	0	Non-rewardable material
Level 1	1 - 3	Reference will be made to liquidity or profitability. A simple statement is made on the change to profitability or liquidity with some further development at the top end of the level. At this level candidates may have only used the given information. Judgments will be simplistic, e.g. "They are doing well/they have made more profit and are doing better".  The quality of written communication will be poor with frequent spelling, punctuation and grammar errors and the style of writing will not be appropriate to the subject matter
Level 2	4 - 7	Reference will be made to liquidity and profitability with some development. At the lower end of the level one reason/cause/consequence will be given. At the top end of this level candidates are likely to refer to the data given and also have calculated a ratio, and will have offered some development on this figure.  There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter; however its use will not be as confidently used as that in level 3.
Level 3	8 - 10	Reference to profitability and liquidity is made with some development which included at least two reasons/cause/consequences.  The data will be used to calculate at least one ratio with some value attached as development. At the top end of the level a conclusion will be given which draws on the analysis given and is directly related to the question.  The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard and there will be clear evidence of analysis in the answer.



## 9) Importance of financial documents to stakeholders

(c) Why might suppliers be interested in the **profit and loss account** (income statement) of *Simply Bake plc* and what this account shows?

(3)

Question Number	Answer	Mark
4 (c)	<p>To get the 3 marks answers will need to make 3 relevant points about the profit and loss account and its relevance to suppliers for example:</p> <p>The profit and loss will show if it is making profits/losses (1) - and therefore likely to stay in business/to expand/to close (1) - it tells suppliers whether the business might be worth doing business with/ suppliers would not want to enter into a contract with a firm that was likely to close down in the coming months (1)</p>	(3) A02 x 2 A03 x 1

(b) Suggest **four** reasons why a forecast balance sheet for *Simply Bake plc* could help a potential investor decide whether to invest in the business.

(4)

### Answer

1 mark for each correct reason suggested up to a maximum of 4.  
Possible answers include:

- It gives a snapshot of the value of *Simply Bake plc* at any one time
- An investor can get an idea of how good an investment it would be
- Potential investors can see from this if the business is likely to be worth investing money in
- The forecast balance sheet can indicate how healthy the business is likely to be
- The forecast balance sheet is a prediction of how well the business might do
- A balance sheet shows what *Simply Bake plc* is worth



\*7 Sam is planning to expand her business and is considering taking out a bank loan.

Evaluate the importance of her annual Profit and Loss Account and Balance Sheet to the bank when she applies for a loan.

(10)

Answer
<p>The aim here is for candidates to evaluate the importance of two financial statements – the profit and loss account and the balance sheet – to a stakeholder (the lender). To reach a high level it is essential that the candidate demonstrates evaluative skills. Simple statements and theory about the importance of financial statements will limit the candidate to level one.</p>
<p>Candidates may use the following as part of their answer:</p>
<p>Lenders will need information concerning GGJ's ability to repay the loan/make interest payments/the security of the money they loan.</p>
<p><b>Profit and Loss Account</b></p>
<p>This will help potential lenders decide whether they should risk lending money to the business.</p>
<ul style="list-style-type: none"><li>• The P &amp; L indicates how the revenue is transformed into the net income/it displays the revenues for a specific period and the cost and expenses. This will show the bank whether GGJ made or lost money during the period being reported.</li></ul>
<ul style="list-style-type: none"><li>• The profit and loss will show if GGJ is making profits/losses and therefore likely to stay in business. The bank would not want to enter into a loan agreement with a business that was likely to close down in the coming months</li></ul>
<ul style="list-style-type: none"><li>• Lenders will use the P &amp; L account to make a judgement on the success or otherwise of GGJ and how it is performing. Whether the business made or lost money during the period being reported may affect the decision to lend Sam money.</li></ul>
<ul style="list-style-type: none"><li>• Lenders might be interested in GGJ's forecast profit and loss account for the coming year as it shows the revenue and costs/profit or loss the business estimates it will make.</li></ul>
<p><b>Balance Sheet</b></p>
<ul style="list-style-type: none"><li>• A balance sheet shows the total assets and liabilities at a particular date/ gives a snapshot of the worth/value of GGJ at any one time. It can indicate how healthy the business is.</li></ul>
<ul style="list-style-type: none"><li>• A lender can get an idea of how safe their money would be. The bank can see from the balance sheet if the business is likely to be able to pay back the loan.</li></ul>
<ul style="list-style-type: none"><li>• A strong balance sheet can indicate that GGJ is a good risk.</li></ul>

Mark scheme continues on the next page...





Level	Mark	Descriptor
<b>No mark</b>	0	Non-rewardable material
<b>Level 1</b>	1 – 3	<p>Candidate has made <b>simple statements</b> about profit and loss and balance sheets. Candidates may only consider one financial statement. There may be limited development at the top end of the level e.g. The bank will want to see the profit and loss account because it will show them if they have enough money to pay back the loan.</p> <p>The quality of written communication will be poor with frequent spelling, punctuation and grammar errors and the style of writing will not be appropriate to the subject matter</p>
<b>Level 2</b>	4 – 7	<p><b>A reasoned evaluation</b> will be given but the answer will lack balance.</p> <p>Candidates are likely to make reference to <b>one</b> of the financial statements with some development. Candidates are likely to have considered <b>either</b> profitability as shown in the P &amp; L account or the liquidity shown in the balance sheet.</p> <p>There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter; however its use will not be as confidently used as that in level 3.</p>
<b>Level 3</b>	8 – 10	<p><b>A reasoned and developed evaluation</b> will be given. Both documents will be discussed with some <b>importance/value</b> attached as development.</p> <p>At the top end of the level a <b>conclusion</b> will be given which shows understanding that the bank would not base their decision on the financial documents from one year only but would want to see them across a number of years (3) plus a forecast to assess the trends before making a decision on a loan.</p> <p>The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard and there will be clear evidence of analysis in the answer.</p>



Tess has been helping to prepare financial statements for *ETP*. She has been asked to explain why these are of interest to the stakeholders of *ETP* and has started the table in the memo below.

- (c) Complete the table below, giving **four** stakeholders of *ETP* and outlining why financial statements are of interest to each of the stakeholders you have named.

(8)

## Memo

**To:** All Finance Staff  
**From:** Tess  
**RE:** Interest of financial statements to our stakeholders

Stakeholder	Interest in financial statements
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<b>To: All Finance Staff</b>	
<b>From: Tess</b>	
<b>RE: Interest of financial statements to our stakeholders</b>	
Stakeholder	Interest in financial statements
Owners (1)	Owners are interested in profit levels (1)
Managers (1)	Managers need information to let them manage/monitor/plan for the business/ they will be rewarded if business is successful (1)
Suppliers (1)	Suppliers will need to ensure that Elmwood Theme Park will be capable of paying for goods and services/will continue to need their services (1)
Customers (1)	Customers will be concerned whether Elmwood Theme Park will survive/continue to provide goods and services (1)
Lenders (1)	Lenders will need information concerning Elmwood Theme Park's ability to make interest payments/repay loans/the security for their loan (1)
Government (1)	Government will need to take the correct amount of tax from the business (1)
Investors (1)	Investors will want to see success of business/return on investment (1)
Local Community (1)	Will continue to provide jobs (1)
Employees (1)	Employees will want to know their job is secure/they will be paid (1)

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