

1

Business activity

Revision questions

- 1 a) From the following list, decide which items are human needs and which are wants:
 - luxury house
 - shelter
 - Coca-Cola
 - car
 - clean water
 - designer jeans
 - clothing. [3]
- b) Explain briefly the reasons for your decisions in a). [3]
- 2 Explain what is meant by *scarcity* when referring to the economic problem. [3]
- 3 List the **four** factors of production and explain briefly why each is necessary for production to take place. [8]
- 4 Explain, with the aid of an example, what the term *opportunity cost* means to a consumer. [3]
- 5 Give **two** other examples of opportunity cost that would affect groups other than consumers. [2]
- 6 Explain what is meant by *division of labour*. [2]
- 7 Why is a business likely to increase output if it adopts division of labour? [3]
- 8 List **four** tasks involved in the making of cakes that could be given to different workers through division of labour. [2]
- 9 State **three** benefits to society of business activity. [3]
- 10 What is meant by *added value*? [2]
- 11 Identify and explain **two** ways in which a retailer of clothes could *add value* to their products. (Hint: the answer is *not* to buy more expensive clothes for the shop as this will not necessarily add value.) [6]

2

Classification of businesses

Revision questions

- 1 Explain the differences between the primary, secondary and tertiary sectors of industry. [6]
- 2 Which sector of business activity is often the most important in the *most developed economies*? Explain one reason for this. [3]
- 3 Which sector of business activity is often the most important in the *least developed economies*? Explain one reason for this. [3]
- 4 Identify and explain **one** reason why the secondary sector of business activity might become less important to a country's economy over time. [3]
- 5 Identify which sector of business activity the following businesses are in. Copy out the list and place P, S or T alongside each one.
 - Bus operator
 - Bus manufacturer
 - Forestry business
 - Oil-drilling business
 - Food canning business
 - Bank
 [6]
- 6 Make a list of **six** other businesses, two each from the primary, secondary and tertiary sectors of business. [6]
- 7 Explain what is meant by a *mixed economy*. [3]
- 8 What is meant by the *private sector* in mixed economies? [3]
- 9 What is meant by the *public sector* in mixed economies? [3]
- 10 Identify and explain **two** possible reasons why a government might decide to keep the country's postal service in the public sector. [4]

3

Enterprise, business growth and size

Revision questions

- 1 Explain what is meant by the term *entrepreneur*. [2]
- 2 Identify and explain any **two** common characteristics of successful entrepreneurs. [4]
- 3 Identify any **two** elements of a business plan and outline why they are important. [4]
- 4 A government decides to offer small grants and a business advice service to entrepreneurs planning to start up new business. Explain two possible reasons why the government is doing this. [4]
- 5 List **two** groups that are interested in comparing the size of businesses and explain why they want to do this. [4]
- 6 Two business owners cannot agree on which of them owns the larger business. One owner, who runs a printing firm using the latest expensive equipment, considers his firm to be larger. The other owner, who has a fruit farm that uses only manual labour to pick the fruit, considers her business to be larger.
Which method of measuring business size would you advise the two owners to use, and why? [2]
- 7 Identify and explain any **two** reasons why a business owner might want to expand the business. [4]
- 8 What is the difference between a takeover and a merger? [2]
- 9 Give **two** examples of horizontal integration of businesses. [2]
- 10 Give **two** examples of forward vertical integration of businesses. [2]
- 11 Outline **two** benefits to Business A of vertically integrating forwards with another business. [2]
- 12 The owner of a small hairdressing business asks for your advice. She is planning to expand the business. New branches will be opened and many more staff will be employed. She asks you to make a list of all of the possible advantages and disadvantages of this decision.
 - a) Is this an example of internal or external growth? Explain your answer. [2]
 - b) Make the list asked for by the owner. [4]
- 13 Identify **two** reasons why some businesses remain small. [2]

4

Types of business organisation

Revision questions

- 1 Which form of business organisation do you think is most suitable for each of the following businesses? Explain your answer fully.
 - a) A business with many hotels is planning to expand abroad. A substantial sum of money will be needed to finance this expansion. Expert managers will be needed to run the business. [2]
 - b) A young student is planning to offer his services to neighbours as a gardener. He will purchase only cheap tools to start with. [2]
 - c) A TV and radio broadcasting business aims to provide services to the whole population regardless of their ability to pay. It will require finance from government. [2]
 - d) A small group of lawyers wish to set up in business together. Their professional association does not allow lawyers to have limited liability. [2]
 - e) The owner of a small garage business is planning to retire. He hopes that his son will be able to take over the business at this time. [2]
- 2 Outline **two** disadvantages of a partnership. [2]
- 3 Identify and explain **two** benefits to a sole trader of converting to private limited company status. [4]
- 4 State **three** possible drawbacks to converting a private limited company into a public limited company. [3]
- 5 Explain the difference between the *public sector of industry* and *public limited companies*. [3]
- 6 State **two** reasons why two businesses might decide to set up a joint venture. [2]
- 7 'Sometimes there is a conflict between the management of a public limited company and its owners over how the profits should be used.' Explain what is meant by this statement. [2]
- 8 Explain what is meant by a *franchise*. [2]
- 9 Tom Shah has just gained a qualification in catering. He wants to run a small fast food outlet. He is not sure whether to run it as an independent sole trader or as a franchise.
 - a) Identify and explain **one** advantage and **one** disadvantage for Tom if he decides to run the business as a sole trader. [4]
 - b) Identify and explain **one** advantage for Tom if he decides to run the business as a franchise and **one** advantage for the franchisor. [4]
- 10 Identify and explain **two** possible benefits to society of having the main TV service operated as a public corporation. [4]

5

Business objectives and stakeholder objectives

Revision questions

- 1 What is meant by *business objectives*? [2]
- 2 Give **three** examples of the kinds of objectives that a business owned by private individuals could establish. [3]
- 3 Identify and explain **two** benefits to a business of having clear objectives. [4]
- 4 Identify and explain **two** reasons why business managers might set *growth* as a business objective. [4]
- 5 Identify and explain **two** reasons why business managers might set *profit* as a business objective. [4]
- 6 Identify and explain **two** possible objectives for business in the public sector. [4]
- 7 List **three** examples of the stakeholders in a business. [3]
- 8 Identify and explain **two** examples of how conflict might occur between the objectives of these stakeholder groups. [4]
- 9 Purbeck plc owns and manages a major leisure complex. The directors of the company are considering demolishing the complex and building a new shopping centre. The directors have different opinions about this plan.
 - The Human Resources manager says that too many groups of people would suffer from the plan. He thinks that the plan should be dropped.
 - The Chief Executive says that his main responsibility is to the owners of the business and that profits should come first.
- a) How would the workers in the leisure centre be affected by the decision? [2]
- b) Do you agree with the Chief Executive that profits should be the main aim of the business? Explain your answer. [6]
- 10 Identify and explain **one** other business decision that might result in conflict between stakeholders. [4]



Motivating workers

Revision questions

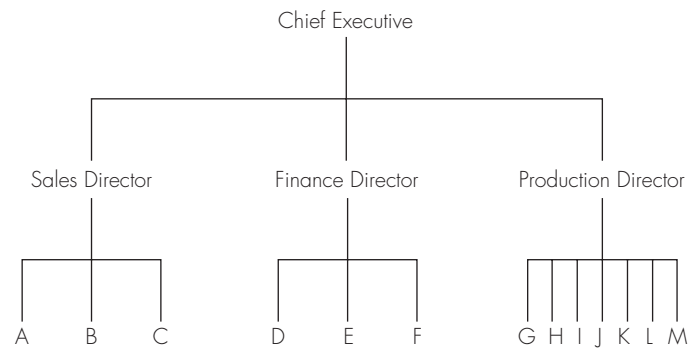
- 1 Why are well-motivated employees good for a business? [2]
- 2 Match the statement to the person (A – Taylor, B – Maslow, C – McGregor) whose theory it best describes:
 - i) 'People have different needs, from the basic requirements of food and shelter to finding a self-fulfilment that comes from doing a good job.'
 - ii) 'Money is the main motivator; pay someone more money and they will work harder.'
 - iii) 'Some managers think that workers are lazy and need to be pushed to work – these are Theory X managers; other managers think employees just need a reasonable environment and want to do a good job – these are Theory Y managers.'[3]
- 3 State **five** reasons why people work. [5]
- 4 What **three** factors can be used by managers to motivate their employees? [3]
- 5 Joe is paid \$3,000 per month, whilst Kiran is paid \$5.00 per hour and last week earned \$20 extra as he worked overtime. Who is paid a wage and who is paid a salary? Explain your answer. [4]
- 6 Sarah is paid \$5.00 per hour and works 40 hours a week, while Selina is paid \$5.00 for every component she produces. Who is paid by piece rate and who is paid by time rate? Explain your answer. [4]
- 7 Give **one** advantage and **one** disadvantage of using time rate. [4]
- 8 Give **one** advantage and **one** disadvantage of using piece-rate. [4]
- 9 Give **five** examples of non-financial rewards. [5]
- 10 For each of the following three jobs state whether job rotation, job enlargement or job enrichment would be the most suitable way to increase job satisfaction:
 - a) Shop worker
 - b) Chef
 - c) Production line worker in a car assembly plant.[6]

7

Organisation and management

Revision questions

- 1 What is meant by *organisational structure*? [2]
- 2 As a business expands and employs more people, how will the organisation chart be likely to change? [3]
- 3 Explain how an organisation chart for a business could be useful when informing new employees about the business. [3]
- 4 Study the organisation chart for a company, shown below:



- a) Explain what is meant by the term *span of control*. [2]
- b) What is the span of control of the Production Director? [1]
- c) What could be the advantages to the business of this director having an even wider span of control? [3]
- d) What could be the disadvantages of this? [3]
- 5 What do you understand by the term *delegation*? [2]
- 6 Why might it be important for a busy manager to delegate to other members of staff? [4]
- 7 Identify **five** qualities of an effective manager. [5]
- 8 Identify **four** reasons why it is important to have good managers. [4]
- 9 List **three** leadership styles. [3]
- 10 Give **five** benefits of joining a trade union. [5]

8

Recruitment, selection and training of workers

Revision questions

- 1 Give **three** reasons why a business recruits new employees. [3]
- 2 a) Why does a business carry out a job analysis before drawing up a job description? [2]
 b) What is the purpose of a job (person) specification? [2]
- 3 a) What is meant by the term *recruit internally*? [2]
 b) State **one** other method of recruitment. [1]
 c) Explain **one** advantage and **one** disadvantage of internal recruitment. [4]
- 4 Identify **three** different places a business could advertise if it was recruiting externally. [3]
- 5 State **four** factors to consider when designing an advertisement for a job. [4]
- 6 A manager is needed for a new shop that is being opened in the city centre. What factors should be considered when selecting a manager for a new shop? [6]
- 7 Why does a business carry out interviews as part of the process of selecting staff? [2]
- 8 Name **three** types of training that a business may use. [3]
- 9 What is the difference between *dismissal* and *redundancy*? [2]
- 10 Outline **three** examples of laws that protect employees. [6]

9

Internal and external communication

Revision questions

- 1 Outline the **four** features necessary for communication to be 'effective'. [4]
- 2 Explain the difference between *one-way* and *two-way communication*. [3]
- 3 Identify and explain **one** situation in which two-way communication would be particularly useful. [2]
- 4 Explain the difference between *internal* and *external communication*. [3]
- 5 Imagine you are the Human Resources Director of a large retail store with many departments. State **two** business situations where good internal communications would be important to you. [2]
- 6 Which method of communication would you use if you wanted to:
 - a) Give an instruction to a large number of people.
 - b) Explain a detailed plan to a few other people.
 - c) Obtain a very quick reply to your message to another member of staff.
 - d) Keep contact with a large number of young consumers.
 - e) Tell an applicant for a job what the conditions of employment are. [5]
- 7 For each of your suggestions in answer to Q6, explain why you chose this method of communication. [5]
- 8 Identify and explain **two** ways in which communication has been made easier with new technology. [4]
- 9 A multinational business employs a total of 35,000 workers and managers in eight different countries. Explain **three** of the most likely barriers to effective internal communication in this company. [6]
- 10 Identify and explain **three** ways that the business in Q9 might use to overcome the barriers to effective communication that you identified. [6]

10

Marketing, competition and the customer

Revision questions

- 1 Give **three** examples of sections, other than distribution, which might be found in a marketing department. [3]
- 2 Identify **four** roles of marketing. [4]
- 3 State **five** objectives of marketing. [5]
- 4 Give **four** reasons why consumer spending patterns change. [2]
- 5 Identify **four** ways a business can remain competitive. [4]
- 6 What is meant by a *market*? [2]
- 7 What is the difference between a *niche market* and a *mass market*? [4]
- 8 Describe, using your own examples, what is meant by *market segments* and explain their importance to the process of marketing. [6]
- 9 How could a market for
 - a) furniture
 - b) breakfast cereal be segmented? [6]
- 10 Explain the term *market gap*. [2]

11

Market research

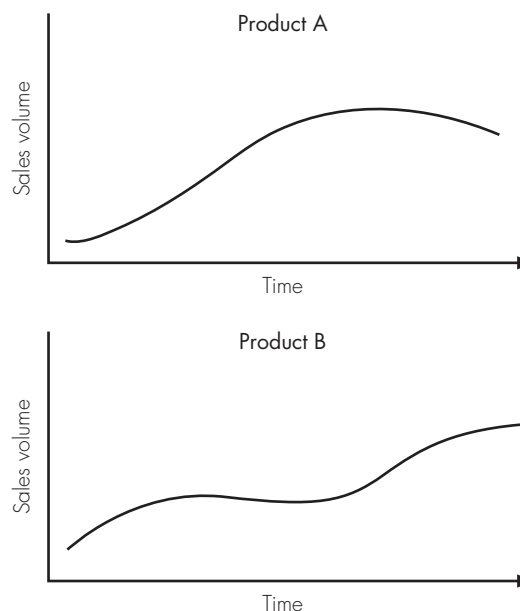
Revision questions

- 1 What is the difference between a *product-orientated* and *market-orientated* business? [2]
- 2 Why might a business that is entirely product-orientated find it difficult to survive? [4]
- 3 Explain why a business might carry out market research. [4]
- 4 What is the difference between *qualitative* and *quantitative* information? [4]
- 5 What is the difference between *primary* and *secondary* research? [4]
- 6 Describe how a business could carry out primary market research to find out if there is a market for a new toy. [6]
- 7 Give **two** advantages of using primary research to a company producing a new chocolate bar. [4]
- 8 List **four** examples of secondary research that could be used by a business planning to open a new sports centre. [4]
- 9 Give **one** example to show how a company can benefit from using secondary research. [4]
- 10 Why might the information collected from market research be inaccurate? [4]

The marketing mix: product

Revision questions

- 1 Identify the **four** P's in the marketing mix. [4]
- 2 Products can be grouped into four different types. Name the **four** types. [4]
- 3 What has to be taken into account to improve the chances of the successful development of a new product? [4]
- 4 What do you understand by the term *brand*? [2]
- 5 a) Give **four** examples of famous brands that have been established for many years. [4]
 b) Why do you think each of these brands has lasted so long? [4]
- 6 What are the risks of launching a new brand? [2]
- 7 What has to be taken into account, and why, when deciding the packaging for:
 a) new toy
 b) a new chocolate bar? [4]
- 8 Draw and label the stages of a typical product life cycle. [4]
- 9 Why do some products have much longer life cycles than others? Use examples to illustrate your answer. [4]
- 10 Explain the difference in the sales performance of products A and B shown in the graphs below. [4]



The marketing mix: price

Revision questions

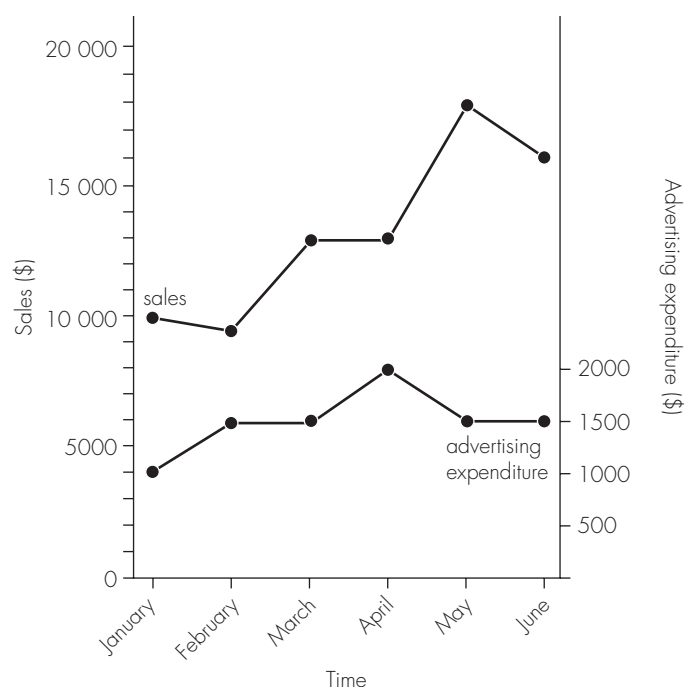
- 1 Name **five** pricing methods that a business could use. [5]
- 2 What factors should a company take into account when determining its selling price? [6]
- 3 The cost of production for a new toy is \$10. The prices of competitors' products are: Product A – \$25, Product B – \$20, Product C – \$23, Product D – \$22.
 - a) What price should the company sell the new toy at if it prices at cost plus profit at 100 per cent profit mark-up? [1]
 - b) What price should the company sell the new toy at if it prices using competitive pricing? [1]
 - c) What price should the company sell the new toy at if it prices using penetration pricing? [1]
 - d) What price should the company sell the new toy at if it prices using price skimming? [1]
- 4 Explain your answer in each case **a) to d)**. [4]
- 5 For each of the following, state the pricing strategy the business should use. Justify your answer.
 - a) XYZ plc is introducing a new brand of chocolate bar that has a luxurious taste. It contains ingredients that have not been used in chocolate bars before and gives this new product a special taste.
 - b) A wooden furniture manufacturer wants to achieve a \$50 profit on each table produced.
 - c) T&Z plc has been established for many years selling a well-known brand of washing powder. Its sales are starting to fall. It uses competitive pricing at the moment, but should it change? [9]
- 6 Shops often decrease their prices at certain times of the year. Why do they do this? [4]
- 7 What is meant by *price inelastic demand* for a product? [2]
- 8 a) Identify **two** products that could have price inelastic demand. [2]
 - b) Explain why each product could have price inelastic demand. [4]

14

The marketing mix: promotion and technology in marketing

Revision questions

- 1 Why is promotion an important part of the marketing mix? [2]
- 2 State **four** aims of promotion. [4]
- 3 Why do businesses use different types of promotion? Use examples to help to explain your answer. [4]
- 4 A new restaurant has opened very near to your own restaurant business and has taken many of your customers. What can you do to attract more customers to your restaurant? [6]
- 5 Identify **three** advantages of sales promotion. [3]
- 6 a) What is the difference between *informative advertising* and *persuasive advertising*? [3]
b) Which would be most suitable for a new computer, and why? [2]
- 7 What **four** types of advertising media might be used for the launch of a new fruit drink, and why? [4]
- 8 The graph below shows the sales of a company and the amount it spends on advertising.



- a) Describe the relationship that appears to exist between advertising expenditure and the level of sales. [3]
- b) What conclusions can you draw from this information? [2]
- 9 Identify **three** ways a business could use the internet to promote its products. [3]
- 10 Identify and explain **two** advantages of using the internet to promote products. [4]

The marketing mix: place

Revision questions

- 1 Why is place an important part of the marketing mix? [2]
- 2 Describe the channel of distribution you might use if your products are to be sold abroad. [2]
- 3 Describe the channel of distribution you might use if your product needs to be discussed in detail with the customer to determine exactly what it is that the customer requires. [2]
- 4 Identify and explain **three** reasons why some businesses choose to buy from a wholesaler. [6]
- 5 What are the advantages to a manufacturer of using a channel of distribution as shown below?
Manufacturer – wholesaler – retailer – customer. [4]
- 6 A food processing business is thinking of ending the sales of their meals to a retail chain and selling them directly to the consumer on a home delivery basis. What are the advantages of doing this? [6]
- 7 What is meant by *e-commerce*? [2]
- 8 Identify and explain **two** advantages to a business of using e-commerce. [4]
- 9 Identify and explain **two** disadvantages to a business of using e-commerce. [4]
- 10 Identify and explain **four** factors that should be considered when selecting the channel of distribution to use. [8]

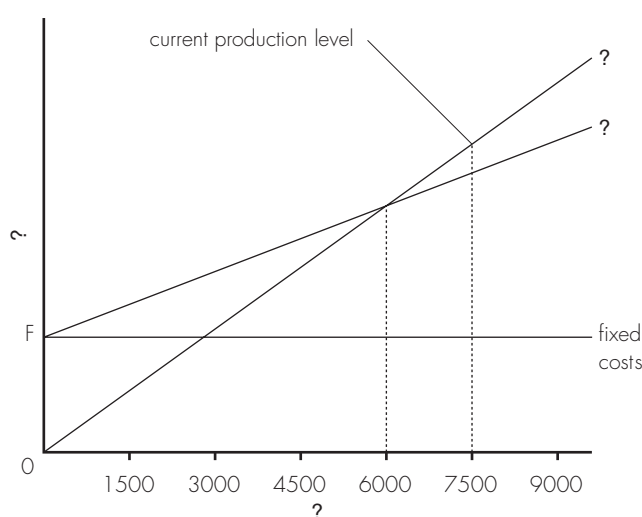
Revision questions

- 1 What is meant by a *marketing strategy*? [2]
- 2 For 'Product' you might ask: 'What type of product does the target market like?'
Suggest **one** question you might ask, when developing your marketing strategy, for each of the other three elements of the marketing mix. [3]
- 3 Identify and explain a pricing strategy to use if the product is at the introduction stage of the product life cycle. [2]
- 4 Identify and explain a pricing strategy to use if the product is at the maturity stage of the product life cycle. [2]
- 5 Identify **three** laws in your country which protect consumers when they buy products or services and explain how they protect consumers. [9]
- 6 Identify **two** reasons why consumer protection laws can be of benefit to a business. [4]
- 7 Identify **four** reasons for more globalisation of business. [4]
- 8 Identify **five** problems when entering new markets abroad. [5]
- 9 Identify **three** methods to overcome the problems of entering new markets abroad. [3]
- 10 Explain how each of the three methods identified in Question 9 would overcome the problems of entering new markets abroad. [6]

Costs, scale of production and break-even analysis

Revision questions

- 1 Identify and explain **two** reasons why it is important for a business manager to know the costs of the business. [4]
- 2 State **one** example of a fixed cost for a car manufacturer. Explain why you consider it to be a fixed cost. [3]
- 3 Explain why the cost of wool would be a variable cost for a carpet manufacturer. [2]
- 4 Draw the graph below which shows a break-even chart and label each of the lines and axes marked with a question mark: [4]



- 5 Identify from the break-even chart:
 - a) the break-even level of production
 - b) the safety margin. [2]
- 6 Calculate the break-even level of production for Malawi Bricks Ltd from the following data:
 - fixed costs \$40 000 per year
 - variable costs 5 cents per brick
 - selling price 13 cents per brick. [3]
- 7 How might this firm try to reduce its break-even level of output? [3]
- 8 What would be the advantage to the business of reducing the level of output at which it breaks even? [2]
- 9 Identify and explain **two** possible uses of break-even charts. [4]
- 10 Identify and explain **two** possible drawbacks to break-even charts. [4]
- 11 What is meant by the term *total cost*? [2]
- 12 What is meant by the term *average cost*? [2]
- 13 State **three** examples of economies of scale that a supermarket might gain as it expands by opening new stores. [3]
- 14 State **two** possible diseconomies of scale for this supermarket as it expands. [2]

Business finance: needs and sources

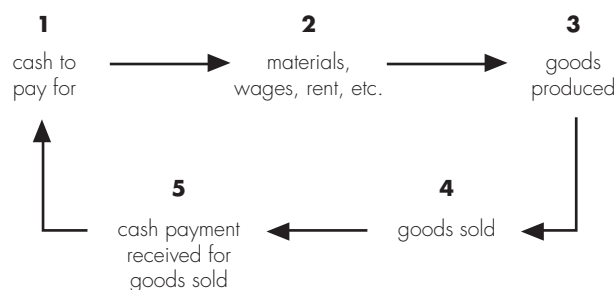
Revision questions

- 1 Identify and explain **two** reasons why the owners of a new business will need finance to set it up. [4]
- 2 What is the difference between internal and external business finance? [3]
- 3 State **two** methods of raising finance internally and list **one** advantage of each method. [4]
- 4 Explain the difference between short and long term sources of finance. [3]
- 5 State **two** methods of raising short term finance externally and list **one** advantage of each method. [4]
- 6 Explain the advantages to a business of an overdraft as opposed to a bank loan. [4]
- 7 When a company issues more shares, this is termed *permanent capital*. Explain this term. [2]
- 8 Identify and explain **two** advantages a bank loan may have over a share issue for a company. [4]
- 9 The directors of a company are planning to install a new computer system in the office. The computers are expected to last about four years. They will cost \$60 000. Three methods of finance are being considered:
 - leasing without purchasing at the end
 - long term bank loan
 - new share issue.Explain the advantages and disadvantages of each source of finance. Advise the directors on the most suitable method of finance. Give reasons for your answer. [8]
- 10 Identify and explain **two** factors that an investor would consider before deciding whether to invest in a company. [4]

Cash flow forecasting and working capital

Revision questions

- 1 What is meant by *cash inflow*? [2]
- 2 State **four** ways in which a business can receive cash inflows. [4]
- 3 What is meant by *cash outflow*? [2]
- 4 State **three** forms of cash outflow from a business. [3]
- 5 What is meant by a *cash flow cycle*? [3]
- 6 What is meant by *working capital*? [2]
- 7 Explain the operation of the cash flow cycle shown below. [4]



- 8 Refer to the cash flow cycle shown in Figure 22.1. Explain why a business needs more cash and working capital when the time between stage 1 and stage 5 is very long. [4]
- 9 Fill in the missing values **a)–d)** on the following cash flow forecast for Curls Hairstyles Ltd. [4]

| | January (\$) | February (\$) | March (\$) | April (\$) |
|--------------------------|-----------------|------------------|---------------|---------------|
| Cash inflows: | | | | |
| Cash sales | 1000 | 1000 | 3000 | 3000 |
| Cash outflows: | | | | |
| Purchases of stock | 100 | 100 | 300 | 200 |
| Rent | 0 | 100 | 0 | 100 |
| Wages and other expenses | 600 | 600 | c) | 1500 |
| Opening cash balance | 500 | b) | 1000 | 2500 |
| Net cash flow | 300 | 200 | 1500 | 1200 |
| Closing cash balance | a) | 1000 | 2500 | d) |

- 10 a) Construct a three month cash flow forecast (from April) for A&P Traders Ltd from the following forecasted data:
 - Sales are: March \$15 000; April \$14 000; May \$16 000; June \$14 000.
 - All sales are 50 per cent cash and 50 per cent on one month's credit.
 - Purchases are made in the month of sale and are all for cash. The value of purchases is 50 per cent of sales value.
 - Expenses are: April \$6000; May \$8000; June \$12 000.
 - Opening cash balance in April is \$1000.
- b) What action would you advise the manager of the business in **a)** to take before the cash flow problem arises in June? [4]

Income statements

Revision questions

- 1 State **two** reasons why managers need accounting information about their business. [2]
- 2 State **three** other groups that would be interested in the accounts of a business. [3]
- 3 Explain the difference between *gross profit* and *net profit*. [3]
- 4 An entrepreneur has been told to construct an income statement. Explain what should be included in this statement. [4]
- 5 Identify and explain **two** reasons why profit is important for a business in the private sector. [4]
- 6 Sanjay runs a profitable and expanding computer training company. He is concerned to see that even though his business made a profit of \$6000 last year, the bank balance fell during the year – the net cash flow had been negative. Explain to Sanjay the possible reasons for this situation. [8]
- 7 Explain the difference between *sales revenue* and *cost of sales* on an income statement. [4]
- 8 Explain the difference between *net profit* and *retained profit*. [4]
- 9 A manager has to choose between two ways of expanding her business. She has made the following forecasts:

| Forecasts (for 1 year) | Option A | Option B |
|------------------------|--------------|-----------------|
| Sales units | 5000 @ \$4 | 8000 @ \$3 |
| Cost of sales | \$2 per unit | \$1.50 per unit |
| Overhead expenses | \$5000 | \$8000 |

- a) Calculate the forecasted gross profit of both options. [4]
- b) Calculate the forecasted net profit of both options. [2]
- 10 Explain how a business can make a gross profit but a net loss. [2]

Balance sheets

Revision questions

- 1 Explain the differences between an income statement and a balance sheet. [6]
- 2 Explain, with examples, the difference between an *asset* and a *liability*. [5]
- 3 State **two** examples of fixed (non-current) assets likely to be on the balance sheet of a restaurant. [2]
- 4 Explain why the two examples you have stated in Q4 are non-current assets and not current assets. [4]
- 5 State **two** examples of current assets likely to be on the balance sheet of a restaurant. [2]
- 6 State **one** example of a non-current liability likely to be on a balance sheet. [1]
- 7 Explain why the example you stated in Q6 is a non-current liability and not a current liability. [2]
- 8 Identify and explain **two** examples of current liability likely to be on the balance sheet of a recently set up business making and selling clay pots. [4]
- 9 Refer to the following balance sheet for Hartwood Hats Ltd as at 31/3/XX.

| | \$000 |
|-------------------------------------|-------|
| Non-current (fixed) assets | 15 |
| Current assets: | |
| Stocks | 5 |
| Debtors | 4 |
| Cash | 1 |
| Total current assets | x |
| Total assets | 25 |
| Current liabilities | 8 |
| Non-current (long term) liabilities | 11 |
| Total liabilities | y |
| Total assets less total liabilities | 6 |
| Share capital | 4 |
| Retained profits | 2 |
| Total shareholders' equity | z |

- a) Calculate the values at x, y and z. Show your working. [6]
- b) Explain **two** ways in which the managers of Hartwood Hats Ltd. would find this balance sheet useful. [4]
- 10 Refer to the balance sheet for Hartwood Hats above. Explain the importance to shareholders of the value of shareholders' equity. [4]

Analysis of accounts

Revision questions

- 1 Explain why any **three** stakeholder groups would find the accounts of a business useful. [4]
- 2 Explain why ratio analysis is more useful than just comparing individual figures from company accounts. [3]
- 3 Copy out the table below and identify each of the following ratios: [5]

| Formula | Ratio |
|--|-------|
| $\frac{\text{Net profit}}{\text{Capital employed}} \times 100$ | |
| $\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$ | |
| $\frac{\text{Net profit}}{\text{Sales revenue}} \times 100$ | |
| $\frac{\text{Current assets}}{\text{Current liabilities}}$ | |
| $\frac{\text{Liquid assets (cash + debtors but not inventories)}}{\text{Current liabilities}}$ | |

- 4 What does a 'return on capital employed of 20 per cent' mean? [2]
- 5 Why would a current ratio of 0.75 be considered 'too low' for many businesses? [2]
- 6 Use performance ratios to analyse these accounting results for P&K Ltd, a firm of builders (all \$000s): [6]

| | 2013 | 2012 |
|-----------------------------|------|------|
| Gross profit | 16 | 15 |
| Expenses including interest | 9 | 6 |
| Capital employed | 80 | 70 |
| Sales revenue | 120 | 100 |

- 7 If you were a senior manager in the business in Q6 would you be pleased with these ratio results? Explain your answer. [6]
- 8 Use liquidity ratios to analyse these accounting results for P&K Ltd (all \$000). [4]

| | 2013 | 2012 |
|---------------------|------|------|
| Current liabilities | 30 | 25 |
| Current assets | 22 | 20 |
| Inventories | 12 | 10 |

- 9 If you were a senior manager in this business would you be pleased with these ratio results? Explain your answer. [4]
- 10 Explain how a bank manager would use the results to Q6 and Q8 to aid a decision to lend P&K a large bank loan. [4]