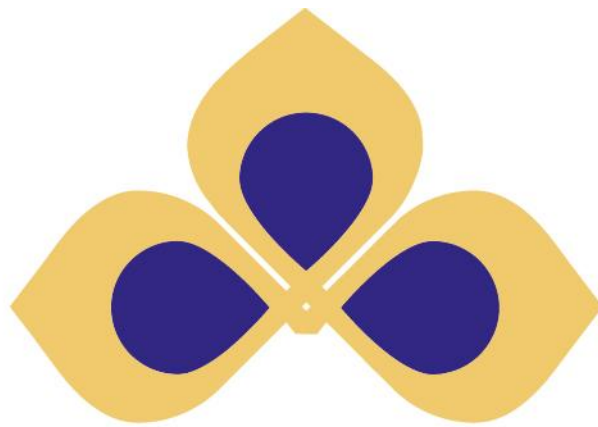


A Level Business Transition Booklet



Sawtry Village
Academy

Task 1: Course Content Overview

Using the below link, produce a mind map (one per area of study) for the following “Areas of Study”;

- Introduction to Business (page 6-7)
- Management Accounting
 - Costs, revenues and profits (page 23)
 - Break - even analysis (page 23)
 - Cash – flow (page 24)
- The Workforce
 - Workforce planning (page 27)
 - Training (page 28)
- Management
 - Leadership (page 30)
 - Motivation (page 30)

<http://www.ocr.org.uk/Images/170837-specification-accredited-a-level-gce-business-h431.pdf>

Task 2: Current Business News

Students should have an awareness of current business news.

- Download the “BBC News” app and regularly read the business section
- Download the “BBC News” app and regularly read the business section

Task 3: Business Knowledge and Understanding

Complete the following activities. These will be expected to be completed by the start of the course in September 2024.

Sally and Jessica's Dog Sitting Business

Sally and Jessica met whilst studying Business Studies at University and house sharing in a property owned by Sally's parents. They also both worked part-time at the local boarding kennels and were passionate about the welfare of animals.

Several of the pet owners they talked to at the boarding kennels had mentioned to Sally and Jessica that they would have preferred to have their pets looked after in a more homely environment rather than place them in kennels. Sally and Jessica felt this was a gap in the market and once they both graduated decided to set up a dog sitting business. Sally's parents agreed to them using part of the house as this was in an appropriate location. The space available was big enough to accommodate up to 5 dogs at any one time, depending on the size of the dogs.

They forecast monthly fixed costs (rent, insurance, heating, marketing, their salaries) at £2 000, and variable costs at £1.50 per dog, per day. Based on their forecasts Sally and Jessica decided to charge £25 per dog per day. This was double that charged by the kennels they used to work at but they thought they could justify this based on the quality of service they were offering to dog lovers. Using their research they predicted an average of 3 dogs per day during their first year of trading. Their aim was to break-even (making neither a profit nor a loss) whilst building up their customer base. They planned to offer their service for 350 days in the year.

Unfortunately they did not achieve their forecast for total revenue in the first three months of trading as they only averaged 2 dogs per day. Sally believed that this was because they relied on word of mouth advertising. She believed they needed to invest more in advertising in order to build up their customer base. This would raise their annual fixed costs by £540. Jessica thought they needed to reduce their price to £20 per dog, per day. They decided to review the situation at the end of year one.

- a. What is meant by the term "variable cost"? (2 marks)
- b. State one likely variable cost for Sally and Jessica's business. (1 mark)
- c. What is meant by the term "total revenue"? (2 marks)
- d. Based on the information in the case study, calculate the profit (loss) made in the first three months of trading (90 days). (5 marks)

First Impressions Count

Melissa graduated from Art College 10 years ago and since then has worked in galleries across London. During this time she has also pursued her passion to work as an artist and sculptor. Melissa stopped working 3 years ago when she gave birth to her first child. She is now looking for an opportunity to go back to work part time.

When baby, Olivia, was born Melissa visited a Ceramic Cafe and had a plate made with a print of Olivia's feet. Melissa has recently seen an advertisement offering the opportunity to open up a franchise of "First Impressions Ceramics". She thinks this might be the perfect opportunity to balance her passion for art and family life.

Melissa sent away for a franchise pack to find out more and started reading about the opportunity. It soon hit her that this type of business relied to some extent on drop in customers and it was therefore important to have the cafe in a prime location. She was worried that this would result in high fixed costs of £5 000 per month for rent. The franchise brochure said that a good location in a city centre should on average experience 800-1 000 visitors per month. As Melissa lives in Chester, a small but popular tourism city, she thought this sounded promising.

Melissa decided to complete a break-even analysis. She thought the best way to gather the figures was through market research. The results of Melissa's small scale market research are shown in Figure 1. The good news, as far as she could tell, was that there was no direct competition.

Figure 1: Estimated cost and revenue based on Melissa's market research

Monthly fixed costs (excluding rent)	£3 000
Variable cost per customer	£12
Average revenue per customer	£26

Question 1

- What is meant by the term "fixed costs"? (2 marks)
- State 2 fixed costs, other than rent, that Melissa will have to pay. (2 marks)
- Explain two benefits to Melissa of using break-even to inform decision making. (6 marks)
- Based on the information in the case study and the data in Figure 1, calculate Melissa's forecast monthly break-even point. (6 marks)
- If rent prices are to rise as predicted what would happen to Melissa's forecast profit? Use calculations to support your answer. (6 marks)

Sam's Photo Shoots

Sam is a very keen photographer who has developed his talent at evening classes. He currently works for a high street bank but has used his talent taking photographs and shooting videos at the weddings of relatives, friends and colleagues. Feedback has been very positive; in particular couples liked the more casual photographs Sam would take at evening receptions. He has been approached on several occasions for his services following recommendations.

Sam has always wanted to run his own wedding photography business. The opportunity came when the bank offered voluntary redundancy to its staff which would enable Sam to invest £10 000 into the venture. Being single and living with his parents Sam decided to take the risk. He carried out some small scale secondary research into the services and prices of his competitors and obtained costs for materials and equipment. He also asked the couples whose wedding photographs and videos he had produced their opinions. Sam thought there was a gap in the market for a service that also attended for part of the evening reception to take more casual photographs.

Sam's experience working at the bank had made him aware of the need for a business plan that included financial forecasts, in particular cash flow. He had witnessed potentially profitable new businesses fail because of cash flow problems. Sam also appreciated that whilst he would take a deposit he would have to allow customers time to pay the balance once they had seen the photographs. To some extent his new venture *Sam's Photo Shoots* would be seasonal as many couples preferred to marry in the spring or summer.

Sam's forecast cash flow for his first year of trading is given in **Figure 1**. He estimated the cash inflows based on the number of weddings it would be possible for himself and a part time assistant to attend. When he was completing this he realised he had been over optimistic with his fourth quarter figures and decided that the cash inflow would be the same as the first quarter but without his initial investment. Sam also forecast the wages for the fourth quarter to be 80% of the first quarter and the materials and other costs to be 10% lower than the second quarter.

Figure 1: Forecast cash flow for 2012 – the first year of trading of Sam's Photo Shoots

Sam's Photo Shoots	Jan. to Mar. (£)	Apr. to June (£)	July to Sept. (£)	Oct. to Dec. (£)
Cash inflows*	25 000	23 000	40 000	
Wages**	12 000	15 000	(iv)	
Materials and other costs	15 500	10 000	11 000	
Cash outflows	(i)	25 000	25 000	
Net cash flow	(2 500)	(iii)	15 000	
Opening balance	(ii)	(2 500)	(v)	10 500
Closing balance	(2 500)	(4 500)	10 500	

*Including Sam's initial investment into the business

Question 1

- a. What is meant by the term "cash inflows"? (2 marks)
- b. What is meant by the term "net cash flow"? (2 marks)
- c. Complete the forecast cash flow (**Figure 1**) for the first three quarters by calculating the missing figures (i), (ii), (iii), (iv) and (v). (5 marks)
- d. Use Sam's decisions and forecasts to complete the fourth quarter column of the forecast cash flow (**Figure 1**). (8 marks)