

Teaching Pack
A02 Application
Financial information and decisions

Cambridge IGCSE™/ IGCSE (9–1)
Business 0264 / 0774

Cambridge O Level
Business 7081

For examination from 2027



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Icons used in this pack:



Assessment Objective (AO) lesson



Skill development lesson



Independent lesson

Introduction

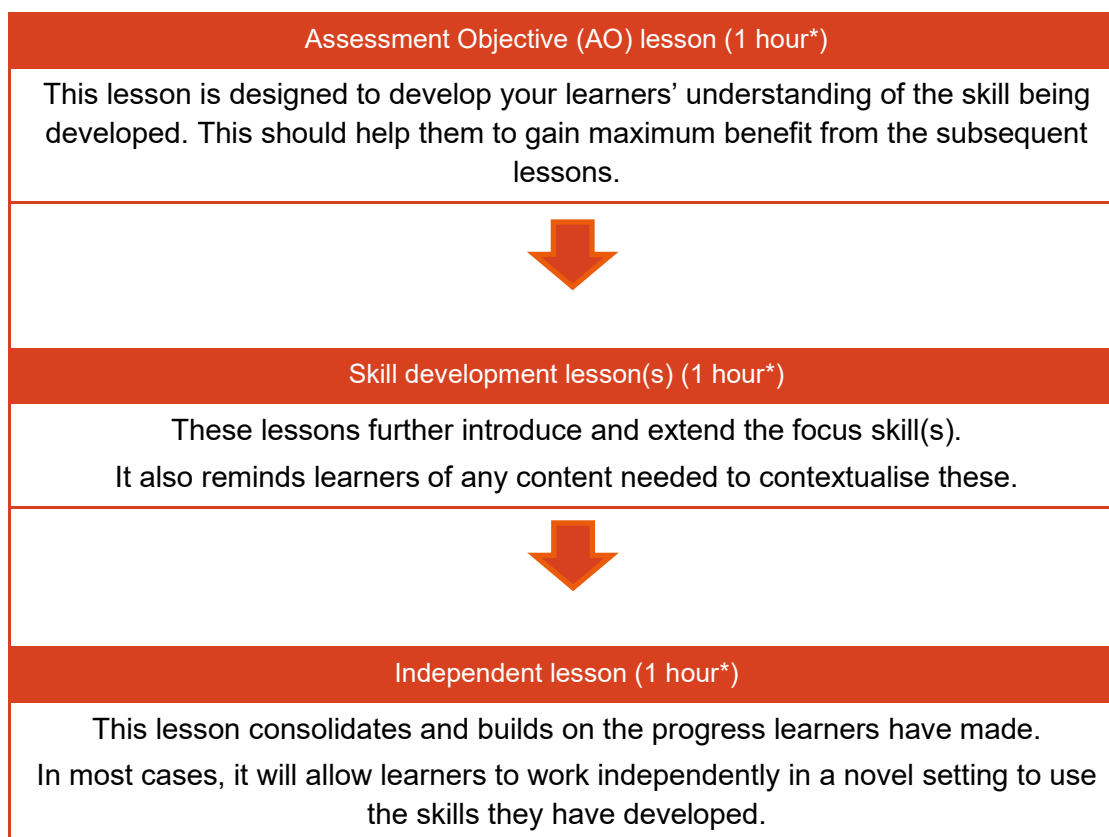
This pack will help you to develop your learners' higher order thinking skills as defined by AO2.

Important note

Our *Teaching Packs* have been written by **classroom teachers** to help you deliver lessons which develop higher order thinking skills. Use these materials to supplement your teaching and engage your learners. You can also use them to help you create lesson plans for other parts of the syllabus.

This is one of a range of *Teaching Packs*. Each pack is based on one element of the syllabus with a focus on specific skills within one of the assessment objectives. The packs can be used in any order to suit your teaching sequence.

The structure is as follows:



** the timings are a guide only; you may need to adapt the lessons to suit your circumstances.*

In this pack you will find the lesson plans, worksheets for learners and teacher resource sheets you will need to successfully complete the lessons.

AO2: Application

This *Teaching Pack* focuses on AO2 Application – apply knowledge and understanding of facts, terms concepts, conventions, theories and techniques.

This Teaching Pack has links to the following syllabus content (see syllabus for detail):

5.1 Business finance
5.2 Cash flow forecast
5.3 Profit and loss
5.4 Statement of financial position
5.5 Analysis of accounts

The lessons cover the following skills, adapted from **AO2: Application** (see syllabus for assessment objectives):

- Apply knowledge and understanding of business concepts, terms and theories to a given business.

Please note that analysis and evaluation will feature in some activities, but these skills are focused on in more depth in other *Teaching Packs* and *Scenario Packs*.

Prior knowledge

Knowledge from the following syllabus topics is useful for the activities that follow:

5.1 Business finance
5.2 Cash flow forecast
5.3 Profit and loss
5.4 Statement of financial position
5.5 Analysis of accounts

Teacher notes

The suggested activities are to help engage your learners as they develop the skill of applying their business knowledge to a range of business scenarios and contexts.

Learners can find applying their business knowledge to a range of different business situations, scenarios and contexts difficult.

Learners need to be able to take their business knowledge and apply it in the context of different businesses and business scenarios.

It is also important to apply correctly in the context of the size of the business, whether it is a 'for profit' or 'not for profit' business, and whether the business is well established or a start-up.

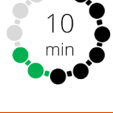
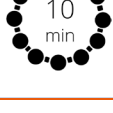
Learners need to focus on how to use the business knowledge they have in given situations and circumstances. The Assessment Objective (AO) lesson, skill development lesson and the independent lesson activities will help learners practise this.



AO Lesson: Applying business knowledge

Resources	PowerPoint presentation Worksheet A and Worksheet B
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Learning objectives	By the end of the lesson: all learners should be able to draft an answer to a given question on financial decision making most learners should be able to write a full model answer to a given question on financial decision making some learners will be able to write a model answer to a given question on financial decision making, using what they have learnt and without the need to refer to their notes
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Timings	Activity
 10 min	Introduction Take learners through the first slides in the PowerPoint presentation to explain what is meant by the term 'application of knowledge'.
 10 min	Main lesson Continue using the PowerPoint resource. Hand out Worksheet A and read through the scenario together. Learners have to read each statement about a solution to <i>Gleaming Wheels</i> ' potential cash flow problem and have to decide if they have been applied in the context of the business. They will need to explain their answer. For the final suggestion, learners need to write this themselves based on their understanding of which of the first four were applied and which were not.
 10 min	Read the case study in the first box on PowerPoint and the practise question. Hand out a copy of Worksheet B .
 10 min	Talk through steps 1-3 and learners make notes on their handout in the relevant boxes on their worksheet. For step 4, give learners 10 minutes to write an answer in the box provided on the worksheet, using their notes in steps 1-3 to help them if they need it.
 10 min	Plenary Choose 3 or 4 learners to read out their answers first and ask peers to comment on how well they feel it is applied.
 10 min	Learners are to self-mark or peer mark using the example and should make corrections, so they all finish with a fully applied answer to an 'explain' style exam question.

Skill development lesson: Financial information



Resources Worksheet C, Worksheet D and Worksheet E
Dice and counters

Learning objectives

By the end of the lesson:

- all** learners should be able to make some appropriate financial decisions for a number of given situations and scenarios
- most** learners should be able to make appropriate financial decisions for a number of given situations and scenarios, with some supporting reasoning
- some** learners will be able to make and give reasons for appropriate financial decisions in a number of given situations and scenarios

Timings	Activity
 10 min	Starter Explain to learners that this activity is designed to check / recap their knowledge and understanding of elements of content from Section 5 of the syllabus and to give them the opportunity to practise the skill of application learnt in the AO lesson. Hand out Worksheet C. Working in pairs, learners cut out the cash flow cards and sort them into cash inflows and cash outflows. They then need to re-write, on the back or underneath, the cash inflows and cash outflows in the context of the business in the scenario. Ask learners to identify the areas which need developing in this topic.
 25 min	Main lesson Learners can take part in this activity in teams of 3-4. Print out Worksheet D (you may want to print this A3 size) and give one mat to each team. The idea is for learners to move around the board, collecting revenue for each question they answer correctly. Answers need to be in the context of the business scenario on the game mat square they land on, where relevant. One learner is to be the referee and they will oversee the checking of the answers given, and will keep count of how much revenue each learner collects on their journey. Learners take it in turns to roll the dice and move forward the corresponding number of squares. Each square has a question on it and an amount of revenue that the learner will be awarded if they answer the question correctly. The amount of revenue on each square corresponds to the level of difficulty for each question. The learner with the most revenue wins.

Skill development lesson: *continued*



Timings	Activity
	Cut out the cards and scenario on Worksheet E. Put learners into small groups. Give each group a set of financial and information decision cards and a copy of the scenario. For each situation on the cards, learners have to write their advice for that situation on it in the context of the business scenario. They should make sure that they are ready to feed back in the plenary session.
	Plenary Each group takes it in turns to present to the class the advice they would give Ellie and Tammy for each situation on the cards from the last activity. There are suggested answers for guidance.

Independent lesson: Making informed decisions



Resources

Worksheet F, Worksheet G and Worksheet H

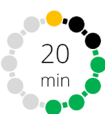
Learning objectives

By the end of the lesson:

all learners should be able to make some financial decisions and impart some financial knowledge in given situations, in the context of a range of business scenarios given

most learners should be able to make key financial decisions and impart good financial knowledge in given situations, in the context of a range of business scenarios given

some learners will be able to make sound financial decisions and impart excellent financial knowledge in given situations, in the context of all business scenarios given

Timings	Activity
 10 min	Starter Use Worksheet F. Learners should work in teams of three. Cut out a set of cards for each team and put a number on each card from 1 – 6. Then do the same with the numbers on the other six cards so you end up with two 1s, two 2s, two 3s and so on. Lay cards face down. Two learners roll a dice to select a card with the matching number. If they give an appropriate answer, they keep the card, if not they put it face down again. The winner is the one with the most cards. The third person in the team checks the answers, using the answer sheet.
 20 min	Main lesson Hand out Worksheet G. Learners are part of a panel of experts at a conference aimed at entrepreneurs looking to start up a small business or have had a small business for a year. They have been asked two questions and they have to prepare their answers on the sheets. They must reply in the context of the entrepreneur's business. Build in 5 minutes for learners to discuss their answers with one of their peers. Each peer draws up a definitive list of things they would say to each entrepreneur and then writes them on a board at the front of the classroom, for all delegates to see.
 20 min	Hand out Worksheet H. The owner of the <i>Cookie Den</i> has been asked to speak at a conference for small business owners, on why profit is important to private sector businesses, using her own success story to educate them. Your learners' role is to write the speech that the business owner could deliver.

Independent lesson: *continued*



Timings	Activity
	On the second sheet, there are some prompt cards which cover elements of the theory learners could include. These could be cut up and spread out on a table in the classroom and referred to as a resources table. What learners must do is use the scenario content to write the speech in context of the business, using the business theory knowledge they have.
	Plenary Learners are to get into pairs and are to deliver their speeches to each other and then discuss the aspects of application, and draw up a final draft of the speech. Ask 3 or 4 learners to read theirs out.

Worksheets and answers

	Worksheets	Answers
For use in <i>Assessment objective lesson</i>:		
A: Mastering application	12 – 13	
B: Applying business knowledge	14 – 15	23
For use in <i>Skill development lesson</i>:		
C: Cash flow	16	24
D: Game mat	17	25
E: Financial decision making	18	26 – 27
For use in <i>Independent lesson</i>:		
F: Examples	19	28
G: Financial advice	20 – 21	29
H: The speech	22	

Worksheet A: Mastering application



Gleaming Wheels is a wedding car and limousine service. The owners, a partnership, have been steadily growing the business. In the last year they have started to take regular contracted bookings with large corporate companies who now pay on account. This means they are given trade credit and settle their bill, in most cases, 30-60 days after the service has been provided.

The owners of *Gleaming Wheels* didn't think offering trade credit would cause them too many cash flow problems, until they completed the next 12 months' cash flow forecast and started to analyse it. The main forecasted problem is during their 'off peak' season for their individual bookings and currently they do not have enough cash to close the shortage during this period. They have a potential short-term cash flow problem which requires a solution.

Look at the recommended solutions below and decide which ones have been applied to the business context of *Gleaming Wheels* and which ones haven't – remember to give reasons for your answers.

Suggestion 1

Ask debtors to pay quicker

I know this statement has / has not been made in a business context because

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Suggestion 2

They could offer a discount to those companies who are paying on trade credit, who settle their limousine bills within 30 days of being invoiced by *Gleaming Wheels*

I know this statement has / has not been made in a business context because

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Worksheet A: *continued*

Suggestion 3

Delay payments to the suppliers

I know this statement has / has not been made in a business context because

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Suggestion 4

Gleaming Wheels could ask their suppliers of petrol and cleaning equipment, if they could extend the terms of their trade credit, so the payments to them are delayed, reducing cash outflows during that period

I know this statement has / has not been made in a business context because

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Suggestion 5

Now see if you can come up with another suggestion on how they can improve their cash flow position. Remember to apply it in context.

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Worksheet B: Applying business knowledge

Jemma wants to open up an art studio now she has finished college. She has found a small studio / shop she could rent in a seaside town about 10 miles from where she lives. In order to set up her business she will need a variety of equipment, resources and furniture. She has some savings, but thinks she will need some additional finance to help get her set up. She is considering taking out a bank overdraft, leasing equipment or taking out a bank loan. **Discuss the three sources of finance Jemma has identified as additional finance to help her set up, and decide which you think would be best for her business.**

Step 1 – Identify what the question is asking

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Step 2 – Context of the business

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Worksheet B: *continued*



Step 3 – The content of your answer

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Step 4 – Your answer to the question

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Worksheet C: Cash flow



Joan has set up a floristry business in her local town and rents a small shop there. She offers a range of services including; personalised bouquets for delivery and collection, ready-made bouquets to purchase from the shop, as well as flower arrangements for events such as weddings, corporate events and other special occasions.

Joan is putting together a cash flow forecast for the next 12 months. Below are some examples of cash inflows and cash outflows a business might have.

Your task is to sort them into cash inflows and cash outflows and to then re-write them in the context of Joan’s business. You could write them either underneath or on the reverse side of the card.

Rent	Wages
Utility bills	Equipment
Wifi bill	Stock
Advertising	Sales

Worksheet D: Game mat

Angeliq is a sole trader and has set up a pancake and waffle parlour in your town. She offers takeaways and has a sit-in area, and her range of set-menu items, and 'made to order' pancakes and waffles are proving to be popular amongst the local community.

1. What does Angeliq need working capital for? \$5	10. Why is Angeliq's profit important to her suppliers? \$5	11. Where does Angeliq's opening balance come from on her cashflow forecast? \$5	20. How would Angeliq work out her closing balance on her cash flow forecast? \$10
2. What is retained profit most likely to be used for? \$5	9. Name a current liability Angeliq's business might have. \$10	12. How does Angeliq calculate her net cash flow each month? \$5	19. What would Angeliq have needed start-up capital for? \$5
3. Give an example of a non-current asset that Angeliq's business might have. \$5	8. How can Angeliq monitor her business' liquidity? \$20	13. What is Angeliq using when she pays her suppliers 30 days after receiving goods? \$10	18. Why can't Angeliq raise finance by issuing shares? \$5
4. What would Angeliq use a statement of profit and loss for? \$10	7. Why is profit important to Angeliq? \$15	14. Why is an overdraft a useful source of finance for Angeliq's business? \$10	17. What might be an example of a non-current liability for Angeliq's business? \$10
5. Give an example of a cash inflow and a cash outflow Angeliq might have. \$5	6. How would Angeliq work out how much profit or loss she had made? \$5	15. Angeliq could improve her working capital by doing what? \$15	16. Why would Angeliq not want her acid test ratio to be lower than 1:1? \$20



Worksheet E: Financial decision making

Ellie and Tammy set up their mobile hair and beauty parlour as a partnership two years ago. They put in personal savings and took out a small business loan over a 5-year period. They have a second hand van with windows that is used as their mobile premises. They can wash, cut and style hair and can carry out a range of beauty treatments such as manicures, pedicures and eye brow shaping in the mobile premises or in their client's home. Most of their clients are in areas where transport links to the nearest town are not convenient or they are physically less able.

They have some financial decisions to make and some financial information that needs explaining to them and have asked for your help. Discuss in your team, each of the situations, and write down what your advice to them is.

Decision 1

The van Ellie and Tammy purchased second hand, is looking tired and they are concerned that it will affect the image they are trying to establish. They need obtain a newer one and one which is bigger so they can accommodate more clients at any one time. How should they purchase this?

Decision 2

They are constructing their cash flow forecast for the third year. The two previous years have shown that January is a quiet month for business for them, and it is looking like they will have a cash flow problem in January again. They need some solutions.

Decision 3

They have set themselves an objective of improving their gross profit margin by 10% over the next 12 months, and need advice on how they might achieve this.

Decision 4

In the first two years of trading Ellie and Tammy have been focusing on carrying out the services of their business and have used family to do their accounts for them and to advise them. They feel now they are entering year three, they should learn more about the financial side of the business and start running that element themselves. They have been told their current ratio is 1.7:1. They don't know what this means only that it is good so there is nothing to worry about. Please explain it to them.

Decision 5

Ellie and Tammy are trying to understand their statement of financial position. They are confused by the terms; current assets, non-current assets, current liabilities and non-current liabilities. They would like you to explain what they are in the context of their business.



Worksheet F: Examples

Give me an example of a cash outflow for a garage that repairs cars.	Give me an example of a source of finance suitable for a large manufacturing business that is a Plc wanting to build a new warehouse.
Give me an example of a current asset an ice cream shop might have.	Give me the full name for the formula ROCE.
Give me a factor that could influence a choice of finance for a business.	Give me an example of a cash inflow a gym would have.
Give me a way in which a bakery could improve its working capital.	Give me the formula a business would use to calculate profit (net profit).
Give me the reason why the shareholders of a business would be interested in it making as much profit as possible.	Give me the formula a business would use to calculate net assets on their statement of financial position.
Give me an example of an alternative source of finance than bank loan, hire purchase, share issue, trade credit, crowdfunding, leasing etc.	Give me an example of a start-up cost for a nursery.

Worksheet G: Financial advice



Complete the hexagons with your answers

The form consists of four identical empty hexagons arranged in a 2x2 grid. Each hexagon is outlined with a black border and is intended for the student to write their answer to the questions provided in the text box.

You are part of a panel of experts at a conference for entrepreneurs looking to set up their own businesses or have been running one for a year.

You have been asked a question by an entrepreneur looking to set up a business selling festival kits, containing a sun hat, sunglasses, sun lotion, bottle of water and wet wipes.

He has asked *'why is cash flow forecasting important for my business?'*

Worksheet G: *continued*



Complete the hexagons with your answers

You are part of a panel of experts at a conference for entrepreneurs looking to set up their own businesses or have been running one for a year.

You have been asked a question by an entrepreneur who has been running a successful chocolate emporium for just under a year. She has asked '*how can I improve the profitability of my business?*'



Worksheet H: The speech

The *Cookie Den* is an artisan bakers specialising in handcrafted gourmet cookies. Customers can purchase them in the shop or can have them delivered. The owner set up the business three years ago having decided to research if there was an opportunity to turn her baking hobby into a business. The general trend in gourmet cooking and cupcakes, opened up an opportunity to start making money from a job she loved – baking cookies. The business has gone from strength to strength, and a year ago she was able to expand through diversification. She had some space downstairs that could be turned into a coffee shop where she could sell her famous artisan cookies alongside speciality coffees from around the world. The location she was in suited this well and it has been a great success. Her long-term plan is to open branches in other local towns; both bakeries and artisan coffee shops, depending on the market research outcomes. Profit has been important for her to expand her business.

She has been asked to speak at a conference on the importance of profit for private sector businesses and to share her success story with the hundred or so delegates at the conference. She is too busy to write the speech and has asked if you could please do this for her.

The prompts below might help you to plan your work.

Profit is a straightforward way for the business to measure how successful it is.	Profit is the reward for the risk the entrepreneurs take by investing their money into the business.
Profit aids decision making by being able to identify which products are turning a healthy profit and which aren't, so you can decide which to continue with and which to stop selling.	Profit can be retained which can be ploughed back into the business to help finance growth and expansion.
Profit helps businesses to purchase new / additional equipment and machinery which can help them remain competitive by being more efficient and being able to offer differentiated products.	Profit can attract investors who might provide additional funds for the future growth and expansion of the business.



Worksheet B: Suggested answer

Discuss the three sources of finance Jemma has identified as additional finance to help her set up, and decide which you think would be best for her business.

If Jemma took out a bank loan she could purchase the kiln, her cutting tools and the other equipment and furniture she needs. Once she has purchased these she wouldn't have to buy them again so once the loan has been paid she wouldn't need to borrow any more. However, she will have to pay interest on the loan so the borrowing overall would be more expensive than the original capital and she would have to commit to those repayments until the loan is cleared.

She could also consider asking the bank for an overdraft. This can be a cheaper option than a bank loan and she would only use it when she needs to. It could be that she has enough with her savings to get the basics and then the revenue she gets from selling her glass ware and delivering workshops is enough to keep her going through the high season, and then she only needs to use it during the winter months if she needs to purchase anything. However, if she needs more finance than the overdraft will give her, for capital expenditure, such as the kiln, this will not be enough and therefore not suitable.

Initially, Jemma could consider hiring some space in a kiln, if there is a glassmaker close by. This would reduce her initial start-up costs as she wouldn't need to invest in buying one herself to start with. This could work, but it is reliant on one being available to rent near to where her studio is, and any workshop items made would mean customers would have to come back the following day to collect their piece, which would be difficult for day trippers, and then Jemma would end up spending money on posting them. This could work though if it is just her selling her pieces.

Jemma needs to see how much start-up capital she needs. This will help her decide whether she has enough for the initial outlay of equipment and machinery she needs, enabling her to use an overdraft as and when she needs it, this being a cheaper option.

However, if she doesn't have enough, then it would be advisable to take out a bank loan. Once she has paid it off, it is gone and she won't have to pay for the equipment again. If she is pursuing both elements of the business; selling her own glass fused products and running workshops for customers visiting the seaside, leasing a kiln would not be suitable, even though it could be a cost effective solution in the first year



Worksheet C: Answers

Joan has set up a floristry business in her local town and rents a small shop there. She offers a range of services including; personalised bouquets for delivery and collection, ready-made bouquets to purchase from the shop, as well as flower arrangements for events such as weddings, corporate events and other special occasions.

Joan is putting together a cash flow forecast for the next 12 months. Below are some examples of cash inflows and cash outflows a business might have.

Your task is to sort them into cash inflows and cash outflows and to then re-write them in the context of Joan's business. You could write them either underneath or on the reverse side of the card.

Rent

Rent for the shop

Wages

Wages for employees

Utility bills

Telephone, Gas, Electricity for the shop

Equipment

Flower arranging tools

Wifi bills

Wifi bills for Joan's website

Stock

Flowers and display stands from suppliers

Advertising

Advertising in the local paper and leaflets

Sales

*Sales from direct shop purchases
Sales from orders (shop and online)
Sales from corporate events
Sales from weddings and other occasions*



Worksheet D: Answers

Any suitably applied answer to Angeliq and her business.

1. To pay the day to day expenses of her business.
2. Expansion of her business – additional waffle and pancake parlour.
3. Equipment (waffle maker, pancake maker), fixtures and fittings (table and chairs, cupboards, fridge freezer, dishwasher).
4. To record her revenue, costs and profit.
5. Inflows – sales of pancakes and waffles, sales of beverages. Outflows – rent for her premises, wages for the staff she employs, ingredients for making the pancakes and waffles, other stock items.
6. Total Revenue – Total Costs.
7. To help her measure how successful the business is, to help her open up another waffle and pancake parlour, to help her make decisions on which items on her menu to keep selling and which ones to discontinue.
8. By calculating her current ratio and her acid test ratio.
9. Trade payables, taxation and bank overdraft.
10. Her success means her suppliers will keep getting orders for ingredients and other stock items, which will help their profits and therefore their own success.
11. The previous month's closing balance.
12. Her cash inflows minus her cash outflows.
13. Trade credit.
14. It will help her with short term cash flow problems i.e. cash shortages.
15. By agreeing longer credit terms with her suppliers or reducing her inventory levels (stock).
16. There is a risk that her business will not have enough cash to pay its short term debts if they were called in.
17. A bank loan she might have taken out to expand the business with i.e. open up another pancake and waffle parlour or purchasing additional equipment such as pancake and waffle makers.
18. She is a sole trader.
19. Buying all her equipment, machinery, fixtures and fittings for the shop such as, tables and chairs, pancake and waffle makers, initial rent, initial stock.
20. Net cash flow + Opening balance.
21. The assets, liabilities and Angeliq's equity of the business on a particular date in time.
22. Ingredients for pancakes and waffles.

Worksheet E: Suggested answers



Decision 1

The van Ellie and Tammy purchased second hand, is looking tired and they are concerned that it will affect the image they are trying to establish. They need obtain a newer one and one which is bigger so they can accommodate more clients at any one time. How should they purchase this?

Retained profits – if they have enough.

Hire purchase – can pay in instalments even though can be expensive, but might be their only option if they need a new van now.

Bank loan – unlikely to get one as they already have one from starting the business with three years left on it.

Decision 2

They are constructing their cash flow forecast for the third year. The two previous years have shown that January is a quiet month for business for them, and it is looking like they will have a cash flow problem in January again. They need some solutions.

See if they can get longer credit terms with their suppliers for November and December, so they will not need to pay the invoice until February.

Consider delaying the purchase of the new van until March.

Use an overdraft from the bank for the month of January.

Decision 3

They have set themselves an objective of improving their Gross Profit Margin by 10% over the next 12 months, and need advice on how they might achieve this.

Increase the revenue they have coming in from selling their services, without increasing cost of sales by a similar amount – a small increase in price.

Reduce the cost of sales without a similar decrease in the money coming in from sales (revenue) – look for cheaper suppliers.

Worksheet E: Suggested answers, *continued*



Decision 4

In the first two years of trading, Ellie and Tammy have been focusing on carrying out the services of their business and have used family to do their accounts for them and to advise them. They feel now they are entering year three, they should learn more about the financial side of the business and start running that side of the business themselves. They have been told their current ratio is 1.7:1. They don't know what this means only that it is good so there is nothing to worry about. Please explain it to them.

This means for every \$1 of current liabilities, they have \$1.70 of current assets. This tells us that they have access to more cash than they need to meet their short-term debts (current liabilities), if they were called in today, and they have spare cash should any unexpected expenditure occur.

Decision 5

Ellie and Tammy are trying to understand their Statement of Financial Position. They are confused by the terms; current assets, non-current assets, current liabilities and non-current liabilities. They would like you to explain what they are in the context of their business.

Current assets – The things they own that will be converted into cash within the year (hair treatments, shampoo, conditioner, nail varnish, lotions and other items needed to carry out their services).

Non-current assets – The things they own that they use to deliver their service, that are expected to last for more than a year (their van, equipment in it to provide the services they do).

Non-current liabilities – The debts of the business that are due to be paid back longer than a year (their 5 year small business loan).

Current liabilities – The debts of their business that are expected to be paid back within the year (trade payables – suppliers with whom they have trade credit with, overdraft from the bank, any taxation due).



Worksheet F: Suggested answers

Give me an example of a cash outflow for a garage that repairs cars. <i>Car parts, rent for the garage, utility bills, insurance, wages for mechanics</i>	Give me an example of a source of finance suitable for a large manufacturing business that is a plc wanting to build a new warehouse. <i>Mortgage, share issue, retained profit</i>
Give me an example of a current asset an ice cream shop might have. <i>Stocks of ice creams, sauces, fruits and sweet treats to decorate, cash</i>	Give me the full name for the formula ROCE. <i>Return on capital employed</i>
Give me a factor that could influence a choice of finance for a business. <i>Size of business, legal structure / type of ownership, amount needed, any existing borrowing, length of time needed</i>	Give me an example of a cash inflow a gym would have. <i>Sales of membership Pay as you go sales Drinks Gym equipment</i>
Give me a way in which a bakery could improve its working capital. <i>Reduce the amount of stock it holds Get longer credit terms with their suppliers</i>	Give me the formula a business would use to calculate profit (net profit). <i>Gross Profit – Expenses</i>
Give me the reason why the shareholders of a business would be interested in it making as much profit as possible. <i>Value in their shares likely to rise Bigger dividend</i>	Give me the formula a business would use to calculate net assets on their statement of financial position. <i>Net current assets plus Non-current assets (fixed assets) Or current assets minus current liabilities plus non-current assets (fixed assets)</i>
Give me an example of an alternative source of finance than bank loan, hire purchase, share issue, trade credit, crowdfunding, leasing etc. <i>Bank overdraft Venture capital</i>	Give me an example of a start-up cost for a nursery. <i>Acceptable answers might include: toys, play equipment, tables and chairs, initial rent, insurance</i>

Worksheet G: Suggested answers



Why cash flow forecasting is important for the festival kit business

- It will enable you to identify in advance, if there is going to be a period of a cash shortfall. This is particularly important for a seasonal business such as yours where sales will fluctuate. Identifying any cash shortage in advance will give you time to take some form of action to try and prevent the shortfall from happening.
- If you run out of cash and have no other source of finance available, your business will become insolvent.
- You need to see that you can pay your suppliers – if you can't they will stop supplying and the business will have no stock to sell.
- Part of your business plan is to see how the business should be performing in the near future; cash flow forecasts are part of this financial planning.
- You may need to show the bank your cash flow forecast if you have a bank loan with them or need to ask for financial help if you incur a cash shortage.

How to improve profitability in the chocolate emporium business

- You need to increase your revenue from chocolate sales, while reducing expenses or at least not increasing the costs of sales at the same rate revenue is increasing. Think about adding something to the service that costs very little but can justify an increase in price e.g. personalised messages iced onto chocolate slabs.
- You could also reduce your cost of sales and / or expenses, without reducing the revenue coming in e.g. look for cheaper suppliers.
- Monitor your inventory (stock of chocolate products) – stocks of items that are popular and those you could probably stop selling.
- Sell add ons – think of products you could suggest they buy with their original purchase, e.g. gift bag, gift wrapping service, other chocolate products to complement what they are already buying.
- Put a card in with the purchase that advertises your products.
- Introduce new products to your range or a new service – chocolates via the post.
- Small increase in price if the market conditions are right.

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