

UNIT 1 EXAM

2 HOURS

90 MARKS

CTEC (2016)

UNIT 1 STUDENT

THEORY

BOOKLET

Abstract

All of your notes will be kept in this online booklet and this will then be uploaded to Moodle for checking as well as your quizzes for each week.

CTEC Business Unit 1

[Email address]

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Learning Outcomes for Unit:

- 1. Understand different types of businesses and their objectives*
- 2. Understand how the functional areas of businesses work together to support the activities of businesses*
- 3. Understand the effect that different organisational structures have on how businesses operate*
- 4. Be able to use financial information to check the financial health of businesses*
- 5. Understand the relationship between businesses and stakeholders*
- 6. Understand the external influences and constraints on businesses, and how businesses could respond*
- 7. Understand why businesses plan*
- 8. Be able to assess the performance of businesses to inform future business activities*

1.1 Different types of business activity

Key terms (for each one add a definition including an example)

- Business activities
- Retail customers
- Business customers

Q. What businesses operate in the primary sector?

Q. What businesses operate in the secondary sector?

Q. What businesses operate in the tertiary sector?

Q. What businesses operate in the quaternary sector?

Q. Why might a business have activities in more than one sector?

1.2 Different sectors of operation

Key terms (for each one add a definition including an example)

- Private sector
- Public sector
- Third sector
- NPO

Q. What is an example of a business in the private sector? What are their main aims and objectives?

Q. What is an example of a business in the public sector? What are their main aims and objectives?

Q. What is an example of a business in the third sector? What are their main aims and objectives?

1.3 Different forms of business ownership

Key terms (for each one add a definition including an example)

- Sole Trader
- Partnership
- Private Limited Company (LTD)
- Public Limited Company (PLC)
- Charity
- Franchise
- Worker Cooperative
- Community interest companies (CIC)
- Public sector organisations
- Unlimited liability
- Limited liability
- Diseconomies of scale

Activity- Create a table like the one below looking at all of the business types above.

Type of Business	Advantages	Disadvantages	Most appropriate for..

1.4 Factors which inform business ownership

Key terms (for each one add a definition including an example)

- Legal status
- Liability
- Funding
- Enterprise
- Entrepreneur
- Venture capital

Q. How is the legal status different for a sole trader, public limited company and a private limited company?

Q. What is the difference between limited and unlimited liability?

Q. Why can control and decision making be an issue in partnerships?

Q. What administrative tasks will you have to perform as a public limited company (PLC) that you wouldn't have to as a sole trader?

1.5 Business aims and objectives

Key terms (for each one add a definition including an example)

- SMART objectives
- Business aims
- Recession
- Economies of scale
- USP

Q. Why might a new business just starting out have an objective to survive?

Q. What is the break-even point? Why is it a common business aim?

Q. What are the benefits and risks of a company setting an objective to grow?

Q. Why is maintaining high quality standards such an important objective?

1.6 Functional areas in a business

Key terms (for each one add a definition including an example)

- Statement of financial position
- Income statement
- Cash flow forecasting
- Pricing strategy
- Disciplinary procedure
- Grievance procedure

Q. What are the finance teams main roles and responsibilities?

Q. Why are the marketing team important?

Q. What are the Human Resources team responsible for?

Q. What does the purchasing and procurement team do?

Q. How are the sales and customer services department linked?

Q. Why is the R&D department so important for some businesses?

1.7 Business stakeholders and shareholders

Key terms (for each one add a definition including an example)

- Stakeholder
- Internal stakeholder
- External stakeholder
- Shareholder
- Conflict resolution

Q. Who might be the external stakeholders of a car repair business?

Q. What are three consequences of a business not listening to its stakeholders?

Research: The controversial topic of HS2 (High Speed Two), the planned high-speed railway line linking London to the Midlands. Consider all the stakeholders who are involved in this potential new service and write a report on the three main areas of impact; business, environment and potential users.

1.8 Organisation structures

Key terms (for each one add a definition including an example)

- Flat structure
- Hierarchical/tall structure
- Centralised structure
- Decentralised structure
- Matrix structure
- Span of control
- Accountability

Q. What does chain of command mean?

Q. What does delegation mean?

Q. Using examples what businesses might operate a centralised structure and what businesses might operate a decentralised structure?

Q. What happens to accountability the further up the hierarchy you go?

1.9 Business Finance

Key terms (for each one add a definition including an example)

- Opportunity cost
- Overheads
- Depreciation
- Revenue
- Cash Flow/Net cash flow
- Profit/Loss
- Insolvent
- Break-even
- Margin of safety
- Gross/Net profit
- Assets/Liabilities/Equity

Task:

Using the table below calculate:

- Break-even point/output
- Profit/Loss per unit
- Total profit/loss
- Margin of safety

	Alpha	Beta	Gamma	Delta	Omega
	£ per unit	£ per unit	£ per unit	£ per unit	£ per unit
Raw Materials	8	8	16	32	4
Variable Labour	2	9	4	8	4
Other variable costs	1	2	2	4	1
Fixed costs	4	6	8	16	3
Selling price	20	32	40	80	16
No. of units sold	10,000	25,000	20,000	40,000	12,500

1.10 External factors on a business

Key terms (for each one add a definition including an example)

- External influence
- Social factors
- Demographics
- Disposable income
- Technological factors
- Economic factors
- Environmental factors
- Legal factors
- Ethical factors

For the following companies perform a PESTEL analysis

- Volkswagen
- BT
- BskyB
- ASOS

1.11 The importance of business planning

Key terms (for each one add a definition and say what would be included in that section of the business plan)

- Executive Summary
- Business Description
- Products and Services
- Financial Plan
- Resource Requirements
- Marketing
- Operational Plan
- Management and Organisation

Q. Why is it important for businesses to plan?

Q. A new cupcake business is opening in Old Swan, what resource and financial requirements might they include in a business plan?

Q. *"Businesses plan to survive and avoid business failure"* using an example describe whether you agree or disagree with this statement.

Q. *"Businesses mostly come from accidental discovery rather than innovation"* using examples describe whether you agree or disagree with this statement.

Q. *"The best business ideas are the ones that act as a solution to a problem"* using examples describe whether you agree or disagree with this statement.

1.12 Sources of finance

Key terms

- Savings
- Retained Profit
- Friends/Family
- Government Grants
- Loans
- Mortgages
- Overdraft
- Credit Card
- Sale of Assets
- Debentures
- Share Capital
- Venture Capital
- Leasing
- Trade Credit

Task: For each of the sources of finance above create a table that looks like the following..

Source of Finance	Definition	Advantages	Disadvantages

Q. Vito Marchese is dreaming of opening his own Italian restaurant in West Derby but knows that he will need around £50,000 to cover the costs of the first year. He has £12,000 in savings and his friend has said he would give him the £30,000 he needs in return for 50% ownership of the restaurant as a sleeping partner. What sources of finance would be best for Vito?

1.13 SWOT analysis

Key terms (for each one add a definition including an example)

- SWOT analysis

Task: Apricot Dance Studio

- Apricot Dance Studio opened five years ago in West Derby, employing a small team of specialised dance teachers
- The studio operates from 7:30-11:00am and from 2:30-8:30pm, which has proved popular
- The studio is now in a position to expand due to increased demand from all age groups for dance classes.
- It is considering diversifying into new markets to compete with other dance-related businesses and general fitness organisations.
- The business will need to review its current position and would like you to complete a detailed SWOT analysis on their behalf. (Research local dance studios and gyms)

1.14 Assessing business performance

Key terms (for each one add a definition including an example)

- Business performance
- Financial analysis
- Assessment of non-financial information
- Benchmarking
- Key performance indicator (KPI)
- Qualitative data
- Quantitative data

Q. How often would a successful business assess its own performance?

Q. What can affect the financial performance of a business?

Q. *“Total sales have increased so the business is more profitable”* Using examples describe whether you agree or disagree with this statement.

Q. What KPIs might a business such as West Derby School have?

Exam Questions

Section B Questions

1. Describe the purpose of a third-sector organisation you have researched. (2 marks)
Name of Business:
Purpose:
2. Explain the key features of a public sector business you have researched. (2 marks)
Name of Business:
Key features:
3. Describe how a business you have researched is organised by geographic location. (2 marks)
Name of Business:
How business is organised:
4. State one advantage and one disadvantage of organising a business by geographic location (2 marks)
Advantage:
Disadvantage:
5. Explain two possible impacts on a business that you have researched of not listening to the concerns of its local community. (4 marks)
Name of Business:
Activity of Business:
Impact 1:
Impact 2:
6. For a business you have researched, analyse one legal implication and one non-legal implication of failure to comply with the Consumer Protection Act (6 marks)
Name of Business:
Activity of Business:
Legal implication:
Non-legal implication:

Section C case study questions

Mike has been running a successful market stall selling flowers for five years. He has now saved up some money, which he would like to invest in a shop at a local shopping mall. The more upmarket location will allow Mike to experiment with fair trade flowers, which he anticipates to be increasingly in demand by the type of customers he is trying to sell to.

He estimates the start-up cost at £20,000, which means he will either have to take out a bank loan or raise the capital needed by taking on a business partner. Steve, a friend that Mike has known since secondary school, is running an online business selling garden ornaments that he imports from China. Steve is keen to sell his products through a traditional channel and Mike is wondering whether going into partnership with Steve is better than remaining a sole trader.

1. What is meant by the term break-even? (2 marks)
2. Explain two advantages and two disadvantages to Mike of calculating the break-even level of output required before deciding whether to invest in a shop. (8 marks)
3. Besides fair trade, identify two ways in which Mike could operate ethically (2 marks)
4. Analyse the advantages and disadvantages to Mike of operating as an ethical trader (9 marks)
5. Suggest whether Mike should go into a partnership with Steve, justifying your answer. (12 marks)