

NEW

AQA 9-1 GCSE Business

TARGET 9-5

Revision Handbook for Top Grades



Ian Marcousé

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The Purpose of Business

What? (Grade 5 basics)

There are three possible purposes of business activity: to make money, to satisfy the needs of customers or to aim for a higher purpose, such as to bring the world closer together (an early goal for Google). To achieve any or all of them, the first requirement is to spot an opportunity. Then that opportunity must be developed into an idea for a sustainably profitable business.

Do think about the purpose of the business featured in the exam paper. The purpose of a family business such as a farm may mainly be to keep the family together. So say so

Why? (Grade 6)

However ambitious the social or moral goals, no business can last long without money to pay the wages and the bills. So there has to be a way to turn the opportunity into something that can generate enough revenue to cover the day-to-day costs. Plus – ideally – enough extra (the profit) to pay for new investments or new developments. No business can last long without money being spent on improving its look and its effectiveness.

How? (Grade 7)

The best way to achieve sustained profitability is to understand how to handle different businesses in different circumstances. Chocolate sales in the UK have been around £3,000 million a year for a decade; new brands come and go; campaigners for better health come and won't go; but chocolate remains an amazingly stable market in the UK. By comparison, the market for bicycles has been a sensation. Sales of bikes for adults have nearly doubled in the past ten years, with dramatic increases in sales of £1,000 bikes (and electric bikes to come). Clever businesspeople see the need to act differently in different markets.

Don't ignore the fact that some businesses have no real purpose. The High Street's seventh betting shop has no social purpose (in fact it's a social evil) and may not even prove profitable. Here's hoping.

So? (Grade 8)

Although every business needs profit to survive and thrive, not every entrepreneur sees profit as the purpose (or goal). In a small town, someone might start up a small football club because they love the game (and their son's a pretty good player). Years' later that club might gain promotion to the football league. That's success, whether or not there was enough profit to pay out dividends.

Exam tip: remember that profit has two purposes: to finance the growth of the business - and to make the owners rich - everyone would see the first purpose as a good thing

Grade 9

Your examiners love to see business methods used for social purposes, such as a recycling business or one focused on electric cars. Of course, most businesses are focused mainly on profits and therefore dividends to shareholders. But a large number of exam questions feature businesses with a higher social purpose.

Purpose of business: 5-step logic chain (to get to the top response level)

Chain 1. All businesses want to survive, so a change in technology can cause a problem (1) forcing the business to respond to rivals (2) ... though if they haven't kept up with their R&D spending they may be too far behind to catch up (3) ... leaving them to cut costs to try to survive (4) ... which may only make their problems worse, for example if they cut advertising and branding support (5)

Chain 2. If the purpose is to satisfy customer needs the enterprise should be off to a great start (1) ... making good use of quantitative and qualitative market research (2) and being willing to change things in line with customer tastes (3). It's important to realise that the opportunity the business spotted may change subtly (4) ... but if customers change, so too must the business. (5)

Basic financial terms and calculations

Basic terms 1: Revenue and costs

At the heart of business finance are two figures that determine success or failure. Revenue is the value of the sales to customers and total costs shows everything paid out in order to achieve that level of revenue. For example in the month of June an ice cream parlour might make £8,000 of sales to customers (revenue), but pay out nearly all of that in wages, to suppliers (for the ingredients) and in 'fixed costs' such as rent, lighting, heating and business rates.

Total costs are made up of variable costs (which vary as production varies), such as raw material and packaging costs *plus* fixed costs (which don't vary as production varies) such as rent and salaries.

Basic calculations 1: Revenue and costs

G for Gelato makes ice creams that sell for £2, but have only 40p of variable costs. But the business has £1,200 of fixed costs per week. Calculate a) the total revenue and b) the total costs if the business sells 900 ice creams per week.

a) Total revenue = Price x Quantity sold

So G for Gelato's revenue is $£2 \times 900 = £1\ 800$

b) Total costs = (variable costs per unit x quantity) + fixed costs

So G for Gelato's total costs are $(£0.40p \times 900 = £360) + £1\ 200 = £1\ 560$

Basic terms 2: Profit and Loss

Businesses need to keep their total costs below their revenue in order to make a profit. A surplus of revenue over costs provides extra finance to make it possible for the business to grow. Growth means hiring new people, buying more machinery and raw materials – and therefore requires more capital. Profit provides that capital without having to ask outsiders to invest. But if revenue slips below costs, the business makes a loss. Repeated losses drain capital from the business, making it struggle to survive.

Formula: Total revenue – Total costs = Profit/Loss

Basic calculations 2 Profit and Loss

In the example above, G for Gelato made £1 800 in revenue but with £1 560 of total costs. So its profit is:

Total revenue £1 800 minus Total costs £1 560 = £240 a week

Now answer this question:

Bagel Bakery sells 2 500 bagels a week at £1.20. The variable cost per bagel is 20p and fixed costs per week are £1 400.

- Calculate Bagel Bakery's weekly revenue
- Calculate the company's weekly profit
- Calculate the change in their profit if sales fall to 1 500 a week
- State two possible variable costs for Bagel Bakery
- State two possible fixed costs for Bagel Bakery

Do digest the meaning of 'performance'. It's how well the business has performed at generating revenue and (especially) profit. And it's net profit that matters, not gross profit.

Don't confuse revenue with profit. Revenue is just the value of sales. Profit is that value *minus* all the costs. Confusing them is a bit like looking at your own team's score, without looking at how many the opponents have scored

Exam tip:
(actually the answers to Qs a-e):
a) £3 000
b) £1 100
c) minus £1 000
d) Ingredients, e.g. wheat, salt plus paper bags
e) Rent and interest charges on any bank loans

Understanding financial statements

What? (Grade 5 basics)

There are two financial statements to consider. The income statement shows revenue, costs and therefore profit or loss over a trading period – usually one year. This shows how well the business is trading. The second is the statement of financial position, which shows the wealth and financial health of the business at a point in time (the last day of the financial year). Both these statements provide a record of how the business *has* been doing; they give no idea of future prospects.

Why? (Grade 6)

When making business decisions, it's vital to know where you stand. Is the business wealthy enough to make a big investment, or to make a take-over bid for a rival company? To answer that, you check the statement of financial position, to see the balance between the assets and liabilities of the business. In 2018 Coca-Cola bought Costa Coffee for £3.9 billion. It was no problem, because Coca-Cola had the £3.9 billion available as a cash asset. They could afford it.

How? (Grade 7)

Both the financial statements are drawn up at the end of the financial year. For public limited companies the figures are then published about 3 months after that time (giving plenty of time for careful checking). Then a figure such as the year's profit can be compared with previous years, to see how well the business has been doing. In 2018 Greggs made a profit of just over £80 million compared with £72 million the previous year. Nice, steady progress.

So? (Grade 8)

The ideal business leader enjoys taking bold decisions that involve risk – but are never reckless. Spending £10 million on robotic machinery may be an excellent investment – but not if you can't afford to spend that kind of money. So every leader needs a clear understanding of their financial position – and therefore make sure the business doesn't run out of cash, or end up borrowing more from banks than can comfortably be repaid.

Grade 9

Financial statements are usually drawn up with care and are as accurate as possible. But sometimes a business such as Patisserie Valerie comes along, where the people working in the finance function over-stretched the figures to create a fiction about the company's profits. So, in business, everyone asks questions about a company's figures, rather than taking them for granted.

Do realise that making a loss in a single year may not be a disaster. ASOS had a rotten year in 2014, even though its profits have risen massively over the past ten years. One tough year doesn't prove that the managers are hopeless.

Don't forget that the statement of financial position shows assets and liabilities at a single point in time, **not** over a whole financial year.

Exam tip: get your mind to separate the income statement from the statement of financial position. Income: revenue and profit/loss over the financial year. Financial position: a snapshot of the company's financial wealth and health at a point in time.

Understanding financial statements: 5-step logic chain (for top level response)

Chain 1. When looking at an income statement there are two key things (1) ... the top line shows the revenue, in other words all the income generated by the business in the year (2) ... clearly it's important to know if that is rising or falling (3). Then the bottom line of the statement shows the profit for the year, after all costs have been taken away (4). If this is rising, things are going well (5).

Chain 2. A healthy statement of financial position shows a strong short-term position for the business (1) ... such as having plenty of cash to pay bills that are coming up in the next few months (2). It also shows a healthy long-term position (3) ... such as not having too much debt (such as bank loans) (4)... and having enough share capital to finance the company's future plans. (5)

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Revision Handbook for Top Grades

Valuable from Day 1 through to Exam revision

- Covers all key concepts in the AQA GCSE. Builds from pass-grade knowledge to Grade 9 evaluation. Valuable after every new classroom lesson ... and in the lead-up to exams
- With each topic, a format of What, Why, How and So? gives clarity – and shows how to develop more complex arguments
- Every concept supported by a 5-step logic chain – exactly what examiners want for a top-level answer
- Business maths covered in detail. Lots of questions to test yourself. All with answers in the book

Ian Marcousé spent 11 years as Chief Examiner for A Level Business and a further 3 years as Chair of Examiners for Business GCSE. He now teaches at Central Foundation School for Boys and at London University's Institute of Education.

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