

# **BUSINESS STUDIES EDEXCEL - A LEVEL**



## **THEME 2 KNOWLEDGE ORGANISER**

**BUSINESS:** *Creating informed, discerning employees, consumers and future leaders*

# KNOWLEDGE ORGANISER

## THEME 2 – RAISING FINANCE

**DO I UNDERSTAND THIS TOPIC?**



### 2.1.1 Internal Finance - Revision

- Owners capital - Personal savings
- retained profit
- sale of assets

### 2.1.2 External Finance - Revision

Sources of finance from –

- family and friends
- the bank
- peer to peer funding
- business angels
- crowdfunding
- about businesses

Methods of finance

- loans
- share capital
- venture capital
- overdrafts
- leasing
- trade credit
- grants

### 2.1.3 Liability - Revision

- Implications of limited and unlimited liability.
- Finance appropriate for limited and unlimited liability businesses.

### 2.1.4 Planning- Revision

- relevance of a business plan when obtaining finance.
- Interpretation of a simple cash flow forecast and calculations based on changes in the cash flow variables.
- Use and limitations of a cash flow forecast.

### Key Vocabulary

**Internal sources of finance** – ways of raising From within the business , such as retained profit or debt factoring.

**External sources of finance** - Ways of raising finance from outside the business, such as loans and overdrafts.

**Personal Savings** –\_Where the owner of a business uses money from their own personal savings to invest in the business.

**Debt Factoring** - When a factoring business buy some right to collect the money from the credit sales of a business where there has been a delay in payment.

**Retained Profit** - Profits which are reinvested into the business rather than being distributed to shareholders.

**Sale of Assets** - Where a business sells assets such as machinery and buildings which they no longer use in order to generate cash.

**Peer to Peer funding** - A form of loan capital and usually carried out online. Issues to match people who have savings to those businesses seeking to borrow money.

**Business Angels** - These are wealthy individuals who invested high growth businesses. They also use the angels skills experience and contacts to help improve the business.

**Crowdfunding** - Where a business, Uses an online platform to outline the details of their business and projects and then impact people to help to provide funding.

**Loans** - Money received from a financial institution in return for the business agreeing to pay interest on the loan and pay back over a certain period of time.

**Venture Capital** - Finance that is given by venture capitalists to small or medium sized businesses in return for share in the business.

**Overdrafts** - When a bank allows an individual to overspend against its current account.

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Dr Martens – floated on the stock market in January 2021.

Reggae Reggae Sauce – in February 2007, venture capitalists – Peter Jones and Richard Farleigh invested in the business.



Monzo VC Funding

### **EXTRA KEY WORDS**

**Leasing** - Instead of buying machinery or vehicles a business may lease them, for example rent them, and then give them back after a certain period of time they will never own the asset.

**Share Capital** - This is where a business will float on the Stock Exchange and sell shares to the public in order to generate income.

**Trade Credit** - this is where a business can buy stock but pay for it later. This helps with their cash flow.

**Grants** - These are awarded by different organisations to help a business to set up and grow. They do not need to be paid back

**Limited Liability** - An investor / owner will only lose what they have invested into the business.

**Unlimited Liability** - The owner of the business can lose both their investment and their personal possessions.

**Cash Flow Forecast** - The process of estimating the expected cash inflows and cash outflows over a period of time.

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## Key Vocabulary

**Sales Forecasts**—Estimates of future sales revenue based on historical data and market analysis, aiding in production and budgeting.

**Consumer Trends**—Patterns in consumer preferences and behaviours over time, helping businesses adapt products and marketing.

**Economic Variables**—Factors like inflation, interest rates, and employment levels that influence the economy and business performance.

**Sales Volume** - measures the number of items sold or produced.

**Sales Revenue** — Sales x the selling price will calculate sales revenue.

**Sales Value** - Measures the financial worth of the item sold.

**Break Even** — When a business is not making a profit and it is not making a loss.

**Contribution** — Selling price minus variable cost. This is what contributes to covering the fixed costs.

**Variable Cost** - a cost that changes with output levels / of production.

**Fixed Cost** — A cost that does not change with output / levels of production.

**Break Even Point** — Where total costs and total revenue meet on a break even chart.

**Margin of Safety** — The difference between the actual output and the break even output the formula to calculate margin of safety is actual output minus break even output.

**Budget** — An agreed plan establishing in numerical terms what needs to be done in order to achieve the outcomes.

**Historical data** — Where a business will look at data from the past.

**Zero based data** —

## Managing Business Activity

DO I UNDERSTAND THIS TOPIC?



### Topic 2.2 Financial Planning

#### 2.2.1 Sales Forecasting - Revision

- Purpose of sales forecasts
- Factors affecting sales forecasts: consumer trends, economic variables, actions of competitors
- Difficulties of sales forecasting

#### 2.2.2 Sales, revenue and costs - Revision

- Calculation of sales volume and sales revenue
- Calculation of fixed and variable costs

#### 2.2.3 Break Even - Revision

- Contribution: selling price – variable cost per unit
- Break-even point:  $0 \text{ total fixed costs} + \text{total variable costs} = \text{total revenue}$
- Using contribution to calculate the break-even point
- Margin of safety
- Interpretation of break-even charts
- Limitations of break-even analysis

#### 2.2.4 Budgets - Revision

- Purpose of budgets
- Types of budget: - historical figures, zero based
- Variance analysis
- Difficulties of budgeting

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Snapchat Revenue

## EXTRA KEY WORDS

**Variance Analysis** - this is where the outcomes of budgets are examined and then compared with actual budgeted figures.

**Favourable variance** — When costs are lower than expected or sales are higher than expected.

**Adverse variance** - When costs are higher than expected or sales are lower than expected

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## Key Vocabulary

**Gross Profit**-The difference between a company's revenue from sales and the cost of goods sold (COGS). It measures how efficiently a company is producing and selling its products.

**Operating Profit**-The profit a company makes from its core business operations, excluding any income from investments and before deducting interest and taxes. It is calculated as gross profit minus operating expenses.

**Net Profit**-The total profit of a company after all expenses have been deducted, including operating costs, interest, taxes, and any other expenses. It reflects the company's overall profitability.

**Gross Profit Margin**-A profitability ratio calculated as gross profit divided by revenue, expressed as a percentage. It shows how much of each pound of revenue is left after accounting for the cost of goods sold.

**Net Profit Margin**-A profitability ratio calculated as net profit divided by revenue, expressed as a percentage. It indicates how much of each pound of revenue is left after all expenses have been deducted.

**Operating Profit Margin**-A profitability ratio calculated as operating profit divided by revenue, expressed as a percentage. It measures the proportion of revenue that remains after covering operating expenses.

## Managing Business Activity

DO I UNDERSTAND THIS TOPIC?



### Topic 2.3 Managing Finance

#### 2.3.1 Profit - Revision

- Calculation of Gross Profit and definition
- Calculation of Operating profit and definition
- Calculation of net profit ( profit for the year) and definition
- Calculation of gross profit margin
- Calculation of net profit margin
- Calculation of operating profit margin
- Can explain the difference between profit and cash

#### 2.3.2 Liquidity- Revision

- Understand what is meant by statement of financial position (balance sheet)
- Able to explain what is meant by the term liquidity.
- Calculation of current ratio
- Calculation of acid test ratio
- How to improve liquidity
- Able to define working capital

#### 2.3.3 Business Failure - Revision

- Able to explain the internal causes of business failure.
- Able to explain the external causes of business failure.
- Financial factors causing business failure
- Non financial factors causing business failure

**Liquidity**-The ability of a company to meet its short-term financial obligations. It indicates how easily a company can convert its assets into cash to pay off its liabilities.

**Current Ratio**-A liquidity ratio calculated as current assets divided by current liabilities. It measures a company's ability to pay its short-term debts with its short-term assets. A higher ratio indicates better liquidity.

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Body shop administration

**Non Financial Factors of Internal Failure**

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**Key Vocabulary**

**Job Production**-Producing one-off items tailored to customer specifications.

**Batch Production**-Producing a set number of identical items in groups or batches.

**Flow Production**-Continuous production of identical items on an assembly line.

**Productivity**-The measure of output per unit of input over a period.

**Efficiency**-The ability to produce maximum output with minimum waste and resources.

**Capacity Utilisation**-The extent to which a business uses its production capacity.

**Stock Control**-Managing inventory levels to meet demand while minimizing costs.

**Buffer Stock**-Extra inventory kept to prevent stockouts.

**JIT (Just-In-Time)**-A strategy where materials and products are produced or acquired only as needed.

**Lean Production**-A method focused on minimizing waste and maximizing value in the production process.

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## Managing Business Activity

**DO I UNDERSTAND THIS TOPIC?**



**Topic 2.4 Resource Management**

**2.4.1 Production, productivity and efficiency - Revision**

- a) I can explain the different methods of production: Job / batch / flow and cell
- b) I understand the term productivity and the calculation - output per unit of input per time period:
- c) I am aware of the factors influencing productivity - link between productivity and competitiveness
- d) I can explain the term Efficiency and what it means - production at minimum average cost
- e) I am aware of the factors influencing efficiency - distinction between labour and capital intensive production

**2.4.2 Capacity utilisation- Revision**

- a) I understand what Capacity utilisation means and know the formula to calculate it- current output (divided by) maximum possible output (x 100)
- b) I can outline some of the Implications of under- and over-utilisation of capacity
- c) I can discuss ways of improving capacity utilisation

**2.4.3 Stock control- Revision**

- a) I can interpret a stock control diagram
- b) I can explain what buffer stocks are.
- c) I am aware of the implications of poor stock control
- d) I know what Just in time (JIT) management of stock is
- e) I understand the term waste minimisation and how lean production can give a competitive advantage.

**2.4.4 Quality management- Revision**

- a) I understand what Quality control / quality assurance / circles and Total Quality Management (TQM) are
- b) I can explain what Continuous improvement (Kaizen) is and understand how a business can achieve competitive advantage from quality management.

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Tesla Mass Production

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## Managing Business Activity

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### Topic 2.5 External Influences

#### 2.5.1 Economic influences - Revision

- a) I can explain the effect on businesses of changes in: Inflation (the rate of inflation, the Consumer Prices Index) / Exchange Rates (appreciation, depreciation) / Interest Rates / Taxation and government spending - the business cycle  
 b) I can explain the effect of economic uncertainty on the business environment

#### 2.5.2 Legislation - Revision

- a) I can explain the effects on businesses of: consumer protection / employee protection / environmental protection / competition policy and health and safety.

#### 2.5.3 The competitive environment - Revision

- a) I can explain how competition can affect market size

**Consumer Protection**-Laws and regulations designed to safeguard consumers from unfair, deceptive, or fraudulent practices by businesses. It includes rights to safe products, fair treatment, and accurate information.

**Employee Protection**-Laws and regulations that ensure fair treatment, safe working conditions, and rights for workers. It includes aspects such as minimum wage, working hours, discrimination laws, and health and safety standards.

**Environmental Policy**-Regulations and initiatives aimed at protecting the environment from harm caused by human activities. It includes measures to reduce pollution, manage natural resources, and promote sustainability.

**Competition Policy**-Laws and regulations that promote fair competition in the market and prevent anti-competitive practices such as monopolies, cartels, and mergers that could harm consumers and other businesses.

**Health & Safety Policy**-Regulations and procedures designed to ensure the safety and well-being of employees in the workplace. It includes measures to prevent accidents, injuries, and occupational illnesses through proper training, equipment, and working conditions.

### Key Vocabulary:

**Inflation**-The rate at which the general level of prices for goods and services rises, leading to a decrease in the purchasing power of money. It reflects the increase in the cost of living over time.

**Exchange Rate**-The value of one country's currency in relation to another's. It determines how much of one currency can be exchanged for another and affects international trade and investments.

**Interest Rates**-The cost of borrowing money or the return on savings, usually expressed as a percentage. Central banks set base interest rates to control inflation and influence economic activity.

**Taxation**-The process by which governments impose financial charges on individuals and businesses to fund public services and infrastructure. It includes various forms of taxes such as income tax, VAT, and corporate tax.

**Business Cycle**-The fluctuations in economic activity over time, consisting of periods of expansion (growth) and contraction (recession). It reflects changes in GDP, employment, and other economic indicators.



Consumers warned to open savings accounts before interest rates fall.