

Business Department

BTEC Tech Award in Enterprise

Component 3 | Promotion and Finance | Revision Booklet



STUDENT NAME: _____

BTEC ENTERPRISE COMPONENT 3
PERSONAL LEARNING CHECKLIST

Learning Aim A | Promotion

Promotional Mix (Methods of Promotion)

- Different methods of promotion used by enterprises, their suitability for different sizes of enterprise
- Advertising** used to persuade and inform.
 - message: what the communication needs to say, medium: how to get the message across.
 - Methods of advertising: moving image, print, ambient, digital, audio.
- Sales promotion**: providing incentives to customers.
 - Methods: coupons, competitions, money off, loyalty incentives, 'buy one get one free', discounts.
- Personal selling**: customer contacted directly by the enterprise
 - Methods: face-to-face, by telephone, via email, through video or web conferencing.
- Public relations** activities: promoting a produce/service, brand or enterprise by placing information about it in the media without paying for the time or media space directly.
 - Methods: exhibitions, sponsorship, press releases.
- Direct marketing**: establish an individual relationship between the enterprise and the customer
 - Methods: direct mail (junk mail), mail order catalogues, magazines, telemarketing.

Types of Market, Segmenting the market

- Types of market: Business to Business (B2B), Business to Consumer (B2C).
- Segmenting the market to identify which customers its promotions will target through:
 - demographics: age, race, religion, gender, family size, ethnicity, income, education level, socio-economic group
 - geographic: location
 - psychographic: social class, attitudes, lifestyle and personality characteristics
 - behavioural: spending, consumption, usage, loyalty status and desired benefits
- Why an enterprise targets its market, and the impact this has on promotion.

Factors influencing the choice of promotional methods

Consider the factors affecting the choice of promotional method for an enterprise:

- Size of enterprise.
- Budgetary constraints.
- Appropriateness for product/service.
- Target market.

Learning Aim B | Financial Records

Financial documents

- invoices
- delivery notes
- purchase orders
- credit notes
- receipts
- statement of account.

Importance to a business of accuracy when these documents are being used.

Methods of Payment

- cash
- credit cards
- debit cards
- direct debit
- payment technologies.

Impact on customers and enterprises of using different methods.

Revenue, Costs, Profit

- Income - from sales and from sale/hire of assets.
- Start-up costs and running costs.
- Profit = Total Revenue – Total Costs

Statement of Comprehensive Income (Profit & Loss)

- Turnover (revenue) and cost of sales (cost of goods sold).
- Gross profit, expenses, net profit, retained profit.
- Purpose of Statement of Comprehensive Income: shows the profit or loss of an enterprise over time.
- Complete and interpret a statement of comprehensive income using given figures, and suggest appropriate actions.

Statement of Financial Position (Balance Sheet)

- Fixed assets and current assets.
- Current liabilities and long-term liabilities.
- Debtors and creditors.
- Net current assets.
- Capital.
- Purpose of a Statement of Financial Position: shows the financial performance (or value) of an enterprise at a point in time.
- Identify total assets and total liabilities
- Complete and interpret a statement of financial position using given figures, and suggest appropriate actions.

Profitability and Liquidity

- The difference between cash and profit.
- The difference between liquidity and profitability.
- Calculate profitability ratios from given formulae:
 - gross profit margin % : $(\text{gross profit}/\text{revenue}) \times 100$
 - net profit margin % : $(\text{net profit}/\text{revenue}) \times 100$.
- Calculate liquidity ratios from given formulae:
 - current ratio: $\text{current assets}/\text{current liabilities}$
 - liquid capital ratio: $(\text{current assets} - \text{inventory})/\text{current liabilities}$.

Learning Aim C | Financial Planning and Forecasting

Using cash flow data

- Cash – liquid assets of the business; bank balance plus cash in the business.
- Inflows: sales, capital introduced, loans.
- Outflows: purchases, running costs.
- Cash flow forecast: outlines the forecasted future cash inflows (from sales) and the outflows (such as raw materials, wages) per month over a period of time.
- Net Cash Flow – difference between the cash flowing into the business (inflows) and the cash flowing out of the business (outflows), positive and negative liquidity.
- Opening and Closing Balance
- Purpose of a cash flow forecast:
 - to identify money coming in (inflows) and going out (outflows) over time
 - to determine net current asset requirements and make business decisions.

Suggesting improvements to cash flow problems

- Analysis of cash flow information – differences between predicted and actual cash flow.
- Cash flow problems – not having enough cash to pay employees and suppliers.
- Impact of timings of inflows and outflows, and suggested solutions to problems:
 - increasing revenue
 - selling off unused assets
 - selling off inventory
 - chasing debtors for monies owed
 - cutting costs
 - delaying payment to suppliers
 - reducing credit period offered to customers
 - cutting back or delaying expansion plans.

Break-even analysis and break-even point

- construct and interpret a break-even chart
- Costs: variable costs, fixed costs, total costs.
- Sales: total revenue.
- Margin of safety.
- Break-even point.
- Calculate Break-even = $\text{fixed costs} / (\text{selling price per unit} - \text{variable cost per unit})$
- The value and importance of break-even analysis to enterprises when planning.
- Limitations of break-even analysis.

Sources of business finance

- Sources of finance:
 - owner funds
 - retained profits
 - loans
 - credit cards
 - government grants
 - hire purchase and leasing
 - trade credit
 - venture capital
 - peer-to-peer lending.
- Advantages and disadvantages of each source
- Why enterprises may plan different sources of finance for different purposes or at different stages and the relevance of each source.

RAG rate each topic using the table below

LAA Promotion:	R	A	G
The promotional mix and its purpose			
Advertising			
Sales Promotion			
Personal Selling			
Public Relations			
Direct Marketing			
Types of Market			
Segmentation			
Choice of promotional methods			


LAB Financial Records:	R	A	G
Financial Documents			
Methods of Payment			
Costs, revenue and profit			
Statement of Comprehensive Income			
Statement of Financial Position			
Profitability ratios			
Liquidity ratios			
LAC Financial Planning and Forecasting:			
Cash Flow			
Break even			
Sources of Finance			

Formula Revision

1. Revenue

	
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2. Total Variable costs

	
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3. Total Costs

	
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4. Profit

	
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5. Gross Profit

	
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6. Net Profit

	
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7. Net Current Assets

	
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8. Net Cash Flow

	
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9. Opening Balance



10. Closing balance



11. Break-Even



12. Margin of Safety



13. Gross Profit Margin



14. Net Profit Margin



The Promotional Mix

Method of Promotion and Definition	Advantages	Disadvantages



SEGMENTATION KNOWLEDGE CHECK

1.

2.

3.

4.

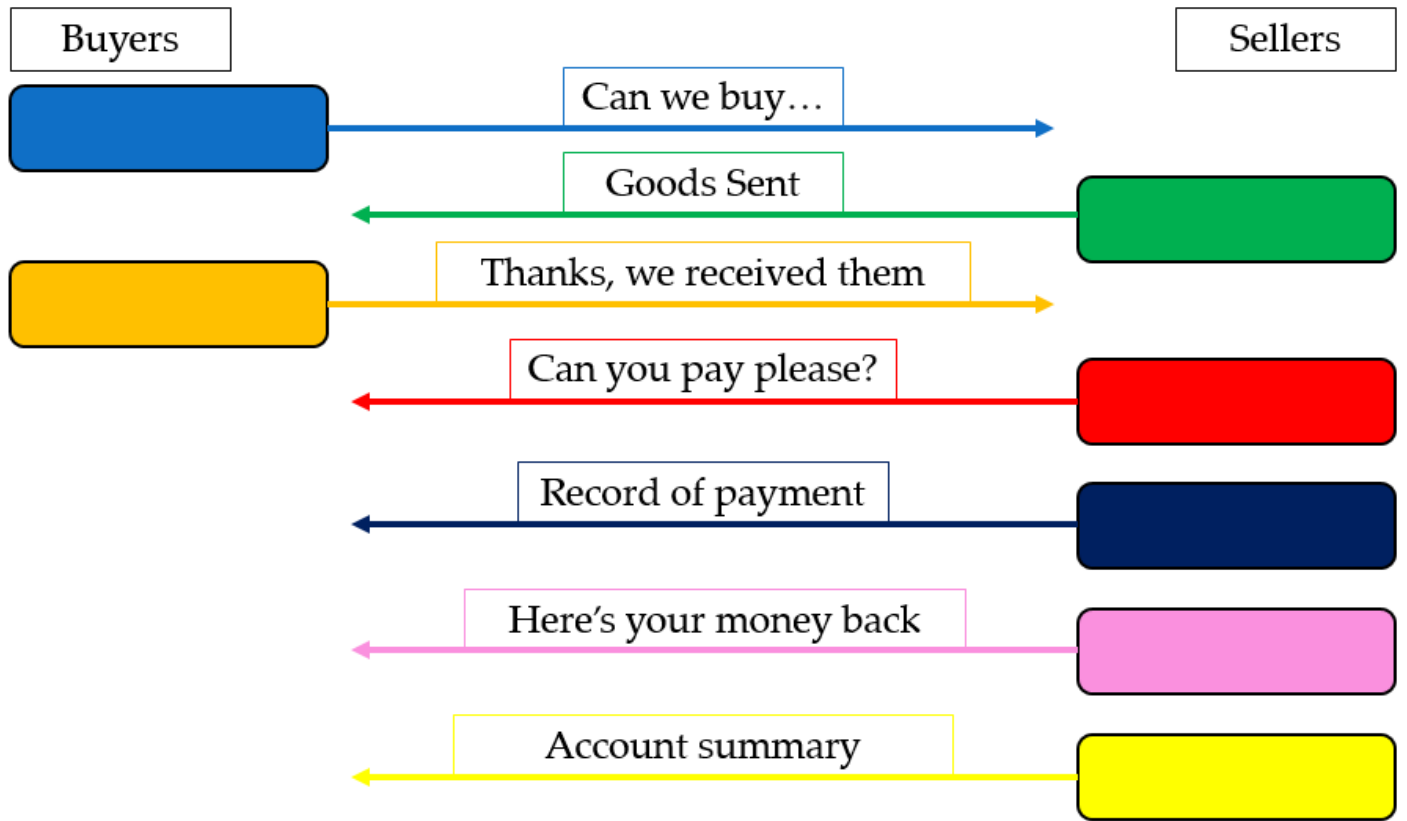
5.



SEGMENTATION EXAM STYLE QUESTION

FINANCIAL DOCUMENTS

Complete the flow of the key financial documents in the transactions between buyers and sellers.



FINANCIAL DOCUMENTS KNOWLEDGE CHECK



- 1.
- 2.
- 3.
- 4.
- 5.



FINANCIAL DOCUMENTS EXAM STYLE QUESTION

FINANCIAL TERMINOLOGY

Revenue



Gross Profit



Net Profit



Variable Costs



Fixed costs



COSTS, REVENUE AND PROFIT

Example 1

A dog walker charges £10 to walk a dog for an hour. Assuming that the dog walker walks 8 dogs a day, how much revenue do they make in a 5 day working week?

Answer:

Example 2

An ice cream seller charges £1.20 for an ice cream. They sell 600 ice creams a week. How much revenue do they make in 4 weeks?

Answer:

Example 3

A hairdresser charges £7 for cutting a child's hair, £10 for an adult male and £25 for an adult female. If the hairdresser cuts the hair of 50 children, 75 men and 30 women in a week, what is the total revenue earned from these customers?

Answer:

Example 4

A small business producing chocolate incurs the following costs per month:

Cocoa: £7 000

Milk: £7 500

Sugar: £9 500

Rent: £6 000

Wages: £10 000

What is the total cost incurred in producing chocolate bars for one month?

Answer:

Example 5

A business selling ice cream cones incurs the following costs per ice cream cone:

Cone: 3p

Chocolate flake: 10p

Ice cream: 15p

Ice cream sauce: 2p

If the business sells 3 000 ice creams a week, what are the total variable costs?

Answer:

Example 7

Use the information below to calculate net profit

Sales Revenue	£125 000
Cost of Sales	£72 000
Gross Profit	£53 000
Expenses	£41 000
Net Profit	

Example 8

Use the information below to calculate cost of sales

Sales Revenue	£175 000
Cost of Sales	
Gross Profit	£79 000
Expenses	£59 000
Net Profit	£20 000

Example 9

Use the information below to calculate gross profit

Sales Revenue	£175 000
Cost of Sales	£96 000
Gross Profit	
Expenses	£59 000
Net Profit	£20 000

ASSETS AND LIABILITIES

Current Assets	Current Liabilities
Non-Current (Fixed) Assets	Non-Current (Long term) Liabilities

Key formula

Net Current Assets

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Income Statements



KNOWLEDGE CHECK ANSWERS

- 1.
- 2.
- 3.
- 4.

	£
Revenue from pony trekking	300 000
Wages and salaries	80 000
Vet bills	24 000
Mortgage, rates and insurance	26 000
Cost of sales	120 000

(a) Complete the 2016 Profit and Loss Account (Income Statement) for *BFRC*.

(8)

**2016 Profit and Loss Account (Income Statement)
for Beachside Farm Riding Centre (BFRC)**

	£	£
Gross Profit		
Expenses:		
Total Expenses:		

PROFITABILITY AND LIQUIDITY



PROFITABILITY AND LIQUIDITY KNOWLEDGE CHECK

- 1.
- 2.
- 3.
- 4.
- 5.

Extract from Statement of Financial Position as at 30 April 2019

	£	£
Fixed assets		
Car	3 275	
Photographic equipment	3 140	
Total fixed assets		(i)
Current assets		
Inventory	626	
Debtors	(ii)	
Total current assets	1 565	
Total current liabilities	1 252	
Net current assets	(iii)	
Net assets		(iv)

(c) (i) Calculate the current ratio for Tyler's enterprise.

(1)

Show your working

(ii) Calculate the liquid capital ratio for Tyler's enterprise.

(1)

Show your working

LIQUIDITY EXAM STYLE QUESTION



CASH FLOW FORECASTING

Net Cash Flow



Opening Balance



Closing Balance



Advantages	Disadvantages

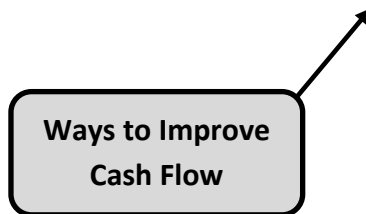
CASH FLOW FORECASTING EXTEND YOUR UNDERSTANDING



All figures are in £s	January	February	March	April
Total cash inflow	3800	b)	4,500	4,800
Cash outflows:				
Supplies	1.800	2,300	2,300	2,500
Loan repayment	500	500	500	500
Gas & electricity (quarterly)	0	0	800	0
Insurance (annually)			500	0
Other expenses	700	700	700	500
Total cash outflow	3,000	3500	4,800	d)
Net cash flow	800	1,000	c)	1,300
Opening balance	1,000	1,800	2,800	2,500
Closing balance	a)	2,800	2,500	3,800



WAYS TO IMPROVE CASH FLOW



CASH FLOW EXAM STYLE QUESTION

Break Even



BREAK EVEN KNOWLEDGE CHECK

1.

2.

3.

4.

5.

a.

b.

c.

Example 1

Use the information below and the breakeven formula to calculate the breakeven point in units:

Fixed costs £34 000

Total variable costs £10 000

Units produced 2 000

Selling price £15

Answer:

Example 2

A dog walker charges £10 to walk a dog for an hour. They incur variable costs of £3 per hour and have to cover fixed costs of £3 000 a year. How many dogs does the dog walker need to walk per year to breakeven?

Answer:

Example 3

An ice cream seller charges £1.20 for an ice cream. They have fixed costs of £1 000 **per month** and variable costs include 20p for a cone, 5p for a flake, 15p for the ice cream and 3p for the sauce.

Calculate how many ice creams need to be sold **a year** to breakeven. (Hint: you need to ensure fixed costs are calculated for the year)

Answer:

Example 4

The variable costs per unit incurred by a business making glass windows amount to £33 per window. The company produces 5 000 windows per year and incur fixed costs of £1 200 000 per year. The company sells each window for £150.

Calculate the number of windows that need to be sold to breakeven

Answer:

Example 5

Use the information in the table below to calculate the breakeven number of units for a business selling furniture cabinets.

Fixed Costs	£300 000
Selling Price Per Unit	£150
Contribution per unit	£30

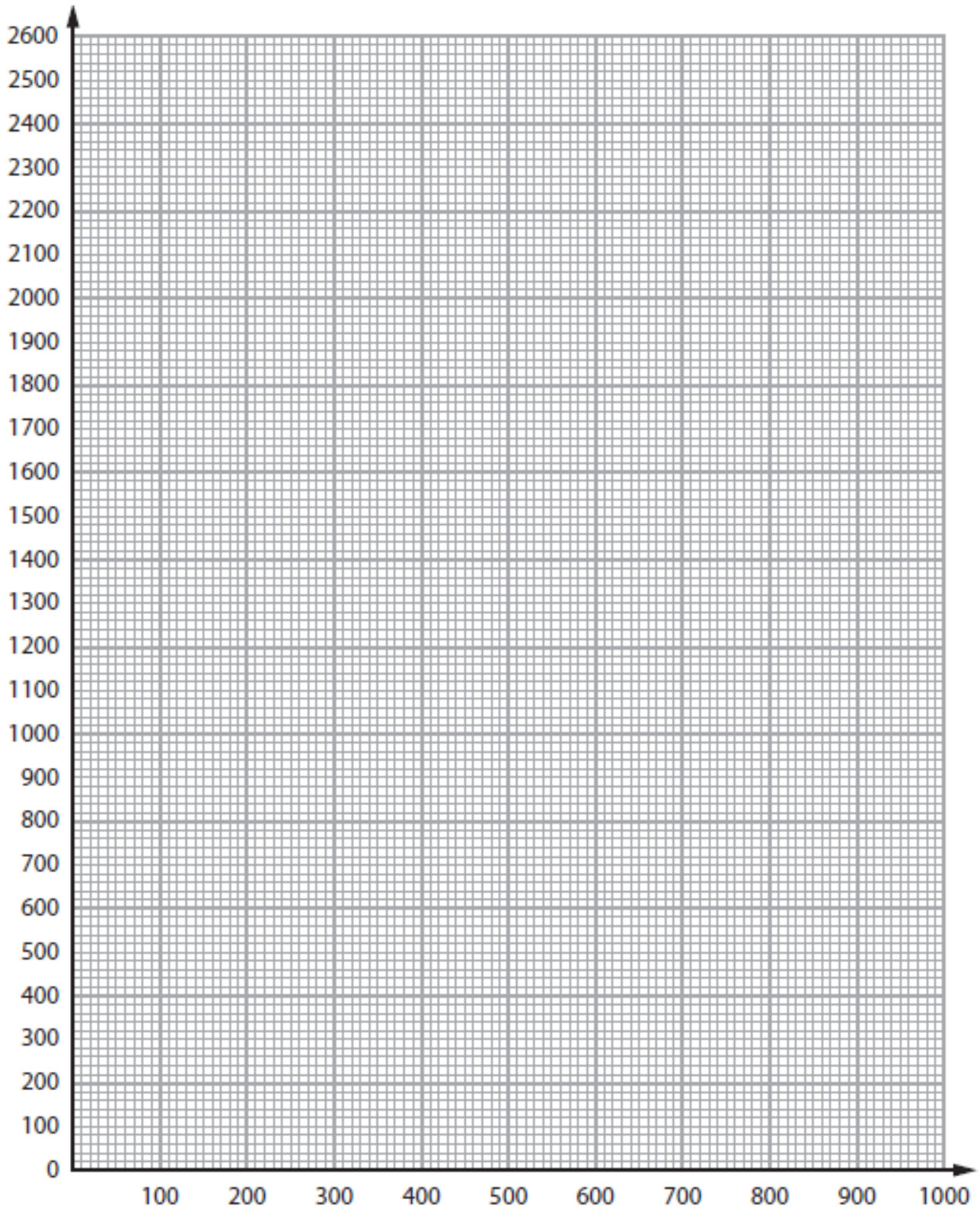
Answer:

Example 6

Track Tyres Ltd sell tyres for £80 each. They have fixed costs per year of £450 000 and the cost paid per tyre from their suppliers is £50. They have other variable costs of £10 per tyre they sell. Calculate the breakeven number of tyres they have to sell if fixed costs increase by £20 000 and suppliers increase the cost per tyre by 10%

Answer:

Revenue and Costs for <i>BIC</i> Premium Ice Cream Cones			
Number of Cones	0	500	1 000
Sales	0	£1 100	£2 200
Variable Costs	0	£300	£600
Fixed Costs	£1 000		
Total Costs	£1 000		



Sources of finance



SOURCES OF FINANCE

Source of finance

For each of the following scenarios, select and justify a suitable source of finance:

1. A new business in the high tech market is looking for £100,000 to fund expenditure on equipment. The business believes they have an innovative solution to new house design, which will reduce energy consumption. The owner is willing to give up some control of the company.

2. A self-employed plumber needs a new van but does not have access to the full amount now.

3. A successful, profitable car business wants to expand and open a second showroom. They need finance to fund the purchase of premises. The owner is very clear that he is not willing to give up any control of his business.

4. A business is running short of working capital and requires access to raw materials in order to produce more of their products as they have just received a large order.

SOURCES OF FINANCE EXAM STYLE QUESTION

