

Attached in this PowerPoint are the tasks for the next seven days in the subject listed above.

Present New Information:

- Year 10 Business will be examining Profit and Loss Accounts. Please use to help you with your learning - <https://www.bbc.co.uk/bitesize/guides/zkwnnrd/revision/1>

A profit and loss account shows the revenue and costs of a business and these are used to work out whether or not the business has made a profit. They are also known as income statements.

The main components of a profit and loss account:

- **Sales revenue** – this is the money coming into the business from selling goods or services. It can also be referred to as sales turnover.
- **Cost of sales** – these are the direct costs of supplying the goods or services such as: buying raw materials to make the products.

Formulas:

- **Gross Profit** = Revenue – Cost of sales
- **Net Profit = Gross profit – Expenses.** Expenses (overheads) – these are the costs that do not change as production increases or decreases.

Please date your work and title with “Year 10 Profit and Loss Week Three” – this will help you to keep your work organised!

Year 10 Business Week Two – Complete All Tasks

Task	Task	Support	How long should I take?
1	<p>Check your answers from last week from slides 3-7</p> <p>If any of these are incorrect go back to https://www.bbc.co.uk/bitesize/guides/zmtrrj6/revision/1 and recap any core knowledge.</p>	Use your revision guide to support.	20 minutes
2	<p>https://www.bbc.co.uk/bitesize/guides/zxq2hyc/revision/1</p> <p>Review what is meant by profit and loss.</p> <p>Take the MCQ test to ensure you understand this area fully!</p> <p>Review any answers you get incorrect.</p>	Use your revision guide to support.	30 minutes
3	<p>https://www.bbc.co.uk/bitesize/guides/zkwnnrd/revision/1</p> <p>Read pages one and two using the link above. Make notes on how to construct a profit and loss account.</p> <p>Ensure you watch the clip.</p>	Use your revision guide to support	20 minutes
3	<p>https://www.youtube.com/watch?v=ulpX3jX_UT0</p> <p>Watch the above link about how to calculate gross and net profit.</p> <p>Attempt task One and Two on slides 8 and 9.</p>	Use your revision guide to support.	50 minutes

Task One - Solutions

Fizzy pop Soft drinks

Sue has been helping a friend to re-fill soft drink dispensing machines. She now has the opportunity to take on the franchise from her friend who is starting university in September. The franchise is fairly simple. She must purchase a minimum quantity of juice each month. The minimum is £150. This has to be paid immediately, as the supplier does not allow any credit. With this amount of stock her friend has been making sales of £450 per month. This however is not received until two months later. Other expenses include van rental of £100 per month and other costs which total £100 each month. Sue has £50 in the bank and her father has offered her a loan of £400.

QUESTIONS:

1. Assuming that Sue starts the business in January, construct a cash flow forecast for the first six months
2. Comment on the cash flow forecast
3. Suggest and discuss possible solutions to any problems you can see.
4. Do you think she should take on the franchise?

	Jan	Feb	March	April	June	July
RECEIPTS (inflows)						
Credit Sales			450	450	450	450
Total Receipts	0	0	450	450	450	450
PAYMENTS (outflows)						
Van	100	100	100	100	100	100
Juices	150	150	150	150	150	150
Other	100	100	100	100	100	100
Total Payments	350	350	350	350	350	350
Net Cash flow	(350)	(350)	100	100	100	100
Opening Balance	450	100	(250)	(150)	(50)	50
Closing Balance	100	(250)	(150)	(50)	50	150

1. Assuming that Sue starts the business in January, construct a cash flow forecast for the first six months. (see above for solutions).
2. Comment on the cash flow forecast – The cash flow continues to be grow positively within the first 6 months. However, the fact that Sue's customers do not pay until 60 days after they purchase their goods causes a delay in cash inflows within in the business for the first two months.
3. Suggest and discuss possible solutions to any problems you can see.
Sue should investigate whether her customers could pay when they purchase stock or in 30 instead of 60 days, this would help her cash inflow within the first two months.
4. Do you think she should take on the franchise?
I think the cash flow of the business looks positive and if Sue can change the payment situation of customers this will help further with the cash flow.

9. Hugh Lewis operates boat trips during the summer months in Cardigan Bay. He wants to borrow money from the bank to buy an additional boat. The bank has asked to see his cash flow forecast to help make their decision on whether or not to lend the money.

Below is a copy of a cash flow forecast Hugh Lewis produced for the bank.

	APR	MAY	JUN	JUL	AUG	SEPT
Receipts	£	£	£	£	£	£
Turnover	4000	2000	?	7000	10000	5000
Payments						
Fuel	400	300	400	1000	?	700
Wages	2000	2000	2000	3000	4000	1500
Advertising	100	100	100	200	200	100
Insurance	100	100	100	100	100	100
Other costs	100	0	100	200	400	100
Total Payments	2700	2500	2700	4500	6100	2500
Net cash flow	1300	-500	1300	2500	3900	2500
Opening bank balance	4000	5300	4800	6100	8600	12500
Closing bank balance	5300	4800	6100	8600	12500	15000

(a) What is a cash flow forecast?

[2]

9.	(a)	What is a cash flow forecast?	2	AO1 2
		it is a prediction/estimate (1) of the movement of cash into and out of a business (1)		

(b) Calculate the estimated

(i) turnover for June;

£4,000

**Task Two –
Solutions**

[2]

(ii) fuel payment for August.

£1,400

(c) Why is a cash flow forecast important to Hugh Lewis' bank?

[2]

9.	(c)	Why is a cash flow forecast important to Hugh Lewis' bank. [2x1]	2	AO2 2
		May be part of a business plan – when a business wants to borrow money Forewarns about future possible cash flow problems Helps bank decide whether to give loan – suggests ability to repay etc.		

9.	(d)	All businesses are affected by external events. Suggest and explain two external events which may result in the actual cash flow being different from the forecast. At least one must have been caused by government action.	4	AO2 2 AO3 2
		Suggestion [2x1] Explanation [2x1]		
	(i)	a Government action that could affect cash flow. Increased/decreased taxes – will change the amount of cash held Interest rates – change in amount of cash given to banks Legislation – may change the services offered and therefore cash available – minimum wage etc. Answers may be consequential of taxes paid by customers		
	(ii)	another event that could affect cash flow Weather – will change number of goods sold expenditure of customers Increase in costs - wages/fuel etc. Inflation – increase costs- reduce customers Competition – attracts customers away Breakage of equipment-fewer boats-costs of repair etc. Credit another Government action		

Extension – Solutions

Fred Bloggs is a friend of yours who has come up with the unlikely business idea of setting up a go-karting centre on the outskirts of the town. Whereas it is not uncommon for Fred to come up with some weird ideas this one seems different. This time he has definitely done some homework having researched the idea quite thoroughly. He has undertaken a considerable amount of market research which has revealed a strong demand for this activity in the area. He has also investigated how much it would cost to set up and run such an operation. Despite gaining all of this information Fred has no idea how he needs to present it in order to gain a loan needed. This is where you come in. Using the information provided below he has asked you to produce a cash flow forecast for him for the first 12 months if he starts trading in May so that he can present it to his bank manager.

FIGURES GAINED TO DATE:

Rent of warehouse	£500.00 per month
Rental of Quad bikes (12 needed)	£50.00 each per month
Staff wages (3 part time staff)	£900.00 per month
Utilities (gas, electric, water etc)	£600.00 per quarter
Insurance	£245.00 per quarter
Fuel	£3.00 per rental use
Servicing, oil, labour etc	£2.00 per rental use
Helmets, gloves etc	£20.00 per month

He has decided to set his selling price at £15.00 per rental per hour
Based on research finding he is expected to sell 320 rentals each month.
Quarterly bills are payable every June, Sept, December and March.

QUESTIONS:

- 1) Construct a 12 months cash flow for Fred.
(please see slide 7)
- 2) Do you think that the bank manager will lend him the additional funding needed to get started?

No, due to the cash flow forecast not looking positive for both 6 and 12 months. If the bank manager saw this in Fred's business plan, his loan request would be rejected.

Fred needs to either:

- Increase his sales (maybe via marketing);
- Decrease his expenses.

- 2) How useful is this forecast for Fred?

Extremely, Fred can use the cash flow forecast to make changes within his start up business.



	May	June	July	August	September	October	November	December	Jan	Feb	March	April
RECEIPTS (inflows)												
Sales Revenue	£4,800	4,800	4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800
Total Receipts	£4,800	£4,800	4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800	£4,800
PAYMENTS (outflows)												
Rent	500	500	500	500	500	500	500	500	500	500	500	500
Utilities (gas, electric, water etc)		600			600			600			600	
Insurance		245			245			245			245	
Rental Quad bikes	600	600	600	600	600	600	600	600	600	600	600	600
Staff Wages	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Fuel	960	960	960	960	960	960	960	960	960	960	960	960
Servicing Oil etc	640	640	640	640	640	640	640	640	640	640	640	640
Helmet/Gloves	20	20	20	20	20	20	20	20	20	20	20	20
Total Payments	5,420	6,265	5,420	5,420	6,265	5,420	5,420	6,265	5,420	5,420	6,265	5,420
Net Cash flow	(620)	(1,465)	(620)	(620)	(1,465)	(620)	(620)	(1,465)	(620)	(620)	(1,465)	(620)
Opening Balance	0	(620)	(2,085)	(2,705)	(3,325)	(4,790)	(5,410)	(6,030)	(7,495)	(8,115)	(8,735)	(10,200)
Closing Balance	(620)	(2,085)	(2,705)	(3,325)	(4,790)	(5,410)	(6,030)	(7,485)	(8,115)	(8,735)	(10,200)	(10,820)

Task One

Complete the following for Ian's Fish and Chip shop.

- Bought vehicle £750;
- Sold 2000 small portions of fish & chips at £3 each;
- Advertising £5,000;
- Car insurance £1,500;
- Rent £15,000;
- Purchased 750kgs of fish at £7.50 a kg;
- Sold 10,000 medium portions of fish & chips at £5;
- Purchased 100 bottles of vinegar at £2 each;
- Sold 4,500 large portions of fish and chips at £6.50 each;
- Purchased 2,500 packs of frozen chips at £1 each;
- Wages £5,000;
- Telephone bill £2,000.

Hint:
Cost of sale
= (Opening
Stock +
Purchases) -
Closing
Stock

	£
Revenue	
Total revenue =	
Cost of Sales	
Opening stock	
All Purchases	
Less Closing stock	()
Cost of sales =	
Gross Profit =	
Expenses	
Total expenses =	
Profit for the year =	

Task Two

Complete the income statement using the following figures for a new Indian restaurant/takeaway;

- Stock that will be sold next year (2021) worth £1,500;
- Purchased 250 kg's of rice at £1 a kg;
- Sold 265 portions of lentil curry at £10.50 each;
- Vehicle £5,000;
- Purchased 50kg of lentils at £2.50 a kg;
- Car insurance £750;
- Rent £30000;
- Sold 650 portions of rice at £4.25 each;
- Stock left over from last year (2019) worth £2,000;
- Advertising £7000;
- Purchased ingredients for pakoras for £1,500;
- Wages £30,000;
- New cooker £2,000;
- Telephone £500;
- Sold 150,000 pakoras at £0.50p each.

Hint:
 $\text{Cost of sale} = (\text{Opening Stock} + \text{Purchases}) - \text{Closing Stock}$

	£
Revenue	
Total revenue =	
Cost of Sales	
Opening stock	
All Purchases	
Less Closing stock	()
Cost of sales =	
Gross Profit =	
Expenses	
Total expenses =	
Profit for the year =	