

1

Business activity

Revision questions

- 1 a) From the following list, decide which items are human needs and which are wants:
 - luxury house
 - shelter
 - Coca-Cola
 - car
 - clean water
 - designer jeans
 - clothing. [3]
- b) Explain briefly the reasons for your decisions in a). [3]
- 2 Explain what is meant by *scarcity* when referring to the economic problem. [3]
- 3 List the **four** factors of production and explain briefly why each is necessary for production to take place. [8]
- 4 Explain, with the aid of an example, what the term *opportunity cost* means to a consumer. [3]
- 5 Give **two** other examples of opportunity cost that would affect groups other than consumers. [2]
- 6 Explain what is meant by *division of labour*. [2]
- 7 Why is a business likely to increase output if it adopts division of labour? [3]
- 8 List **four** tasks involved in the making of cakes that could be given to different workers through division of labour. [2]
- 9 State **three** benefits to society of business activity. [3]
- 10 What is meant by *added value*? [2]
- 11 Identify and explain **two** ways in which a retailer of clothes could *add value* to their products. (Hint: the answer is *not* to buy more expensive clothes for the shop as this will not necessarily add value.) [6]

2

Classification of businesses

Revision questions

- 1 Explain the differences between the primary, secondary and tertiary sectors of industry. [6]
- 2 Which sector of business activity is often the most important in the *most developed economies*? Explain one reason for this. [3]
- 3 Which sector of business activity is often the most important in the *least developed economies*? Explain one reason for this. [3]
- 4 Identify and explain **one** reason why the secondary sector of business activity might become less important to a country's economy over time. [3]
- 5 Identify which sector of business activity the following businesses are in. Copy out the list and place P, S or T alongside each one.
 - Bus operator
 - Bus manufacturer
 - Forestry business
 - Oil-drilling business
 - Food canning business
 - Bank
 [6]
- 6 Make a list of **six** other businesses, two each from the primary, secondary and tertiary sectors of business. [6]
- 7 Explain what is meant by a *mixed economy*. [3]
- 8 What is meant by the *private sector* in mixed economies? [3]
- 9 What is meant by the *public sector* in mixed economies? [3]
- 10 Identify and explain **two** possible reasons why a government might decide to keep the country's postal service in the public sector. [4]

3

Enterprise, business growth and size

Revision questions

- 1 Explain what is meant by the term *entrepreneur*. [2]
- 2 Identify and explain any **two** common characteristics of successful entrepreneurs. [4]
- 3 Identify any **two** elements of a business plan and outline why they are important. [4]
- 4 A government decides to offer small grants and a business advice service to entrepreneurs planning to start up new business. Explain two possible reasons why the government is doing this. [4]
- 5 List **two** groups that are interested in comparing the size of businesses and explain why they want to do this. [4]
- 6 Two business owners cannot agree on which of them owns the larger business. One owner, who runs a printing firm using the latest expensive equipment, considers his firm to be larger. The other owner, who has a fruit farm that uses only manual labour to pick the fruit, considers her business to be larger.
Which method of measuring business size would you advise the two owners to use, and why? [2]
- 7 Identify and explain any **two** reasons why a business owner might want to expand the business. [4]
- 8 What is the difference between a takeover and a merger? [2]
- 9 Give **two** examples of horizontal integration of businesses. [2]
- 10 Give **two** examples of forward vertical integration of businesses. [2]
- 11 Outline **two** benefits to Business A of vertically integrating forwards with another business. [2]
- 12 The owner of a small hairdressing business asks for your advice. She is planning to expand the business. New branches will be opened and many more staff will be employed. She asks you to make a list of all of the possible advantages and disadvantages of this decision.
 - a) Is this an example of internal or external growth? Explain your answer. [2]
 - b) Make the list asked for by the owner. [4]
- 13 Identify **two** reasons why some businesses remain small. [2]

4

Types of business organisation

Revision questions

- 1 Which form of business organisation do you think is most suitable for each of the following businesses? Explain your answer fully.
 - a) A business with many hotels is planning to expand abroad. A substantial sum of money will be needed to finance this expansion. Expert managers will be needed to run the business. [2]
 - b) A young student is planning to offer his services to neighbours as a gardener. He will purchase only cheap tools to start with. [2]
 - c) A TV and radio broadcasting business aims to provide services to the whole population regardless of their ability to pay. It will require finance from government. [2]
 - d) A small group of lawyers wish to set up in business together. Their professional association does not allow lawyers to have limited liability. [2]
 - e) The owner of a small garage business is planning to retire. He hopes that his son will be able to take over the business at this time. [2]
- 2 Outline **two** disadvantages of a partnership. [2]
- 3 Identify and explain **two** benefits to a sole trader of converting to private limited company status. [4]
- 4 State **three** possible drawbacks to converting a private limited company into a public limited company. [3]
- 5 Explain the difference between the *public sector of industry* and *public limited companies*. [3]
- 6 State **two** reasons why two businesses might decide to set up a joint venture. [2]
- 7 'Sometimes there is a conflict between the management of a public limited company and its owners over how the profits should be used.' Explain what is meant by this statement. [2]
- 8 Explain what is meant by a *franchise*. [2]
- 9 Tom Shah has just gained a qualification in catering. He wants to run a small fast food outlet. He is not sure whether to run it as an independent sole trader or as a franchise.
 - a) Identify and explain **one** advantage and **one** disadvantage for Tom if he decides to run the business as a sole trader. [4]
 - b) Identify and explain **one** advantage for Tom if he decides to run the business as a franchise and **one** advantage for the franchisor. [4]
- 10 Identify and explain **two** possible benefits to society of having the main TV service operated as a public corporation. [4]

5

Business objectives and stakeholder objectives

Revision questions

- 1 What is meant by *business objectives*? [2]
- 2 Give **three** examples of the kinds of objectives that a business owned by private individuals could establish. [3]
- 3 Identify and explain **two** benefits to a business of having clear objectives. [4]
- 4 Identify and explain **two** reasons why business managers might set *growth* as a business objective. [4]
- 5 Identify and explain **two** reasons why business managers might set *profit* as a business objective. [4]
- 6 Identify and explain **two** possible objectives for business in the public sector. [4]
- 7 List **three** examples of the stakeholders in a business. [3]
- 8 Identify and explain **two** examples of how conflict might occur between the objectives of these stakeholder groups. [4]
- 9 Purbeck plc owns and manages a major leisure complex. The directors of the company are considering demolishing the complex and building a new shopping centre. The directors have different opinions about this plan.
 - The Human Resources manager says that too many groups of people would suffer from the plan. He thinks that the plan should be dropped.
 - The Chief Executive says that his main responsibility is to the owners of the business and that profits should come first.
 - a) How would the workers in the leisure centre be affected by the decision? [2]
 - b) Do you agree with the Chief Executive that profits should be the main aim of the business? Explain your answer. [6]
- 10 Identify and explain **one** other business decision that might result in conflict between stakeholders. [4]



Motivating workers

Revision questions

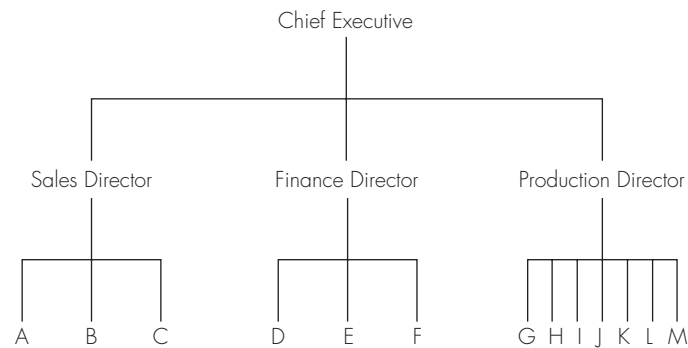
- 1 Why are well-motivated employees good for a business? [2]
- 2 Match the statement to the person (A – Taylor, B – Maslow, C – McGregor) whose theory it best describes:
 - i) 'People have different needs, from the basic requirements of food and shelter to finding a self-fulfilment that comes from doing a good job.'
 - ii) 'Money is the main motivator; pay someone more money and they will work harder.'
 - iii) 'Some managers think that workers are lazy and need to be pushed to work – these are Theory X managers; other managers think employees just need a reasonable environment and want to do a good job – these are Theory Y managers.'[3]
- 3 State **five** reasons why people work. [5]
- 4 What **three** factors can be used by managers to motivate their employees? [3]
- 5 Joe is paid \$3,000 per month, whilst Kiran is paid \$5.00 per hour and last week earned \$20 extra as he worked overtime. Who is paid a wage and who is paid a salary? Explain your answer. [4]
- 6 Sarah is paid \$5.00 per hour and works 40 hours a week, while Selina is paid \$5.00 for every component she produces. Who is paid by piece rate and who is paid by time rate? Explain your answer. [4]
- 7 Give **one** advantage and **one** disadvantage of using time rate. [4]
- 8 Give **one** advantage and **one** disadvantage of using piece-rate. [4]
- 9 Give **five** examples of non-financial rewards. [5]
- 10 For each of the following three jobs state whether job rotation, job enlargement or job enrichment would be the most suitable way to increase job satisfaction:
 - a) Shop worker
 - b) Chef
 - c) Production line worker in a car assembly plant.[6]

7

Organisation and management

Revision questions

- 1 What is meant by *organisational structure*? [2]
- 2 As a business expands and employs more people, how will the organisation chart be likely to change? [3]
- 3 Explain how an organisation chart for a business could be useful when informing new employees about the business. [3]
- 4 Study the organisation chart for a company, shown below:



- a) Explain what is meant by the term *span of control*. [2]
- b) What is the span of control of the Production Director? [1]
- c) What could be the advantages to the business of this director having an even wider span of control? [3]
- d) What could be the disadvantages of this? [3]
- 5 What do you understand by the term *delegation*? [2]
- 6 Why might it be important for a busy manager to delegate to other members of staff? [4]
- 7 Identify **five** qualities of an effective manager. [5]
- 8 Identify **four** reasons why it is important to have good managers. [4]
- 9 List **three** leadership styles. [3]
- 10 Give **five** benefits of joining a trade union. [5]

8

Recruitment, selection and training of workers

Revision questions

- 1 Give **three** reasons why a business recruits new employees. [3]
- 2 a) Why does a business carry out a job analysis before drawing up a job description? [2]
 b) What is the purpose of a job (person) specification? [2]
- 3 a) What is meant by the term *recruit internally*? [2]
 b) State **one** other method of recruitment. [1]
 c) Explain **one** advantage and **one** disadvantage of internal recruitment. [4]
- 4 Identify **three** different places a business could advertise if it was recruiting externally. [3]
- 5 State **four** factors to consider when designing an advertisement for a job. [4]
- 6 A manager is needed for a new shop that is being opened in the city centre. What factors should be considered when selecting a manager for a new shop? [6]
- 7 Why does a business carry out interviews as part of the process of selecting staff? [2]
- 8 Name **three** types of training that a business may use. [3]
- 9 What is the difference between *dismissal* and *redundancy*? [2]
- 10 Outline **three** examples of laws that protect employees. [6]

9

Internal and external communication

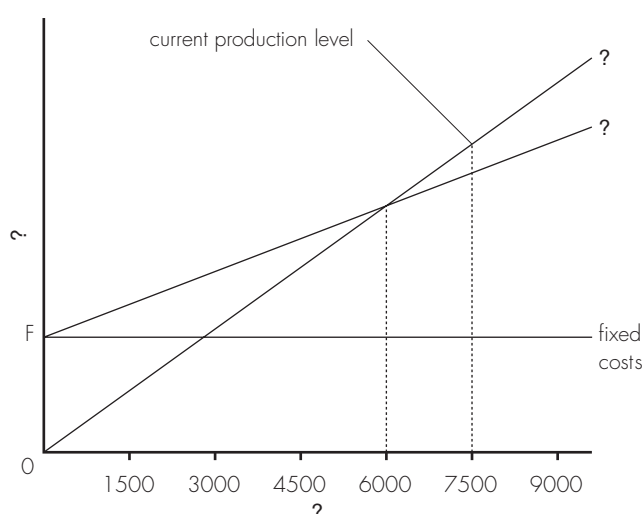
Revision questions

- 1 Outline the **four** features necessary for communication to be 'effective'. [4]
- 2 Explain the difference between *one-way* and *two-way communication*. [3]
- 3 Identify and explain **one** situation in which two-way communication would be particularly useful. [2]
- 4 Explain the difference between *internal* and *external communication*. [3]
- 5 Imagine you are the Human Resources Director of a large retail store with many departments. State **two** business situations where good internal communications would be important to you. [2]
- 6 Which method of communication would you use if you wanted to:
 - a) Give an instruction to a large number of people.
 - b) Explain a detailed plan to a few other people.
 - c) Obtain a very quick reply to your message to another member of staff.
 - d) Keep contact with a large number of young consumers.
 - e) Tell an applicant for a job what the conditions of employment are. [5]
- 7 For each of your suggestions in answer to Q6, explain why you chose this method of communication. [5]
- 8 Identify and explain **two** ways in which communication has been made easier with new technology. [4]
- 9 A multinational business employs a total of 35,000 workers and managers in eight different countries. Explain **three** of the most likely barriers to effective internal communication in this company. [6]
- 10 Identify and explain **three** ways that the business in Q9 might use to overcome the barriers to effective communication that you identified. [6]

Costs, scale of production and break-even analysis

Revision questions

- 1 Identify and explain **two** reasons why it is important for a business manager to know the costs of the business. [4]
- 2 State **one** example of a fixed cost for a car manufacturer. Explain why you consider it to be a fixed cost. [3]
- 3 Explain why the cost of wool would be a variable cost for a carpet manufacturer. [2]
- 4 Draw the graph below which shows a break-even chart and label each of the lines and axes marked with a question mark: [4]



- 5 Identify from the break-even chart:
 - a) the break-even level of production
 - b) the safety margin. [2]
- 6 Calculate the break-even level of production for Malawi Bricks Ltd from the following data:
 - fixed costs \$40 000 per year
 - variable costs 5 cents per brick
 - selling price 13 cents per brick. [3]
- 7 How might this firm try to reduce its break-even level of output? [3]
- 8 What would be the advantage to the business of reducing the level of output at which it breaks even? [2]
- 9 Identify and explain **two** possible uses of break-even charts. [4]
- 10 Identify and explain **two** possible drawbacks to break-even charts. [4]
- 11 What is meant by the term *total cost*? [2]
- 12 What is meant by the term *average cost*? [2]
- 13 State **three** examples of economies of scale that a supermarket might gain as it expands by opening new stores. [3]
- 14 State **two** possible diseconomies of scale for this supermarket as it expands. [2]

Business finance: needs and sources

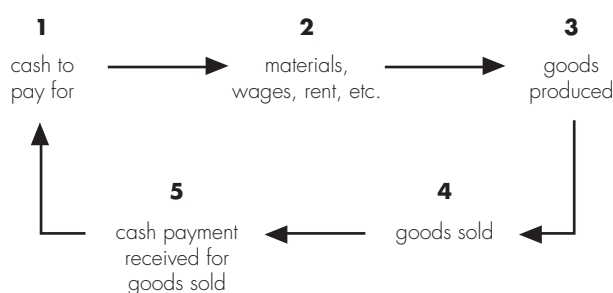
Revision questions

- 1 Identify and explain **two** reasons why the owners of a new business will need finance to set it up. [4]
- 2 What is the difference between internal and external business finance? [3]
- 3 State **two** methods of raising finance internally and list **one** advantage of each method. [4]
- 4 Explain the difference between short and long term sources of finance. [3]
- 5 State **two** methods of raising short term finance externally and list **one** advantage of each method. [4]
- 6 Explain the advantages to a business of an overdraft as opposed to a bank loan. [4]
- 7 When a company issues more shares, this is termed *permanent capital*. Explain this term. [2]
- 8 Identify and explain **two** advantages a bank loan may have over a share issue for a company. [4]
- 9 The directors of a company are planning to install a new computer system in the office. The computers are expected to last about four years. They will cost \$60 000. Three methods of finance are being considered:
 - leasing without purchasing at the end
 - long term bank loan
 - new share issue.Explain the advantages and disadvantages of each source of finance. Advise the directors on the most suitable method of finance. Give reasons for your answer. [8]
- 10 Identify and explain **two** factors that an investor would consider before deciding whether to invest in a company. [4]

Cash flow forecasting and working capital

Revision questions

- 1 What is meant by *cash inflow*? [2]
- 2 State **four** ways in which a business can receive cash inflows. [4]
- 3 What is meant by *cash outflow*? [2]
- 4 State **three** forms of cash outflow from a business. [3]
- 5 What is meant by a *cash flow cycle*? [3]
- 6 What is meant by *working capital*? [2]
- 7 Explain the operation of the cash flow cycle shown below. [4]



- 8 Refer to the cash flow cycle shown in Figure 22.1. Explain why a business needs more cash and working capital when the time between stage 1 and stage 5 is very long. [4]
- 9 Fill in the missing values **a)–d)** on the following cash flow forecast for Curls Hairstyles Ltd. [4]

	January (\$)	February (\$)	March (\$)	April (\$)
Cash inflows:				
Cash sales	1000	1000	3000	3000
Cash outflows:				
Purchases of stock	100	100	300	200
Rent	0	100	0	100
Wages and other expenses	600	600	c)	1500
Opening cash balance	500	b)	1000	2500
Net cash flow	300	200	1500	1200
Closing cash balance	a)	1000	2500	d)

- 10 a) Construct a three month cash flow forecast (from April) for A&P Traders Ltd from the following forecasted data:
 - Sales are: March \$15 000; April \$14 000; May \$16 000; June \$14 000.
 - All sales are 50 per cent cash and 50 per cent on one month's credit.
 - Purchases are made in the month of sale and are all for cash. The value of purchases is 50 per cent of sales value.
 - Expenses are: April \$6000; May \$8000; June \$12 000.
 - Opening cash balance in April is \$1000.
- b) What action would you advise the manager of the business in **a)** to take before the cash flow problem arises in June? [4]

Income statements

Revision questions

- 1 State **two** reasons why managers need accounting information about their business. [2]
- 2 State **three** other groups that would be interested in the accounts of a business. [3]
- 3 Explain the difference between *gross profit* and *net profit*. [3]
- 4 An entrepreneur has been told to construct an income statement. Explain what should be included in this statement. [4]
- 5 Identify and explain **two** reasons why profit is important for a business in the private sector. [4]
- 6 Sanjay runs a profitable and expanding computer training company. He is concerned to see that even though his business made a profit of \$6000 last year, the bank balance fell during the year – the net cash flow had been negative. Explain to Sanjay the possible reasons for this situation. [8]
- 7 Explain the difference between *sales revenue* and *cost of sales* on an income statement. [4]
- 8 Explain the difference between *net profit* and *retained profit*. [4]
- 9 A manager has to choose between two ways of expanding her business. She has made the following forecasts:

Forecasts (for 1 year)	Option A	Option B
Sales units	5000 @ \$4	8000 @ \$3
Cost of sales	\$2 per unit	\$1.50 per unit
Overhead expenses	\$5000	\$8000

- a) Calculate the forecasted gross profit of both options. [4]
- b) Calculate the forecasted net profit of both options. [2]
- 10 Explain how a business can make a gross profit but a net loss. [2]

Balance sheets

Revision questions

- 1 Explain the differences between an income statement and a balance sheet. [6]
- 2 Explain, with examples, the difference between an *asset* and a *liability*. [5]
- 3 State **two** examples of fixed (non-current) assets likely to be on the balance sheet of a restaurant. [2]
- 4 Explain why the two examples you have stated in Q4 are non-current assets and not current assets. [4]
- 5 State **two** examples of current assets likely to be on the balance sheet of a restaurant. [2]
- 6 State **one** example of a non-current liability likely to be on a balance sheet. [1]
- 7 Explain why the example you stated in Q6 is a non-current liability and not a current liability. [2]
- 8 Identify and explain **two** examples of current liability likely to be on the balance sheet of a recently set up business making and selling clay pots. [4]
- 9 Refer to the following balance sheet for Hartwood Hats Ltd as at 31/3/XX.

	\$000
Non-current (fixed) assets	15
Current assets:	
Stocks	5
Debtors	4
Cash	1
Total current assets	x
Total assets	25
Current liabilities	8
Non-current (long term) liabilities	11
Total liabilities	y
Total assets less total liabilities	6
Share capital	4
Retained profits	2
Total shareholders' equity	z

- a) Calculate the values at x, y and z. Show your working. [6]
- b) Explain **two** ways in which the managers of Hartwood Hats Ltd. would find this balance sheet useful. [4]
- 10 Refer to the balance sheet for Hartwood Hats above. Explain the importance to shareholders of the value of shareholders' equity. [4]

Analysis of accounts

Revision questions

- 1 Explain why any **three** stakeholder groups would find the accounts of a business useful. [4]
- 2 Explain why ratio analysis is more useful than just comparing individual figures from company accounts. [3]
- 3 Copy out the table below and identify each of the following ratios: [5]

Formula	Ratio
$\frac{\text{Net profit}}{\text{Capital employed}} \times 100$	
$\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$	
$\frac{\text{Net profit}}{\text{Sales revenue}} \times 100$	
$\frac{\text{Current assets}}{\text{Current liabilities}}$	
$\frac{\text{Liquid assets (cash + debtors but not inventories)}}{\text{Current liabilities}}$	

- 4 What does a 'return on capital employed of 20 per cent' mean? [2]
- 5 Why would a current ratio of 0.75 be considered 'too low' for many businesses? [2]
- 6 Use performance ratios to analyse these accounting results for P&K Ltd, a firm of builders (all \$000s): [6]

	2013	2012
Gross profit	16	15
Expenses including interest	9	6
Capital employed	80	70
Sales revenue	120	100

- 7 If you were a senior manager in the business in Q6 would you be pleased with these ratio results? Explain your answer. [6]
- 8 Use liquidity ratios to analyse these accounting results for P&K Ltd (all \$000). [4]

	2013	2012
Current liabilities	30	25
Current assets	22	20
Inventories	12	10

- 9 If you were a senior manager in this business would you be pleased with these ratio results? Explain your answer. [4]
- 10 Explain how a bank manager would use the results to Q6 and Q8 to aid a decision to lend P&K a large bank loan. [4]

Government economic objectives and policies

Revision questions

- 1 List **three** economic objectives of governments. [3]
- 2 List **two** disadvantages to a country's economy arising from rapid inflation. [2]
- 3 Why might a government want to achieve a lower rate of unemployment in the country? [3]
- 4 Explain what *economic growth* means and how it is measured. [4]
- 5 Draw a labelled diagram of the business/economic cycle and explain the boom and recession stages. [5]
- 6 Explain the difference between *direct* and *indirect* taxes. [3]
- 7 Identify and explain **two** possible effects on a luxury hotel of an increase in interest rates. [4]
- 8 Identify and explain **two** ways in which managers of the hotel in Q7 might respond to higher interest rates. [4]
- 9 How would a government decision to reduce direct taxes be likely to affect the demand for luxury foreign holidays? [4]
- 10 Two managers are comparing details about their businesses.
 - Firm A manufactures cell (mobile) phones. Many of these are exported. The business has expanded recently and has borrowed large sums of money from banks.
 - Firm B produces flour for bakeries. It buys its wheat from other countries. Both managers are discussing these recent changes in government economic policy:
 - increased interest rates
 - reduced corporation tax
 - raised income tax rates.

Which business do you think will be more affected by these changes? Explain your answer. [8]

Revision questions

- 1 State **two** ways in which business activity can damage the environment. [2]
- 2 Explain the difference between the *external costs* and the *external benefits* of a business decision. [4]
- 3 State **two** possible external benefits and **two** possible external costs of a decision by a business to expand an airport close to a city. [4]
- 4 Identify and explain **three** ways in which businesses could contribute to sustainable development. [6]
- 5 Name **two** pressure groups that operate in your country. [2]
- 6 Identify and explain **two** ways in which an environmental pressure group could take action against a business that pollutes the environment. [4]
- 7 Identify and explain **two** ways in which an oil and petrol company could take advantage of increasing consumer concerns about the environment. [4]
- 8 Using an example, explain how there might be a conflict for a business between making profits and being ethical. [4]
- 9 Identify and explain **three** possible benefits to a business of acting ethically. [6]
- 10 Identify and explain **two** reasons why a business might decide to act unethically. [4]

Business and the international economy

Revision questions

- 1 Identify and explain **two** reasons for the increased globalisation of recent years. [4]
- 2 Identify and explain **two** potential benefits to a manufacturer of sports shoes from globalisation. [4]
- 3 Identify and explain **two** reasons why a book retailing business might be affected by increased globalisation and free trade. [4]
- 4 Explain the difference between a *tariff* and a *quota*. [3]
- 5 Outline **two** reasons why a government might introduce tariffs. [2]
- 6 There are only two countries in the world where it is impossible to buy Coca-Cola. Explain **two** benefits to Coca-Cola of being a multinational business. [4]
- 7 Coca-Cola plans to expand its operations in India. Explain **two** advantages and **two** disadvantages to India from this expansion. [8]
- 8 Explain what a *currency depreciation* means. [3]
- 9 Explain the likely impact of an appreciation of a country's currency on the country's exporting businesses. [4]
- 10 Explain the likely impact of a depreciation of a country's currency on importing businesses in the country. [4]