

# WORKBOOK


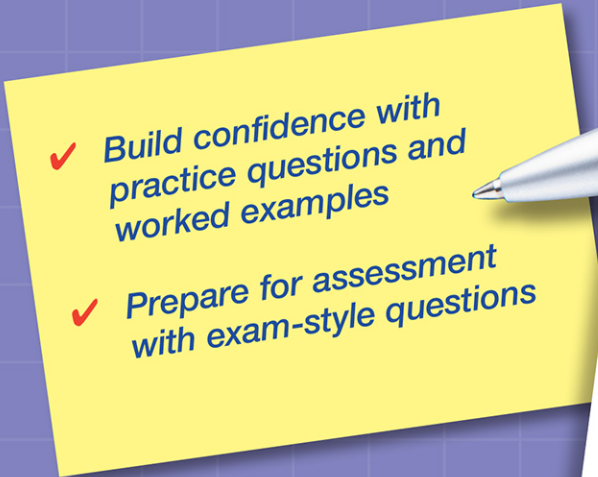
PEARSON EDEXCEL A-LEVEL

## Business

2

THEMES 2 and 3

- Managing business activities
- Business decisions and strategy

- 
- 
- ✓ Build confidence with practice questions and worked examples
  - ✓ Prepare for assessment with exam-style questions

Mark Hage

# Contents

## Theme 2 Managing business activities




2.1	Raising finance .....	5
2.2	Financial planning .....	13
2.3	Managing finance.....	23
2.4	Resource management.....	28
2.5	External influences .....	38

## Theme 3 Business decisions and strategy

3.1	Business objectives and strategy .....	46
3.2	Business growth .....	56
3.3	Decision-making techniques .....	66
3.4	Influences on business decisions .....	79
3.5	Assessing competitiveness .....	89
3.6	Managing change .....	98



# About this book

- 1 **This workbook** will help you to prepare for the Edexcel A-level Business Paper 2, Business activities, decisions and strategy, and Paper 3, Investigating business in a competitive environment.
- 2 **Each exam** is 2 hours long and includes a range of questions. All three exams are divided into two sections. In Papers 1 and 2, Sections A and B will require you to answer five questions in each section. In Paper 3, Sections A and B will require you to answer four questions in each section.
- 3 **The questions** in this workbook are divided by assessment objective, starting with AO1 (knowledge and understanding) and progressing to AO2 (application), AO3 (analysis) and AO4 (evaluation). Each section ends with some exam-style questions to test that what you have learnt can be applied effectively.
- 4 **Worked answers** are included throughout the practice questions to help you understand how to gain the most marks.
- 5 **Icons** next to the question will help you to identify:
  -  where your calculations skills are tested
  -  where questions draw on synoptic knowledge, i.e. content from more than one topic
  -  how long this question should take you
- 6 **You still need** to read your textbook and refer to your revision guides and lesson notes.
- 7 **Marks** are indicated for all questions so that you can gauge the detail required in your answers.
- 8 **Timings** are given for the exam-style questions to make your practice as realistic as possible.
- 9 **Answers** are available at: [www.hoddereducation.co.uk/workbookanswers](http://www.hoddereducation.co.uk/workbookanswers)

# Theme 2 Managing business activities

## 2.1 Raising finance

### Internal finance, External finance *and* Liability

Internal finance means funds found inside the business, which include retained profits, funds raised by selling assets or the owner's own capital.

External finance means funds found outside the business, which include crowd funding and borrowing from banks and business angels. Methods of finance include loans, share and venture capital and grants.

Limited liability means that investors in the business can only lose the money they have paid for a share of the business. It generally applies to limited companies, which are treated as a legal person that is separate from those who have shares in the business. Unlimited liability means the owners of the business are personally responsible for all of its debts.

#### Practice questions



#### AO1: Knowledge and understanding

- 1** Define the term 'retained profits'. 2 marks

.....

.....

- 2** State two differences between owner's capital and sale of assets. 2 marks

.....

.....

- 3** What is meant the term 'dividend'? 2 marks

.....

.....

#### AO2: Application

- 4** Using the data in Table 1, calculate the percentage change, to two decimal places, in Apple's retained profits between 2010 and 2019. You are advised to show your workings. 4 marks



**Table 1** Apple retained profits extract

	2010 (US\$m)	2019 (US\$m)
Retained profits	37,169	45,898

.....

.....

.....

.....

- 5 Tick the biggest reason given by businesses for taking on an external source of finance.

1 mark

- ☐ Funding short-term cash flow problems
- ☐ Expansion of the business
- ☐ Funding short- to medium-term purchases
- ☐ Funding to ensure the survival of the business

- 6 Explain one benefit to a farmer of selling assets to reduce costs.

4 marks

.....

.....

.....

.....

.....

.....

### AO3: Analysis



- 7 Analyse the benefits of Lush cosmetics being able to fund growth using retained profits.

8 marks

*The worked example below shows a model paragraph from a possible response to this question. Study this closely and then attempt to answer the question fully on a piece of paper. Keep this with your workbook.*

#### Worked example

One benefit of Lush being able to fund growth through retained\*\* profits is that it can reduce the costs of expansion. As retained profits, which were around £73 million in 2017, are those that Lush has banked, it is able to fund the opening of new stores without having to pay interest on a commercial loan. As a consequence, more of Lush's revenues from the store openings will be available to operate different pricing strategies, such as penetration pricing, to entice customers to try its products. Ultimately, this may give Lush a greater competitive advantage when funding its growth, rather than having lower profit margins due to the need to pay interest on any loan. However, retained profits may not be sufficient on their own to fund the level of growth that Lush wishes to see. For example, in 2019 Lush has moved to a loss. If it has relied on forecast retained profits to fund shop openings, it might have to obtain last-minute finance to continue, leading to much higher interest rates, higher costs and a threat to future profit levels.

A01: Credit for a benefit of using retained profit to fund growth.

A02: Credit for using an appropriate piece of context to answer the question

A03: Credit for briefly explaining a positive and a negative consequence for Lush cosmetics of using retained profits to fund growth.

- 4 marks

---

---

---

---

---

---

**10 marks**

[illegible]

## Planning

A business plan is a forecast of business operations, including a cash flow forecast/statement of business objectives and a plan of staffing needs or marketing methods.

A cash flow forecast is a prediction of cash flowing into and out of the business over a period of time. This allows the business to predict how much net cash flow the business has at any given time.

### Practice questions



#### AO1: Knowledge and understanding

**10** Define the term 'operational plan'.

**2 marks**

.....

.....

.....

**11** State two differences between a marketing plan and a financial plan.

**2 marks**

.....

.....

**12** What is meant by a 'financial objective'?

**2 marks**

.....

.....

.....

#### AO2: Application

**13** Using the data in Table 2, calculate the net cash flow for July.

**2 marks**

**Table 2** Example cash flow forecast

£000s	June	July	August	September	October	November
Cash at start of month	20	25	20	15	5	10
Cash inflows	25	20	25	20	15	25
Cash outflows	20	25	30	30	10	20
Net cash flow	5		-5	-10	5	5
Cash at end of month	25	20	15	5	10	15

.....

.....

.....

.....

.....

.....





**1 mark**

- ☐ Venture capital
- ☐ Loan
- ☐ Overdraft
- ☐ Sale of assets

**4 marks**

[illegible]

## A03: Analysis



**8 marks**

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins or other markings on the paper.



- 17** Marks & Spencer (M&S) has announced more than 100 store closures by 2022, as part of its plan to cut costs and increase profit margins. It suffered a 10% reduction in profits in 2019, but it is hoping its new food delivery partnership with Ocado will reverse its fortunes on the high street. Analyse one way in which a business such as M&S can benefit from using a business plan.

**4 marks**

---

---

---

---

---

---

#### **AO4: Evaluation**



- 18** Clever Mike Ltd cycles has been operating in London since 2013, building up a loyal customer base for premium bikes and equipment. It has produced a significant profit since opening and hopes to expand its brand into the rest of London. Assess the likely impact of Clever Mike using retained profits to increase output due to the upsurge in demand as a result of the Covid-19 epidemic.

**10 marks**

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---



60

## Data-response questions

### Extract A UK retail remains stable before Brexit deadline

Shoppers in the UK purchased 0.6% more goods in the second 3 months of the financial year to August 2019, than in the first part of the year. Retail sales in August totalled £7.3 billion. UK retail sales grew by 3.1% in September, even though GDP shrank by 0.2%, with poor manufacturing sales. Retail sales are expected to remain steady with GDP in the third quarter expected to be 0.4%. GDP per capita is estimated to be £33,598 in 2019, compared to the 2018 figure of £33,058.

### Extract B Boohoo worth five times more than Debenhams

Mahmud Kamani has built the online fashion retailer, Boohoo, from a staff of three operating from a Manchester warehouse in 2006 to a £2.6 billion powerhouse selling to 200 markets in 2019. Boohoo has tapped into teenagers' and 20-somethings' desire for up-to-date fashion that is highly price competitive. With some dresses selling for as little as £3, sales reached £283 million in 2018, with 5 million loyal customers. The secret of Boohoo's success is Kamani's ability to source more than half its stock from Britain, at very low cost, while using the power of its website to offer the latest fashions.

### Extract C Pizza Express Lytham: cash flow comparison, £000s

	August 2019	August 2020	January 2018	January 2020
Cash at start of month	250	200	340	250
Cash inflows	150	130	80	20
Cash outflows	350	400	260	310
Net cash flow				

### Extract D Restaurant Pizza Express sees profits fall and debts rise

Pizza Express has seen its debt levels rise to almost unmanageable levels of £665 million in 2019, while its profits have fallen by 11%. The restaurant employs 14,500 staff across 607 restaurants worldwide. Sales across its business have fallen significantly, while cost levels remain high, including interest payments of £93 million per year on loans. The business has until 2021 to start paying back its debt and is looking at how it can reduce costs and gain more financial support for those restaurants that are still making a profit.

- 1 Explain one reason why Boohoo may use an internal source of finance to expand its business.

4 marks

.....

.....

.....

.....

.....

.....

- 4 marks**

**10 marks**

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- 12 marks

**20 marks**

Copyright: Sample material

## 2.2 Financial planning

### Sales forecasting

A sales forecast is a prediction of sales revenue based on the historical number of sales made and current market research and trends. It allows a business to plan for resources required to sell its product, such as staffing levels. It also allows the business to create cash flow and profit forecasts, and to create a budget based around these predictions.

Factors affecting sales forecasts include consumer trends and economic variables.

#### Practice questions



#### AO1: Knowledge and understanding

1 Define the term 'consumer trends'.

2 marks

.....

.....

2 State two differences between a cash flow forecast and a sales forecast.

2 marks

.....

.....

3 Define the term 'economic variable'.

2 marks

.....

.....

#### AO2: Application

4 Using the data in Table 3, calculate the percentage difference, to two decimal places, between Walkers' and Mackie's sales volumes.

4 marks



Table 3 Sales volume of leading UK crisp brands, 2017

Make of crisps	Volume (millions of kg)
Walkers	77.00
Own label	20.00
Kettle Chips	10.80
Mackie's	0.51

.....

.....

.....

.....

.....

.....

.....

.....

.....

- 5** Walkers Crisps has seen a steady growth in UK market share to 56%, helped by celebrity endorsements such as Gary Lineker and innovative flavours of crisps. Explain one reason why economic variables have had little impact on Walkers' sales forecast to sell 77.3 million kg of crisps in 2017.

**4 marks**

.....

.....

.....

.....

.....

### AO3: Analysis



- 6** Demand for the new Rolls-Royce Silver Dawn has taken off in the company's emerging markets of China and East Asia. As populations reap the rewards of high economic growth, they have flocked to premium brands for personalised car interiors and unique products. Analyse the importance for a business such as Rolls-Royce cars of having an accurate sales forecast.

**8 marks**

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

- 7** Consumer demand for more affordable 65-inch LCD televisions has seen a forecast of 19% increase in sales in 2021. With new Chinese competitors such as Konka entering the market, Samsung is under pressure to reduce costs and increase production of its QLED range of televisions. Analyse one way in which consumer trends can affect the sales forecast of a business such as Samsung.

**4 marks**

.....

.....

.....

.....

.....

**AO4: Evaluation**

**8** Assess the risks to a Renault car dealership of using a sales forecast.

**12 marks**

The worked example below shows a model paragraph from a possible response to this question. Study this closely and then attempt to answer the question fully on a piece of paper. Keep this with your workbook.

**Worked example**

One risk of a Renault car dealership using a sales forecast is that it may be unrealistic due to external factors outside the control of the business, such as the bad publicity generated by the arrest of its chief executive, Carlos Ghosn, for fraud. As a consequence, actual sales may fall significantly compared to the forecast, which may mean any ordering of vehicles based on this may be difficult to sell. As a result, the dealership may need to offer significant price reductions to potential purchasers to tempt them to buy its cars, meaning profit margins may be much lower than ordinarily anticipated. However, consumers may not relate the fraudulent action of the Renault CEO with the behaviour of a local dealership in a different country, and may be more concerned with the quality and value offered by cars such as the Renault Zoe. The sales forecast may not be affected by remote external issues and as long as it is sufficiently accurate will allow the dealership to match spending on car orders with its forecast sales.

**A01:** Credit for a risk of using accurate sales forecast.

**A02:** Credit for using an appropriate piece of context to answer the question.

**A03:** Credit for briefly explaining a consequence of sales forecasting for the business.

**Sales, revenue and costs and Break-even**

Sales revenue is the value of sales over a period of time.

Sales volume is the quantity of products sold in a particular period of time.

Break-even is the point at which a business does not make a profit or loss. A break-even chart will also show at what point the business will start to make a profit or loss.

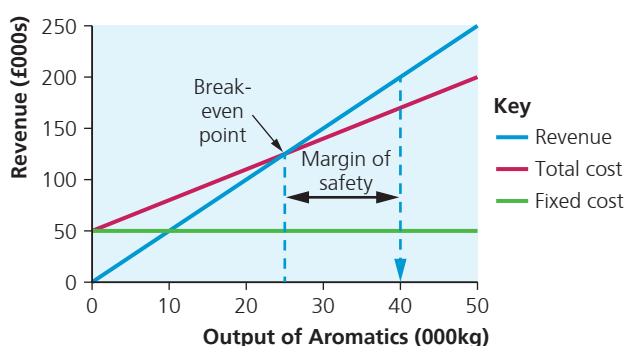


Figure 1 Break-even chart showing margin of safety

**Practice questions****AO1: Knowledge and understanding**

**9** Define the term 'variable cost'.

**2 marks**

.....

.....

# WORKBOOK

PEARSON EDEXCEL A-LEVEL

## Business **2**

### THEMES 2 and 3

Improve key skills and reinforce understanding with this write-in workbook, providing extra guidance, practice and scaffolding to support you in Pearson Edexcel A-level Business.

- ✓ Develop and consolidate understanding using practice questions targeting each Assessment Objective and including calculations and worked examples
- ✓ Build key skills and practise the different question types
- ✓ Prepare for assessment using exam-style questions on every topic
- ✓ Study independently with answers available online

Also available for Pearson Edexcel A-level Business:

9781398358652 Pearson Edexcel A-level Business  
Workbook 1  
Mark Hage

**HODDER** EDUCATION

t: 01235 827827

e: [education@hachette.co.uk](mailto:education@hachette.co.uk)

w: [hoddereducation.co.uk](http://hoddereducation.co.uk)

ISBN 978-1-3983-5868-3



9 781398 358683

