

# 40 Questions you must be able to answer for Unit 1

## Setting Up and expanding

1. Give 2 reasons for people setting up their own business
  - dissatisfied with current job
  - spotted a gap in the market
  - wants control of his own business
  - could earn good money
  - flexible hours.

*Answer: Chris can make more money (1) as he is currently in a poorly paid job and he can earn more by repairing computers in people's homes (1).*

2. State 2 objectives a business might have in its first year of operation
  - survival
  - make a profit
  - achieve level of sales
  - customer satisfaction
  - quality reputation
  - growth.
3. Explain what is meant by a Sole trader  
Any business that is owned and controlled by one person
4. Give 2 advantages and 1 disadvantage of being a Sole Trader
  - One owner who has:
  - freedom of action
  - keep all the profits
  - easy to set upBut
  - unlimited liability
  - lack of continuity if owner is ill
  - ☒ limited expertise

*Answer: As a sole trader, Jenny is the only owner (1) therefore any profits that she makes she will be able to keep for herself (1).*

5. Explain what is meant by a Partnership  
Partnerships are businesses that are owned and controlled by 2-20 people
6. Give 2 advantages and 1 disadvantages of being a Partnership
  - shared finance
  - shared responsibility
  - different skills/expertise
  - more ideas
  - easy to set up
  - greater flexibility in working
  - cover for illness/holiday.But
  - Unlimited liability
  - Disputes over shared responsibility
7. What is meant by a Private Limited Company

A limited company is a business that is owned by its shareholders, run by directors and **most importantly** whose liability is limited

8. Give 2 advantages and 1 disadvantage of being a Private Limited Company

- limited liability
- continuity/succession – would be able to continue if owners/managers gave up
- ability to raise finance/raise the businesses profile – banks may be more willing to provide
- overdraft,
- can attract new investors/shareholders as limited liability

But

Cannot advertise shares for sale so limiting ability to raise funds. (Can only sell to friends and family)

*As a private limited company the shareholder will be protected by limited liability (L1) which means that they can only lose the money they have invested (L2). This means that the company are more likely to get more shareholder funds to help them with their cash flow problem*

9. Explain what is meant by a Franchise

A franchise is a joint venture between:

A **franchisee**, who buys the right from a franchisor to copy a business format.

And a **franchisor**, who sells the right to use a business idea in a particular location.

10. Give 2 advantages and 2 disadvantages of setting up as a Franchise

- well known / established brand
  - assistance from franchiser, eg training, marketing.
  - reduces risk
  - equipment normally provided
- But
- will cost money to buy and likely to have an annual payment
  - can restrict freedom of operation.

11. One source of finance is selling shares to friends and family – 2 advantages and 1 disadvantages of this?

- cheaper as optional dividend
- set up costs
- don't need to repay

But

- may lose control if you do not hold a majority of the shares.

12. A second source of finance is a bank loan. 2 advantages and 2 disadvantages of this?

- keeps independence.
- regular repayments

But

- depends on approval
- more expensive/pay interest

13. A third source of finance is borrowing from friends and family. 1 advantage and 1 disadvantage of this?

- available, possibly quickly
- may be interest free

But

- may cause family disputes.

14. Explain 2 main sections that you would include in a business plan

- description of the business
- aims and objectives
- research
- marketing
- HRM
- operations
- financial information
- evaluation procedures.

15. Give 2 benefits of writing a good Business Plan

- help to persuade the bank to give them the start-up loan that they need
- help to monitor/evaluate business success as they have not got business experience
- help them to organise what decisions to make as they have not got much business experience.

*Level 2 Response: A good business plan would help persuade a bank they know what they are doing so they will give them the start-up loan that they need.*

*A business plan will include financial information such as cash-flow/profit forecast. This will help Tony and Rima get their £10 000 bank loan because it will show the bank they are a well organised/safe/profitable business to lend to*

16. Give 3 reasons why a business plan does not guarantee success.

- business plan may not be accurate;
- business plan may not be accepted by financial providers;
- They might not run the business very well.

17. Explain 2 ways in which you can reduce the risk of setting up a new business

- write a business plan
- choose to be a limited company
- save up rather than borrow money
- get more information/market research
- start as a franchise
- get advice
- find a partner.

*Chris could choose to set up as a limited company (Level1). This would mean selling shares and being set up as a company (Level 2). This would reduce the risk as he would be protected by limited liability (Level 3)*

18. What is a stakeholder and give 3 examples

A **stakeholder** is anyone with an interest in a business. Stakeholders are **individuals, groups or organisations** that are affected by the activity of the business.

Owners, Managers, Workers, Customers, Suppliers, Lenders, The Community

## Marketing

19. Explain 2 methods of Market research and explain how each method can make a business more successful

- Primary:
  - potential customer questionnaires
  - potential customer interviews
  - informal discussions/focus groups
  - observations,
- Secondary:
  - house move data
  - population, eg socioeconomic, data
  - competitor information.

20. Name the 4 elements of the Marketing Mix

- products: increase the quality, stock different items
- promotion: advertising, display, special offers
- price: reduce prices
- place: change opening hours, provide easier access.

21. Give 3 ways in which a firm could increase sales

- advertising (allow more than one appropriate example)
- pop-up / banners / internet advertising
- special offers
- public relation events
- reduce prices/hourly rate
- direct contact/selling.

22. Give 3 ways in which a new business can raise awareness of their products

Also Consider Cost, Targeted? How prominent is it – can it be missed? How long is it there for?

23. What is e-commerce?

Electronic Commerce or e-commerce is the selling and buying of goods or services over the **Internet**.

24. Give 3 advantages of e-commerce?

- will allow customers from all over the world
- is suitable for a translation business
- could save costs as distribution could also be electronic
- can compete with rivals
- would not be expensive to operate in the long run.

25. Give 2 disadvantages of e-commerce

- Start-up costs
- Customers can't experience product

26. What is customer service and give 2 ways in which a company might provide it

The way a business looks after its customers

- making sure products are good quality
- clear product information/labelling
- good after-sales/follow up service
- friendly and polite.

27. Give 2 benefits of providing good customer service

- better reputation
- more repeat sales
- can charge higher price in future.

*Level 2 Response: If service is good parents will return for more uniforms (L1) Shareholders are already worried so this will improve profits (L2). Also there is a threat of competition if the service is not good as parents will chose to switch their custom (L2 = 5).*

28. Give 2 reasons why a business might see a fall in profits.

Fall in sales, Fall in prices, Rise in costs

## Production and Employees

29. What is Job production?

Where items are made **individually** and each item is finished before the next one is started. Designer dresses are made using the job production method.

30. Give 2 advantages and 2 disadvantages of Job Production

meets individual needs

- usually higher quality
- motivates staff involved
- can charge higher price

But

Expensive to produce one item

Requires skilled workers (expensive)

31. What is Batch production

Batch production where groups of items are made together. Each batch is finished before starting the next block of goods. For example, a baker first produces a batch of 50 white loaves. Only after they are completed will he or she start baking 50 loaves of brown bread.

32. Give 2 advantages of Batch Production

- reduces unit costs
- allows consistent quality
- can still have variety
- allows more use of technology
- staff can specialise
- production can take place more quickly.

33. Using an example explain what is meant by a product being 'fit for purpose'

*If you buy a shopping bag then it must be suitable to carry shopping (1 mark), i.e. the shopping bag handles must not drop off when you carry your shopping home (1 mark).*

34. Explain 2 laws that we must follow if we employ people

- health and safety (may give more than one example)
- minimum wage
- maximum hours
- no discrimination, eg gender, age or disability (allow more than one example)

*Level 2 Response: He will be protected by health and safety law (L1) which means that the working conditions in the garage must not be dangerous L2*

35. List 3 ways we can advertise for new workers
- job centre
  - local newspaper (allow newspaper)
  - local radio
  - small ads/cards in shops
  - community/local websites
  - noticeboard at current location.
36. Explain 3 parts of the recruitment process we can use to make sure we recruit the best worker
- interview
  - qualifications
  - experience
  - practical tests
37. Apart from wages, Give 3 ways in which you can motivate workers
- good working conditions
  - fringe benefits
  - more responsibility
  - more interesting work
  - training.
  - better working conditions, breaks
  - staff discount
  - employee of the month
  - prize gift, book tokens etc (not monetary reward)
  - praise/feedback.

*Level 3 Response: Non-monetary motivation could include more interesting work (L1). Jim could get his assistant to do different jobs (L2). This would motivate him because he only currently does basic work and finds this boring (L3).*

38. Give 1 advantage and 1 disadvantage of using 'piece rates'
- Could motivate workers to work harder as they are paid for each 'piece' they make  
But – could lead to lower quality as workers rush work

## **Finance**

39. How do you calculate profit from Price, Variable Cost, Fixed Cost and Number Sold?
- Price x Number Sold = Total Revenue  
Variable Cost x Number Sold = Total variable Cost  
Total Variable Cost + Fixed Cost = Total Cost  
Profit = Total Revenue – Total Cost
40. Make sure you understand a Cash Flow Forecast and know what firms can do to improve their Cash Flow