

# Business 2

## Operations, finance and influences on business



Essential Student Guide

J204/02

# Command Words

Section B questions will be assessed using command words. The command word will tell you which objective is being assessed.

Command Word	Description
<b>State</b> <b>Identify</b>	You need to show your subject knowledge
<b>Explain</b>	You will need to state and apply your knowledge and understanding
<b>Calculate</b>	You will need to apply your maths skills
<b>Analyse</b>	Goes further than just explaining. You need to present the consequences of actions, both positive and negative, in a logical chain of reasoning
<b>Discuss</b> <b>Evaluate</b>	Using your application and analysis, you will need to weigh up both sides of a debate, compare alternatives and come to a supported judgement
<b>Recommend</b>	Your ability to make fully supported and justified judgements in context

# Maths Skills

The exam paper will require you to show your numerical maths ability by completing calculations and interpreting data in context. You will firstly use simple calculations to find the answer and then apply the data you have found out in context to the relevant questions. You will use the data to justify your decisions.

## Calculations

Calculations in a business context, including;

- Percentages and percentage changes
- Averages
- Revenue, costs and profit
- Gross profit and net profit margin ratios
- Average rate of return
- Cash flow forecasts, including total costs, total revenue and net cash flow

## Interpretation

Interpretation and use of quantitative data in business contexts to support, inform and justify business decision, including:

- Information from graphs and charts
- Profitability ratios (gross profit margin and net profit margin)
- Financial data, including profit and loss, average rate of return and cash flow forecasts
- Marketing data, including market research data
- Markets data, including market share, changes in costs and changes in prices

At least 10% of the total marks for the qualification will reward the use of quantitative maths skills at a level expected of key stage 3 learners.

## Specification – Business 2 J204/02

Topic	Content	To include	Happy ☺
<b>4.1 Production processes</b>	Different production processes and their impact on businesses	Job, batch, flow	
	The influence of technology on production and the impact on business	Automation, computers and robotics	
<b>4.2 Quality of goods and services</b>	The concept of quality		
	Methods of ensuring quality	Quality control, quality assurance	
	The importance of quality in both the production of goods and the provision of service	Reputation of business, to gain and retain customers, reduce product returns and recalls	
<b>4.3 The sales process and customer service</b>	Methods of selling		
	The influence of e-commerce	e-commerce, face to face, telesales	
	The importance to a business of good customer service including after sales service	To gain and retain customers	
	The contribution of product knowledge and customer engagement to good customer service		
<b>4.4 Consumer law</b>	The impact of consumer law on businesses	Reputation of the business, safety and satisfactory quality of goods	
<b>4.5 Business location</b>	Factors influencing business location	Costs, the proximity to market, labour and materials	
<b>4.6 Working with suppliers</b>	The role of procurement	Identifying goods and services to buy, choosing suppliers, ordering	

		goods and services, receiving deliveries from suppliers	
	The impact of logistical and supply decisions on businesses	Time, length of supply chain, reliability of supply, costs, customer service	
<b>5.1 Finance</b>	The purpose of the finance function	Provide financial information, support business planning and decision making	
	The influence of the finance function on business activity		
<b>5.2 Sources of finance</b>	The reasons businesses need finance	Establishing a new business, funding expansion, to run the business, recruitment, marketing	
	Ways of raising finance	Loan, overdraft, trade credit, retained profit, sale of assets, owners' capital, new partner, share issue, crowdfunding	
	How and why different sources of finance are suitable for new and established businesses		
<b>5.3 Revenue, costs, profit and loss</b>	The concept of revenue, costs and profit and loss in business and their importance in business decision-making		
	The different costs in operating a business	Fixed, variable, total	
	Calculation of costs and revenue		
	Calculation of profit/loss	Gross profit, net profit	
	Calculation and interpretation of profitability ratios	Gross profit margin, net profit margin	

	Calculation and interpretation of average rate of return		
<b>5.4 Break-even</b>	The concept of break-even	Total costs = total revenue	
	Simple calculation of break-even quantity		
	The usefulness of break-even in business decision-making	Informs marketing and planning decisions	
<b>5.5 Cash and cash flow</b>	The importance of cash to a business	Providing liquidity, enables business to meet short-term debts/expenses	
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	The usefulness of cash flow forecasting to a business	Planning tool, anticipates periods of cash shortage, enables remedies to be put in place for shortages, provides targets	
	Completion of cash flow forecasts		
<b>6.1 Ethical and environmental considerations</b>	Ethical considerations and their impact on businesses	Treatment of workers/suppliers/customers, sourcing of materials, marketing decisions	
	Environmental considerations and their impact on businesses	Sustainability, waste disposal, pollution, climate change	
<b>6.2 The economic climate</b>	The economic climate and its impact on businesses	Changing levels of consumer income and unemployment	
<b>6.3 Globalisation</b>	The concept of globalisation		
	The impact of globalisation on businesses	The growth of multinational companies, influences on business location, international branding, how businesses compete internationally	

<b>7. The interdependent nature of business</b>	The interdependent nature of business operations, finance, marketing and human resources within a business context		
	How these interdependencies underpin decision making		
	The impact of risk and reward on business activity		
	The use of financial information in measuring and understanding business performance and decision making		

## Checklist of subject knowledge - Business 2 J204/02

Topic	Happy ☺
<b>1. Operations</b>	
Production processes; job, batch and flow	
How technology is used in the production process	
The concept of quality	
Importance of providing quality in goods and services	
Methods of ensuring quality	
Methods of selling	
Importance of customer service and after sales service	
Customer rights	
Impact of customer law on business	
Importance of location	
Factors affecting choice of location	
Procurement	
Impact of logistical and supply decisions on businesses	
<b>2. Finance</b>	
The role and purpose of finance	
How finance supports decision making and business planning	
How finance influences business activity	
Sources of finance	
How and why different sources of finance are suitable for new and established businesses	
Revenue	
Costs	
Profit and loss	
Profitability ratios	
Importance of revenue, costs, profit and loss in business decision making	
Break-even	
Usefulness of break-even in decision making	
Cash	
Cash flow forecast	
Usefulness of a cash flow forecasting to a business	
<b>3. External influences</b>	
Ethical issues	
Environmental considerations	
Economic climate	
Impact of economic factors on business	
International economic climate	
Responding to changes in the economic climate	
Globalisation	
Impact of globalisation on business	
Advantages and disadvantages of UK businesses locating in another country	
International branding	
Purpose of business activity	
<b>4. Interdependent nature of business</b>	



## Checklist of subject knowledge - Business 2 J204/02

Calculations <sup>4</sup>	Happy ☺
Percentages	
Percentage changes	
Averages	
Sales Revenue	
Costs (fixed, variable and total)	
Profit (gross and net)	
Gross profit and net profit margin ratios	
Average rate of return	
Cash flow forecasts, including total costs, total revenue and net cash flow	

## Themes of Questions

This list is designed to give you an idea of the main question themes that come up on the examination paper. It is *not* a comprehensive list.

All of your lessons are about the subject knowledge you would need to answer the questions on the examination paper. When you have attended all the lessons you should feel confident that you can attempt to answer all of these questions.

- Where should a business locate and why?
- Which method of production should a business use to produce a particular good or service?
- How can a business increase its efficiency?
- What are economies of scale? Why do firms get them? What benefits do they bring?
- What are break-even charts? Why do businesses use them? What are their limitations?
- When will businesses use the different sources of finance?
- What are cash flow forecasts? What are they useful to business? What are their limitations?
- What are profits? Why are they important to business? What determines how much profit you make? How do you calculate profit?
- How can businesses respond to the pressures on the environment? Why should they respond to these pressures? How can the government influence business to protect the environment more?
- Using examples what are ethical and unethical business practices?
- How are businesses affected by changes in government spending and taxation?
- How are businesses affected by the changes in employment and the incomes of consumers?
- What is economic growth and recession?
- How do changes in interest rates affect businesses?
- Why are education and training so important for UK business?
- Is immigration good or bad for UK businesses?

## Business 2 J204/02 Keyword List – Language for learning

<b>Job production</b>	The process of production where products are made individually.
<b>Batch production</b>	The process of production where one type of product is made and then production is switched to make a different product.
<b>Flow production</b>	The production of one product that takes place continuously using a production or assembly line. Sometimes called mass production.
<b>Automation</b>	A production process involving machinery that is not controlled by a person but usually controlled by a computer.
<b>Mechanisation</b>	When a machine is introduced to do something that used to be done by an employee by hand.
<b>Robotics</b>	The use of robots in the process of production.
<b>Product processes</b>	The three methods of processes of production – job, batch and flow.
<b>Productivity</b>	A measure of the output of each worker on average.
<b>Efficiency</b>	A business achieves efficiency by using their resources in the best way possible. Put simply, something is efficient if nothing is wasted and all processes are carried out to the best of their ability.
<b>Unit cost</b>	The cost to make one product/service.
<b>Economies of scale</b>	Increasing production quantity to lower unit cost.
<b>Quality control</b>	A system for inspecting the quality of goods or services produced and that they are of a good standard.
<b>Quality assurance</b>	An approach that involves the whole business focusing on quality, thus aiming to prevent quality problems arising.
<b>Quality</b>	Concerns a product being fit for purpose.
<b>Mystery Shopper</b>	A person pretends to be a shopper to check the service being provided is up the right standard.
<b>Wastage</b>	The amount of a resource that is lost due to errors.
<b>Returns</b>	Goods which customers take back to the shop because there are problems with the quality of the items.
<b>Recalls</b>	When faults occur with a product and the business asks for the product to be brought back so it can be repaired or replaced.
<b>E-commerce</b>	The bringing together of buying and selling electronically.
<b>Customer service</b>	The name given to an area of business that deals with customer enquiries.
<b>Customer engagement</b>	The contact between the business and the customer.
<b>Click and collect</b>	Ordering online and collecting goods from the store at a later time.

<b>Face to face selling</b>	Usually completed in a shop where there is direct contact between a buyer and a seller.
<b>Telesales</b>	Sales completed over the telephone.
<b>After-sales service</b>	Advice and help given to a customer after they have bought a product or service.
<b>Product knowledge</b>	The detailed knowledge of a product or service that staff within a business use to help persuade a customer to buy.
<b>Fit for purpose</b>	Means that goods must do what they are meant to do.
<b>As described</b>	Means that goods must be as the business describes them.
<b>Consumer law</b>	The area of law which protects the customers of a business. This is mainly through the Consumer Rights Act 2015.
<b>Consumer Rights Act 2015</b>	Act of Parliament which gives rights and protection to customers when they buy goods or services, which must be: of satisfactory quality, fit for purpose and as described.
<b>Satisfactory quality of goods</b>	Means that how the goods are made will reflect the price. A high-priced product must be of high quality.
<b>Reputation</b>	A business is what customers say and feel about a business. Damage to a reputation can seriously affect a business.
<b>Transport infrastructure</b>	The provision of roads, railways, ports and airports in an area for transporting goods and services.
<b>Proximity</b>	Means 'nearness' to. It can refer to proximity to the market, to raw materials and to labour supplies.
<b>Location</b>	Refers to the place where a business is situated.
<b>Labour</b>	A factor of production. It is the labour employed by businesses to produce goods and services.
<b>Social cost</b>	A negative impact on society through a business action. It could impact a person or a group.
<b>Social benefit</b>	The positive impacts on society through business actions.
<b>Raw materials</b>	The materials that are processed in some way as part of the manufacture of a product.
<b>Logistics</b>	The management of the transportation and storage of goods.
<b>Procurement</b>	The management of purchasing within a business.
<b>Suppliers</b>	The businesses who supply goods and/or services to other businesses (their customers).
<b>Seasonal</b>	Relating to the characteristic during a time in the year.
<b>Customer service</b>	The support and experience offered to customers, before, during and after they buy and use products or services.

<b>Finance function</b>	Sometimes referred to as the finance department. Usually found in larger businesses.
<b>Finance</b>	The management of money in a business; this can be raising capital, managing day to day finances and any kind of expenditure.
<b>Financial information</b>	Includes details of profit, loss, cash flow, break-even, profit margin and average rate of return. These can be used in helping business decision-making.
<b>Interest</b>	The cost of borrowing, the amount of money that has to be paid on borrowed money.
<b>Security</b>	Something of value that is offered to a lender as a form of guarantee of payment.
<b>Time period</b>	The length of time for which the finance is required.
<b>Loans</b>	Sums borrowed for a certain period at an agreed rate of interest.
<b>Overdraft</b>	An arrangement with a bank that a business can spend more money than it has in its account.
<b>Trade credit</b>	When the business has the goods to sell and agrees to pay the supplier at some later date. Usually a 28-day interest free period to pay the amount. Allows the business to use the materials and earn an income to pay the cost before the interest free period is up.
<b>Retained profit</b>	Profit that is not distributed to shareholders as dividend.
<b>Sale of assets</b>	Items of value sold by the business to raise capital.
<b>Owners' capital</b>	Money from savings put into the business by the owner.
<b>Taking on a partner</b>	Adding a new partner who contributes some new capital.
<b>Share issue</b>	Money raised from investors by selling new shares.
<b>Crowdfunding</b>	Money raised through an appeal to the public.
<b>Short-term finance</b>	Financial dealings in under a 12 month period.
<b>Medium-term finance</b>	Financial dealings during a 1 – 5 year period.
<b>Long-term finance</b>	Financial dealings in excess of 5 years.
<b>Financial suitability</b>	The best financial decision for the business in their context/situation.
<b>Revenue/Sales Income</b>	Money from sales.
<b>Fixed costs</b>	Costs that stay the same as output changes, for example rent.
<b>Variable costs</b>	Costs that change as output changes, for example wages and electricity.
<b>Total costs</b>	Fixed costs plus variable costs.
<b>Gross profit</b>	Sales minus the cost of sales.

<b>Net profit</b>	Gross profit minus the expenses of operating the business.
<b>Profitability ratios</b>	Calculations such as gross profit margin and net profit margin which help to interpret financial data and make decisions interpreting what it tells you.
<b>Gross profit margin</b>	Gross profit divided by sales multiplied by 100.
<b>Net profit margin</b>	Net profit divided by sales multiplied by 100.
<b>Average rate of return (ARR)</b>	A method of measuring and comparing profitability of an investment over the life of the investment.
<b>Loss</b>	Occurs in a business when costs are greater than revenue.
<b>Expenses</b>	The costs of operating a business.
<b>Unit cost</b>	The cost to make one product/service.
<b>Economies of scale</b>	Increasing production quantity to lower unit cost.
<b>Break-even forecast</b>	A prediction about the break-even quantity based on estimates of future sales revenues and costs.
<b>Break-even quantity</b>	The amount a business must sell to earn enough revenue to just cover its costs so that it does not make a profit nor a loss.
<b>Break-even analysis</b>	The action of calculating the break-even forecast and using the data to make financial decisions.
<b>Break-even formula</b>	Total fixed costs divided by (price – variable costs per unit)
<b>Margin of safety</b>	The amount by which a business' actual output is greater than its break-even output.
<b>Cash flow forecast</b>	A statement showing the expected flow of money into and out of a business over a period of time.
<b>Net cash flow</b>	Total inflow minus total outflow.
<b>Opening balance</b>	The amount of cash available at the beginning of the month that was the closing balance at the end of the previous month.
<b>Closing balance</b>	The amount of cash left at the end of the month. This becomes the opening balance at the start of the next month.
<b>Total inflow</b>	The total amount of cash flowing in to a business.
<b>Total outflow</b>	The total amount of cash flowing out of a business.
<b>Negative cash flow</b>	When for one month, more cash is flowing out of the business than is flowing into it. It is sometimes called a cash flow deficit
<b>Positive cash flow</b>	For one month more, cash is flowing into the business than is flowing out of it. It is sometimes called a cash flow surplus.
<b>Income</b>	Money that the business receives.
<b>Expenditure</b>	Money that the business pays out.

<b>Working capital</b>	The money a business has available to meet their current, short-term financial obligations.
<b>Liquidity</b>	The ability of a business to pay it short term debts which must be paid in the near future.
<b>Short-term debts/expenses</b>	The bills that a business has to pay in the near future, for example electricity.
<b>Financial remedies</b>	The solutions a business can put in place to help with a negative financial situation.
<b>Cash shortage</b>	When a business has a shortfall of cash to pay day to day bills.
<b>Cash</b>	Not just simply notes and coins held in the business, but also money in a bank account.
<b>Profit</b>	The revenue received by a business minus the costs of running the business.
<b>Ethics</b>	The moral principles of what is right and what is wrong.
<b>Business ethics</b>	A businesses moral principles of what is right is wrong. It can apply to all areas of business conduct and can apply to the actions of an individual employee as well as the organisation as a whole.
<b>Child labour</b>	The use of young children, below the legal age for employment, in order to achieve low-cost production.
<b>Ethical marketing</b>	Marketing activities that seek to give customers information to make good choices for themselves.
<b>Fairtrade</b>	A movement that encourages businesses to pay a fair price to suppliers in developing counties and consumers to buy Fairtrade goods.
<b>Environmentally friendly</b>	An adjective that describes consumers and businesses that act to make production sustainable.
<b>Sustainable production</b>	When production does not lead to the depletion (using up) of natural resources.
<b>Unsustainable production</b>	Unsustainable production is when the current production process only meets a short term target without a guarantee of the same benefits for the next generation.
<b>Renewable resources</b>	Resources that can be used more than once, such as wind or water power, or that can be recreated such as crops.
<b>Non-renewable resources</b>	Resources that can only be used once, such as oil.
<b>Recycling</b>	When resources are reused to produce something.
<b>Global warning</b>	The rise in average temperatures that scientists say is taking place.
<b>Ethical businesses</b>	Businesses that behave in a morally correct way.

<b>Corporate social responsibility</b>	A management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
<b>Waste disposal</b>	The process of getting rid of unwanted materials.
<b>Pollution</b>	Causing harm to the environment including air, land, noise and water.
<b>Climate change</b>	The process is when average temperatures rise or fall and patterns of weather change.
<b>Environment Tax Bill</b>	The charge imposed by a government on a business for creating environmental problems they cause. This bill can be cut by reducing the problems the business causes.
<b>Economic climate</b>	Refers to how well the country is doing in terms of the levels of income and employment.
<b>Income</b>	The amount of money that people receive from work and from assets they own, such as shares and property.
<b>Customers</b>	Buyers who buy goods and services for the satisfaction or benefit they will get from them. Customers largely buy from retailers.
<b>Consumer income</b>	The total amount of income that all the customers in the country receive and which they have available to spend.
<b>Level of employment</b>	The numbers of people in work in a country.
<b>Level of unemployment</b>	The number of people out of work in a country.
<b>Gross domestic product (GDP)</b>	A measure of how much a country produces in a year. It influences the level of income and unemployment.
<b>Level of income</b>	The average income of people in a country.
<b>Economic growth</b>	A period when GDP is rising, causing income and employment to rise.
<b>Recession</b>	A period when GDP is falling, causing income and employment to fall.
<b>Inflation</b>	The general increase in prices of goods and services and a fall in the purchasing value of money.
<b>Distribution of income</b>	Refers to how the income is shared out amongst different people in the community. The distribution of income can become more unequal if the incomes of the rich are rising faster than the incomes of lower earners.
<b>International economic climate</b>	Refers to what is happening to income and employment in different parts of the world.
<b>Globalisation</b>	The process by which business activity around the world has become increasingly interconnected.
<b>International branding</b>	Creating an image or values for a product that are communicated in countries around the world.



<b>Technology</b>	The application of scientific knowledge for practical purposes in business. The three main types are mechanical, communication and medical technology.
<b>Risk</b>	The potential problems that could be experienced through a business activity; this could be financial or affecting reputation.
<b>Tax avoidance</b>	The legal usage of the tax regime in a country to a person or businesses advantage to reduce the amount of tax that is payable.
<b>Public services</b>	The services provided by a government to improve infrastructure, such as education and health.
<b>Capital</b>	Money or assets such as machines, buildings or vehicles.
<b>Free trade</b>	The absence of restrictions on trade between countries.
<b>Trade</b>	The import and export of goods and services.
<b>Import</b>	Bringing goods and services into a country.
<b>Export</b>	Selling good and services to other countries, therefore distributing those goods to another country.
<b>Tariff</b>	A tax on a good or service that is imported.
<b>Quota</b>	A limit in terms of weight or value on the amount of a good or service that can be imported.
<b>Regulations</b>	Rules about the goods and services that can be sold in a country.
<b>Multinational companies (MNCs)</b>	Businesses that operate in different countries around the world.
<b>Bribery</b>	Bribery is the offering, giving, receiving, or soliciting of any item of value to influence the actions of a person.
<b>Unit cost</b>	The cost per unit produced. The greater the productivity of workers, the lower the unit cost of production.
<b>Productivity</b>	A measure of the output of each worker on average.
<b>Demand</b>	The measure of want of a product or service by customers.
<b>Supply</b>	The measure of how much of a product or service a business has to sell to customers.
<b>Skilled labour</b>	The supply of employees in a country who have specialist skills, training and knowledge which they can then apply to their work.
<b>Interdependent nature of business</b>	Refers to the links between the areas of business that must be considered when business people make decisions, risks and rewards and the use of financial information to aid business decision making.
<b>Business areas</b>	The main activities involved in running a business and influences outside the business that will affect the business activities.

<b>Production/Operations department</b>	The functional area of a business which deals with the manufacture and distribution of a product or service.
<b>Human resources department</b>	The functional area of a business which deals with the employees of a business; tasks include recruitment and selection and keeping training records up to date.
<b>Finance department</b>	The functional area of a business which deals with all financial related matters; working capital, investment and accounting.
<b>Marketing department</b>	The functional area of a business which relates to the selling of a product or service; market research, market segmentation, product, price, place and promotion.

## How to answer the longer response questions – K2E

<b><u>KNOWLEDGE –</u></b>	
State and explain the knowledge and show understanding of the key business term in the question.	
<b><u>ANALYSE –</u></b>  <b>ADVANTAGES/DISADVANTAGES</b>  State and explain the advantages/positive impact of the situation or reasons for doing something.  State and explain the disadvantages/negative impact of the situation or reasons for doing something.  Make sure the advantage/positive impact is discussed from the context or point of view of the type of business it is i.e. extraction, manufacturing or service provider.	<b><u>APPLY –</u></b>  <b>CONTEXT</b>  Make sure that for each point you make you have related it to the business in question. E.g. relate to what they sell, the age of the business or the size of the business.  This goes beyond just writing the name of the business.  Your analysis must be applied to the real issues that business would face and have to deal with.
<b><u>EVALUATION – CONCLUSION/RECOMMENDATION/JUSTIFICATION</u></b>  Make your decision and explain using ‘because’ how you have come to that decision.  Explain the impact of your decision of the business, ensuring you fully justify why you have chosen that option.  If there is data (quantitative and qualitative) in the case study, use that to justify your decision.  If there are two choices state and explain why you have not chosen the other option.	

Your answer must always be considered and discussed in terms of the *CONTEXT* of the business (i.e. the type of product/industry) and what is the most *COMMON SENSE* answer.

For example a local business, just selling in the local town, would not create a television advert as they would not have the capital needed and they could not guarantee getting the advert to be seen by their target market. Your answer needs to *BE REAL*.

## Developing your answers – Using Trigger Words

To be able to secure the higher marks it is essential that you fully explain the impact of the advantage or disadvantage on the business. Using a trigger word can help you do this.

Trigger Word	Use
<b>Therefore</b> <b>Furthermore</b>	Makes you go in to detail by explaining the consequence
<b>However</b> <b>Although</b>	Makes you explain the other side of the argument
<b>Because</b>	Helps you to justify your recommendation
<b>Nonetheless</b>	Reinforces an important point in your analysis
<b>This means that</b>	Explains the impact it would have on the business

### Reading the case study

When answering the case study questions it is essential that you read the information carefully. The information contained within the case study should be used to inform your answers, develop your analytical reasoning and help to justify your recommendations. For context, you must ensure your answer reflects the current situation of the business explained in the case study.

### Synoptic assessment

In unit 2 there will be a K2E 9-mark question.

These questions will need you to answer in a synoptic way. *Synoptic means forming a general summary.*

What this means is that you have explained, with examples, the impact on the functional areas of the business; marketing, people, finance and operations. These questions will require you to answer in the normal K2E structure, but your analysis and recommendations must show the impact on the **whole business**. You must evaluate the **extent** to which it will impact the business.

For example:

What would be the impact on the business if variable costs rose?

In your answer you would need to:

**K** – Define and show understanding of variable costs

**2 A** – Analyse the impact both positive and negative with examples from all 4 functional areas in the business in context

**E** – Make your decision, justifying how big the impact would be and why.

Your teacher will go through this with you and help you practise.