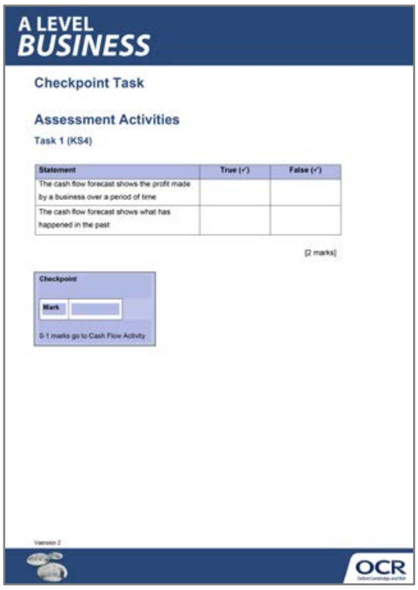
Checkpoint Task

Assessment Activities

Instructions and answers for teachers

***These instructions should accompany the OCR resource 'Assessment Activities' activity** which supports OCR A Level Business.*


A LEVEL BUSINESS

Checkpoint Task

Assessment Activities

Task 1 (KS4)

Statement	True (✓)	False (✓)
The cash flow forecast shows the profit made by a business over a period of time		
The cash flow forecast shows what has happened in the past		

[2 marks]

Checkpoint	
Mark	
0-1 marks go to Cash Flow Activity	

Version 2

OCR

The Activity:

Assessment Activities

This activity offers an opportunity for English skills development.

This activity offers an opportunity for maths skills development.

Associated files:

Assessment Activities

OCR
Oxford Cambridge and RSA

Task 1 (KS4)

Statement	True (✓)	False (✓)
The cash flow forecast shows the profit made by a business over a period of time		
The cash flow forecast shows what has happened in the past		

Checkpoint

Mark	

0-1 marks go to Cash Flow Activity
2 marks go to Task 2 (KS4)

Task 2 (KS4)

Cash Flow Forecast – Wright's Farm – July–September 2011

	July £s	August £s	September £s
Balance brought forward	2,000	1,400	(1,000)
INCOME			
Sales of goods	10,000	**?????**	11,000
TOTAL INCOME	12,000	9,400	10,000
EXPENDITURE			
Materials	3,000	3,000	3,000
Energy costs and other costs	600	400	700
Wages	**?????**	6,000	6,000
Transport	400	400	400
Interest payments	600	600	600
TOTAL EXPENDITURE	10,600	10,400	10,700
Balance carried forward	1,400	**?????**	(700)

Calculate the following figures:

Wages for July	ANS = 6,000 10,600-3,000-600-400-600 = 6,000
Sales of goods for August	ANS = 8,000 9,600-1,600 = 8,000
Balance carried forward for August	(1000) Could be calculated or just copied from balance b/f from September

[3 marks]

OCR
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Statement	True (✓)	False (✓)
The cash flow forecast shows the expected income and expenditure for Wright's Farm for the three months July to September 2011		
In July income from sales of goods will be greater than total expenditure		
In September, Wright's Farm is forecast to have £1000 to carry forward to start trading in October		
The balance carried forward at the end of July shows a profit of £1400		

[4 marks]

Checkpoint

Mark	

0-5 marks go to Personal Cash Flow Forecast Activity

Task 3 (KS4)

Lathom's Dairy

One industry badly affected by the recession was cheese-making. Three out of the seven local producers closed during the period 2007 to 2009. Lathom's Dairy was one cheese-maker which survived. Partner and manager, Eric Lathom, said, 'Surviving the recession was a painful business. Some tough decisions had to be made to cut costs including making redundancies'. Eric is, however, cautiously optimistic about the future. 'There are some positive signs which are encouraging us but there are still a lot of unknowns. The closure of three competitors producing world-famous Moorshire cheeses was not at all good news for the industry.'

East Moorshire is famous for its cheeses. There are now just four local producers, the biggest of which is Lathom's Dairy. It is a partnership owned and run by Eric and Alice Lathom. Lathom's Dairy has won awards for the quality of its cheeses.

In December 2010, in order to increase its product range, Lathom's Dairy took over a small competitor – Wright's Farm. Wright's Farm produces only a goat's milk cheese. Eric and Alice have decided to operate Wright's Farm as a separate business which will only produce Moorshire Goat's Milk Cheese as its existing dairy.

Cash Flow Forecast – Wright's Farm – July–September 2011

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Materials	3,000	3,000	3,000
Energy costs and other costs	600	400	700
Wages	6,000	6,000	6,000
Transport	400	400	400
Interest payments	600	600	600
TOTAL EXPENDITURE	10,600	10,400	10,700
Balance carried forward	1,400	(1,000)	(700)

Evaluate the usefulness of the cash flow forecast to Eric and Alice.

Useful because:

- Eric and Alice can identify when they might need additional finance (ie in August). This could avoid bank charges and/or other costs of having a negative balance at the bank.
- Eric and Alice can identify where/when they may need to cut costs
- Eric and Alice can identify when they might need to increase sales revenue
- Lathoms Dairy's other stakeholders may be interested to see how the new acquisition is likely to perform (ie bank for a loan, potential investors etc..)

Less useful because:

- It is only a forecast based on estimated figures. Therefore any decisions based on it may be poor decisions.
- It does not take into account any external influences on the business (ie changes in tastes, economic changes etc..)
- Eric and Alice did not own it last summer, so how do they know what the cash flow is likely to be? Is it worth the time trying to guess when they have no experience?

Level 2 – 7-8 marks

A reasoned judgement based on an analysis of the usefulness of the cash flow forecast to Eric and Alice – must be based on two sided analysis

Level 1 – 1-6 marks

One mark for stating a point and another mark for development of that point. Up to 4 marks for points showing how the cash flow forecast is useful and up to 4 marks for points showing how the cash flow forecast is not useful (Max 6 marks in total)

Checkpoint

Mark	

0-6 marks go to Benefits and Limitations Activity

7-8 marks go to Cash Flow Problems Extension Activity

[8 marks]

Task 4 (KS5)

Item	October (£)	November (£)
Opening balance	40	
Inflows		
Sales revenue	100	150
Outflows		
Wages	54	50
Raw materials	28	25
Rent & fuel	22	38
Net cash flow		
Closing balance		

Calculate the closing balance for November. Show your working.

73 – As above

[4 marks]

Explain why it is important for a business to maintain a positive cash flow.

Many possible reasons:

- To reduce costs (1) of borrowing (1)
- To be able to purchase raw materials (1) and therefore to trade (1)
- To be able to pay workers (1) and keep them motivated/prevent legal action (1)

[2 marks]

Explain one action a business could take if they predict a negative cash flow for one month.

Many possible reasons:

Obtain/increase overdraft (1) so that they have access to additional cash for that month (1)

Take a short term loan (1) so that they have access to additional cash when they need it (1)

Buy their raw materials on trade credit (1) so that they are not paying as many costs in that month (1)

[2 marks]

Checkpoint

Mark	

0-6 marks go to Cash Flow Activity

7-8 marks go to Task 5 (KS5)

Task 5 (KS5)

Just4Kids Ltd (JKL)

Harriet Hayes always stresses that she is a mother first and a businesswoman second. It is this, she believes, which ensures she focuses on making Just4Kids Ltd (JKL) the best childcare centre on the market. Back in 2005, frustrated in trying to find a suitable nursery for her own child, Harrier came up with the idea of setting up a nursery business. She turned her back on a career and large salary as a Human Resources Direction and set about making JKL a reality. For a weekly fee, starting at £195, JKL provides stimulating and educational day care for babies and pre-school children, as well as an after-school club for children aged between 5 and 11. It also provides a babysitting service in the evenings, hosts and runs children's birthday parties at the weekend, and evening classes for parents and toddlers.

JKL has three childcare centres in Birmingham. Each currently has a maximum of 100 places and they are all operating at 100% capacity utilisation. Each centre is a single storey, purpose built building. "This was the only way to deliver our vision, with award winning designed centres based around the needs of the family," said Harriet. This was not cheap, costing a total of £5 million; £750,000 from Harriet and her family, the maximum £250,000 from the Small Firms Loan Guaranteed Scheme and the remainder from a property developer who invested as an equity partner. Each of the three childcare centres includes age specific rooms, a Sensory Theatre, Music Room and Studio, outdoor play areas accessed directly from each room and an area for parents to relax and have refreshments whilst visiting. Safety and security are also vital, with CCTV and biometric entry systems in all three centres. A fourth childcare centre is planned to open in the next five years with her medium-term target being to open another 10 centres within a 100-mile radius of Birmingham. Looking further to the future, Harriet has already had enquiries from Europe and the Middle East which may lead to an overseas franchise eventually being set up.

JKL's Marketing and Sales Director is Harriet's husband, Matthew Albie. As well as working on the plans for opening the fourth childcare centre in 2011, Matthew is looking into the business behaviour of just one of the growing number of nursery companies which operate in JKL's target market. This competitor, called 'TotsatPlay', has recently opened new venues in Birmingham, in direct competition to two of JKL's centres and with similar services to those provided by JKL, Matthew is concerned that any changes to JKL's marketing strategy, in response to the increased competition, will have an impact on cash-flow (see Appendix 2). Up to now, JKL has been able to rely on the initial start-up capital and its equity partner's ability to secure a substantial overdraft. At a recent board meeting, Harriet had a conversation with JKL's Finance Director, Jordan McTear, on this subject.

"Having more and more sites is going to create a real drain on resources for us," said Jordan, "With the planned rate of growth, we really need to find a new financial partner with deeper pockets. We are still at least two years away from achieving break-even."

"How much more capital do we need?" asked Harriet.

"Well, it may be £4 million, or it may be £20 million," replied Jordan, "the problem is, Harriet, that growth was not in your original business plan and so the business has not really had a clear growth strategy. We need to make a decision about where we want to be in 10 years' time. This will make it easier to decide how much extra finance is needed and where the best place to get it from is. Do we want to keep an equity partner which has a significant minority stake or do we want to explore options which give us, the board, more freedom to make decisions, such as franchising?"

"What about getting a venture capitalist involved?" asked Harriet.

Before Jordan could reply, Matthew interrupted. "I am sure that this is all very important for the long-term future of this business but it does not deal with the shorter term cash-flow problems. We need to do something which will have an effect in the next six months, rather than the next six years, otherwise all these grand plans will be irrelevant."

Appendix 2 – JKL's Cash-Flow Forecast (March 2011–December 2011)

	(£'000)									
	March	April	May	June	July	August	September	October	November	December
	5 weeks	*4 weeks*	*4 weeks*	*5 weeks*	*4 weeks*	*4 weeks*	*5 weeks*	*4 weeks*	*4 weeks*	*4 weeks*
Opening bank balance	–20	–24	11	42	–53	2	–199	–409	–295	–301
Inflows										
Revenue from daycare (1)	264	330	264	264	330	264	264	418	335	335
Revenue from other services (2)	12	20	12	12	15	10	20	20	20	15
Total Inflows	276	350	276	276	345	274	284	438	355	350
Outflows										
Materials	56	45	45	56	45	45	71	57	57	57
Labour costs (3)	200	165	165	200	165	165	267	220	220	220
Utilities & business rates	14	15	15	15	15	20	20	20	20	20
Marketing costs	5	5	5	5	20	30	20	10	5	5
Miscellaneous expenses	4	4	4	4	4	4	4	4	4	4
Interest	1	11	11	11	11	11	12	13	15	14
New equipment		40		60	30				20	
Fittings & equipment for new centre						200	100			
Maintenance of buildings, etc.		30		20					20	
Total Outflows	280	315	245	371	290	475	494	324	361	320
Net cash flow for month	–4	35	31	–95	55	–201	–210	114	–6	30
Closing bank balance	–24	11	42	–53	2	–199	–409	–295	–301	–271
(1) Billed at the end of the month – 30 days payment terms										
(2) Billed at the end of the week – 7 days payment terms										
(3) Part-time staff paid weekly and Full-time staff paid monthly										

Discuss how JKL may improve its cash flow in the future.

The majority of cash-flow problems are caused by an imbalance in the timings between when outflows are paid and inflows are received. Therefore, any solutions to cash-flow problems are generally centred on reducing or delaying outflows and speeding up or increasing inflows.

Could JKL change its charging policy so that the invoices for the full-time children are payable in less than 30 days? This policy means that, in some cases, payment is being received up to seven weeks after the provision of the service. Additionally, could JKL request payment for the other services, eg babysitting, to be paid on the day? However, the impact on customers of this change in policy must be considered, especially considering JKL's tiny market share and lack of market power. What do the competitors do?

An increase in price could also increase inflows, given that JKL is working at 100% capacity with excess demand. Demand is likely to be price inelastic so revenues will respond positively to any increase in price.

A major outflow is labour costs. Could JKL pay part-time staff monthly? This may have a detrimental effect on the staff and go against Harriet's ethos. Again, what does the competition do? Also, as JKL's staff-child ratio exceeds the legal minimum, could it reduce the number of staff, although this may affect the quality of JKL's service which may be necessary to justify the high prices.

There is significant planned expenditure in new equipment and maintenance in April, June and November. Is this absolutely necessary and do the two items have to be planned for the same month? JKL's centres are all very new and purpose built so should not need that much additional expenditure. However, JKL is in a very competitive market where customers are paying above average market price and so they may well expect a very high level of quality. Also, children's equipment will get broken and dirty on a regular basis, so that replacement may be necessary on health and safety grounds.

As mentioned by Jordan and Harriet, the firm could consider looking for a cash injection from a new business 'partner', whether a venture capitalist or an equity investor. This would immediately improve JKL's cash-flow without any need to make any other drastic changes. However, it may have an impact on Harriet's control of the company.

Level 4 (16-12)

Some evaluation shown by supporting any judgement made about whether any suggested changes at JKL will work and/or be appropriate in its current situation.

Level 3 (11-7)

Some analysis of specific suggestions for JKL of how it might improve its current cash-flow position.

Level 2 (6-3)

Some understanding shown of how cash-flow can be improved.

Level 1 (2-1)

Some knowledge of cash-flow and/or how to improve it.

Checkpoint

Mark	

0-11 marks go to Cash Flow Problems Activity

12-17 marks go to Cash Flow Extension Activity