Chapter 10

Chapter 10 Ordinary Level Questions

Q1. (i) Complete the **three** elements that are part of a business's operational model
Key Partners, Key Activities, Key Resources

(ii) Choose one element and explain why it might change as a business grows or changes.

Key resources might change as a business grows because it needs more staff, updated equipment, or better systems.
For example, a small shop using a basic till might invest in advanced software as it expands.

Q2. Match each element of the operational model of the business to its correct description.

Element	Description
1. Key Resources	A. Other businesses or people who help the business deliver its product
2. Key Activities	B. Materials, equipment, staff or skills needed to run the business
3. Key Partners	C. Functions the business must do to operate (e.g. making or delivering)

1	2	3
B	C	A

Q3. Circle TRUE or FALSE for each of the following statements about business plans.

Statement	TRUE / FALSE
A fixed cost stays the same no matter how much a business produces.	TRUE
Trade credit is a source of finance that must be repaid immediately.	FALSE
As a business grows, its costs and finance needs may change.	TRUE
Short-term finance is best for buying buildings or vehicles.	FALSE

Q4. (i) Name one example of a fixed cost and one example of a variable cost for a local café.

Fixed Cost: Rent, coffee machine
Variable Cost: Single use cups, coffee beans, milk

(ii) Explain why variable costs might increase over time.

Variable costs might increase over time because the business may need more supplies as customer demand grows.
Price rises from suppliers can also cause these costs to go up.

Q5. (i) Explain the difference between a single transaction and a recurring revenue stream.

A **single transaction** is a one-time sale, like someone buying a t-shirt in a shop. The shop get paid once only.
A **recurring revenue stream** is regular revenue earned from repeat payments, such as a monthly subscription for a product or service. E.g. a weekly newspaper delivery subscription, or Netflix/gym…

(ii) Give **one** example of how a real or well-known business would earn revenue from both types mentioned above.

For example, **Sky** may earn from single transactions if someone buys a movie on their store to watch. This is a one-off transaction that doesn't repeat at set times.

Sky earn from recurring revenue through annual subscriptions to different packages (TV/broadband/movie or sports bundles).

Q6. Choose a source of finance from the list below:

Long-Term Loan – Trade Credit – Personal Savings – Crowdfunding

(i) Name the source of finance it is used for (**short-term, medium-term and long-term**)

Choice: Trade Credit
Source of finance: Short-term

(ii) Describe one advantage and one disadvantage of using this source of finance.

Advantage The business receives goods or services now but gets to repay it at a later date. This helps the business with short-term cash flow and gives them time to re-sell or raise revenue from the goods/services in order to pay for them.
Disadvantage: If the business fails to pay by the agreed date, it may damage its reputation with suppliers. This could lead to stricter credit terms in the future or loss of access to trade credit entirely, limiting purchasing flexibility.

Q7. A small printing company has the following cash flow forecast for March:

Receipts: €10,000 **Payments: €14,000** **Opening Cash: €2,000**

(i) Calculate the closing cash balance for March.

Workings: Closing Cash = Opening Cash + Receipts - Payments
= €2,000 + €10,000 - €14,000 = **– €2,000 (closing cash deficit)**

(ii) Is the business in a cash surplus or deficit?

Deficit, the business has spent more than it received in March.

(iii) Suggest one action a business could take to improve their cash flow.

The business could delay some of their planned non-essential spending. They could postpone or spread the payments rather than buy an asset outright if they had planned to. This would reduce the amount of cash going out in the short term and help ease the deficit.

Chapter 10 Higher Level Questions

Q1. (i) Identify examples and explain the role of the following in a business's operational model (key partners, key activities, key resources)

Key Partners Key partners are people or organisations that support the business in delivering its product or service, such as suppliers or couriers. They help ensure the business operates smoothly, for example by delivering raw materials on time.
Key Activities These are the essential tasks the business must perform to function, like manufacturing, marketing, or customer service. They keep the business running and contribute directly to delivering value to the customer.
Key Resources Key resources include materials, equipment, technology, and skilled staff that the business needs to operate. Without these, the business could not produce goods, offer services, or meet customer expectations.

(ii) Evaluate how any one of these elements might need to change as a business grows or responds to external changes (e.g. entering a new market, adopting new technology).

As a business enters a new market with different language or cultural norms, its **key resources** will need to adapt. It may need to hire multilingual staff or cultural consultants to communicate effectively with customers and partners in that market. I think that this will ensure marketing, customer service, and operations are appropriate for the new environment and supports successful expansion.

Q2. (i) Distinguish between fixed costs and variable costs using one example of each.

Fixed Cost A fixed cost stays the same regardless of how much the business produces/ changes in the level output. E.g. Rent would remain the same whether 100 or 150 cups of coffee are sold on any day in a coffee shop.
Variable Cost Variable costs are costs that are linked to the level of output in a firm – as output increases, variable costs will increase. E.g. The amount spent on cups, milk and coffee beans would increase if 150 cups instead of 100 cups of coffee are sold on any day in a coffee shop.

(ii) Explain how a business's cost structure might change at different stages of its product or service lifecycle (e.g. start-up vs. maturity).

During the start-up stage, total variable costs may be low as output is low, but fixed costs like setup and equipment can be very high initially. At the maturity stage, economies of scale might reduce variable cost per unit as they are producing more, while fixed costs remain more stable.

Q3. Name **two** examples of items that would be considered a **variable cost** for a business. Suggest sources of finance a business could use to cover these items, and justify your choices.

Variable Cost example: Raw materials for production
Suggested source of finance: Trade credit Trade credit allows a business to receive materials or stock immediately but delay payment until a later date. This gives the business time to turn those materials into finished goods and sell them (or sell the stock bought), and use the revenue generated to cover the costs, helping to manage short-term cash flow without needing upfront capital.
Variable Cost example: Wages
Suggested source of finance: Bank Overdraft A bank overdraft allows the business to access extra cash quickly to cover wage payments when the business doesn't have enough cash in their bank to pay the wages. This helps ensure staff are paid on time as they can go in to a negative balance, but the business must monitor usage carefully due to high interest rates and potential fees.

Q4. Describe **two** types of revenue streams a business might use and explain how these may evolve over time for a business.

1. **Transactional Revenue:** This is income from one-time purchases, such as a customer buying a product. Over time, the business may add subscription options or bundles to encourage repeat sales or higher revenue per customer for each transaction.
2. **Recurring Revenue:** This comes from ongoing payments, like subscriptions or memberships. As the business grows, it may offer tiered plans (e.g. VIP or gold-level membership with extras) or added features to increase customer retention and boost revenue.

Q5. *A business that was planning to purchase a new delivery van for €20,000 in March has realised that this will create a closing cash deficit of €15,000 in their cashflow forecast.*

Outline **two** pieces of advice you would offer the manager on how to manage their finances to prevent this deficit.

1. Delay the purchase and continue using existing transport options temporarily. This gives the business more time to build up cash to afford the van or secure finance, avoiding a deficit that could affect its ability to meet other payments.
2. Apply for a medium-term loan to spread the cost over time. A delivery van is a medium-term asset, so using leasing or a medium term loan would match the cost with the expected benefit period and prevent pressure on short-term cash flow. It means they would not have a large one off spend creating a deficit, and instead they could pay monthly repayments to avoid this.

Q6. Examine the cashflow forecast for the Duncannon Arms Hotel and answer the questions that follow.

2026	JAN	FEB	MAR	APR	TOTAL
RECEIPTS	€	€	€	€	€
Room Sales	20,000	23,000	24,000	30,000	97,000
Food & beverage sales	8,000	12,000	11,000	15,000	46,000
Other	5,000	6,000	7,500	8,000	26,500
TOTAL RECEIPTS	33,000	41,000	42,500	53,000	169,500
PAYMENTS					
Purchases	14,000	18,000	16,500	22,000	70,500
Wages	10,500	12,000	11,500	16,000	50,000
Equipment Purchase	-	22,000	-	-	22,000
Other	4,000	5,000	3,000	6,000	18,000
TOTAL PAYMENTS	28,500	57,000	31,000	44,000	160,500
Net Cash	4,500	-16,000	11,500	9,000	9,000
Opening Cash	500	5,000	-11,000	500	500
Closing Cash	5,000	-11,000	500	9,500	9,500

(i) Which month is expected to have the highest closing cash surplus?

April – The closing cash balance is **€9,500**, the highest in the forecast.

(ii) In which months is a closing cash deficit expected?

February – The closing cash is **–€11,000**, which is a deficit.

(iii) According to the forecast, what is identified as the main reason for this deficit?

The deficit is mainly caused by the **€22,000 equipment purchase** in February, which led to payments exceeding receipts that month (without that spend, there would be no deficit)

(iv) Outline two pieces of advice you would offer the manager of the Duncannon Arms Hotel on how to better manage their finances to prevent this deficit.

1. **Spread the cost of the equipment using medium-term finance.**
Using a leasing option or a medium-term loan would avoid a large one-off payment and help the hotel maintain a positive cash flow across the months.

2. **Use short-term finance, such as a bank overdraft, to cover the gap.**
A bank overdraft gives quick access to cash and could help the business cover the deficit caused by the large purchase.
This prevents disruption to operations, though the business should manage repayments carefully due to interest charges.