Chapter 10 Class Exam

Name:________________ **Score:____________**

Answer all questions

Suggested Exam Length: 40 minutes

Student Input (Pre-exam)

How confident are you about this exam?

What topic am I worried about before I look at the exam? Why?

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What strategies did you use to study for this exam? What was the best one?

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Which activities in class did you most enjoy for this topic?

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Student Reflection (Post-exam)

How happy were you with your result?

What were the hardest questions? Why?

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Is there any exam technique I should change/use again for my next exam?

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What topics should I look over again?

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(a) 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 to customers
2. Key Activities	B. Materials, equipment, staff or skills needed to run the business
3. Key Partners	C. Tasks the business must do to operate effectively (e.g. making or delivering)

1	2	3

(b) Explain how any one of the elements mentioned above might need to change as a business grows or responds to external changes (e.g. enters a new market, has to adapt to new technology…).

Element of operational model:
How it may need to change as a business grows/adapts:

Pepperoni Pete's Pizza has two successful outlets and is planning to open more. Having set up in Longford, Pete wants to expand out the business in to other counties.

(c) (i) Distinguish between fixed costs and variable costs using one example of each that **Pepperoni Pete's Pizza** might face.

Fixed Costs:
Example:
Variable Costs:
Example:

(ii) Pete needs a new delivery van costing €25,000 to support expansion.
Identify the most suitable medium-term source of finance for this purchase and explain two reasons why it is appropriate.

Source of finance:
Reason 1:
Reason 2:

(iii) Pete also plans to open a new store in another county.
Identify the most suitable long-term source of finance for this investment and outline one advantage of this source of finance.

Source of finance:
Advantage:

(iv) Pepperoni Pete's Pizza rely on daily sales orders as their main revenue stream, where they get an order and then fulfil it as soon as it is ready by delivering it, or allowing customers to collect their pizzas in-store.

Suggest one other potential revenue stream Pete could look at using in order to increase revenue in the business. Justify a reason for your choice.

Suggestion:
Reason:

(d) Examine the cashflow forecast for the KeaneHotel and answer the questions that follow.

2026	JAN	FEB	MAR	APR	TOTAL
RECEIPTS	€	€	€	€	€
Room Sales	22,000	23,000	24,000	27,000	96,000
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	**35,000**	**41,000**	**42,500**	**50,000**	**168,500**
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	-	-	33,000	-	33,000
Other	4000	5000	3,000	6,000	18,000
TOTAL PAYMENTS	**28,500**	**35,000**	**64,000**	**44,000**	**171,500**
Net Cash	6,500	6,000	-21,500	6,000	-3000
Opening Cash	500	7,000	13,000	-8,500	500
Closing Cash	7,000	13,000	-8500	-2500	-2,500

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

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

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

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

1.

2.

Chapter 10 Marking Scheme – Total 66 marks

(a) (i) 6m (2+2+2)

Answer: B,C,A

(b) 6m Explain how any one of the elements might need to change as a business grows in size
6m total – (0/3/6 graded)

Key Resources
As the business grows, it may need more staff, upgraded technology, or larger premises. This ensures the business can meet increased demand and maintain quality standards. For example, moving from a small kitchen to a commercial facility helps handle higher production volumes.

Key Activities
Activities might expand to include new product development, marketing campaigns in new regions, or setting up distribution systems. These changes help the business stay competitive and reach a larger customer base. For example, a small pizzeria might add online ordering and delivery logistics when serving multiple towns.

Key Partners
The business might need to form relationships with more suppliers, logistics companies, or marketing agencies when operating in new markets. This creates a more reliable supply chain and supports expansion into different regions. For example, partnering with a regional food distributor could ensure consistent ingredient supply to new outlets.

(c) (i) 8m - 2 @ 4m (2+2)

Fixed Costs – Costs that do not change as the level of output changes / costs that remain the same irrespective of changes in output.
Example: Rent for the premises, insurance, salaried staff.

Variable Costs – Costs that rise as output increases.
Example: Pizza dough, cheese, toppings, takeaway boxes.

(c) (ii) 10m - Source 4m; Reason 2 @ 3m (2+1)

Appropriate sources: Medium-term loan, leasing or hire purchase

Reason 1 – The repayment period matches the useful life of the van.
A delivery van will be used for several years, so a 3–5 year repayment schedule ensures the cost is spread fairly across the time Pete benefits from the asset.

Reason 2 – It prevents a large one-off payment that could harm cash flow.
Paying €25,000 upfront would reduce Pete's working capital for wages, stock, and other expenses. Spreading payments makes it easier to manage monthly costs while still expanding the business.

(c) (iii) 6m - Source 2m; Advantage 4m (2+2)

Option 1 – Long-term loan

Advantage – Provides a large lump sum that can be repaid gradually.

Opening a new store involves major upfront costs such as premises, fit-out, and equipment. A long-term loan gives Pete the full amount at once and allows repayment over many years, keeping annual repayments manageable compared to the expected life of the store. It also allows Pete to maintain full control of the business/hasn't reduced the his ownership/control of the business.

Option 2 – Equity capital

Advantage - No obligation to make regular repayments/helps cashflow.

With equity capital, Pete can invest funds from his own savings or from outside investors without the pressure of monthly loan instalments. This frees up cash flow for operational needs in the crucial early months of the new store, although it does mean sharing ownership and future profits.

(c) (iv) 8m (4m appropriate suggestion, 4m reason)

Suggested responses:

Recurring subscription/membership service – e.g., weekly pizza subscription or "pizza of the month" club.

Catering for events – supplying pizzas for parties, school events, corporate lunches.

Online ordering platform – selling directly via a website/app with delivery fees.

Merchandise sales – branded pizza boxes, T-shirts, mugs, sauces.

Wholesale supply – producing frozen or partially baked pizzas for supermarkets or other cafés.

Answer should justify how/why it would be appropriate

(d) 22 marks (i) 4m (ii) 6m (3+3) (iii) 6m (3+3 refer to figures) (iv) 2 @ 3m (2+1)

(i) **February (€13,000)**.

(ii) **March (-€8,500)** and **April (-€2,500)**.

(iii) A one-off equipment purchase of €33,000 in March.
This large payment caused total outflows to exceed receipts in March, resulting in a negative balance that continued into April.

(iv) Possible responses:

1. **Spread the cost of equipment using medium-term finance** such as leasing or a bank loan. This avoids a single large cash outflow in one month and allows the hotel to pay in smaller, manageable instalments.

2. **Increase sales in slower months through targeted promotions** such as seasonal packages, themed events, or discounts. This helps raise receipts before the cash flow could fall in to a deficit.

3. **Delay non-essential purchases** until cash flow improves. Postponing large or non-urgent spending will keep more cash available for daily operations.

4. **Negotiate extended payment terms with suppliers** so that large bills can be paid over a longer period. This reduces pressure on cash reserves in months with big expenses. If they can delay paying some expenses, they may remain in a surplus if they buy the equipment.

5. **Use short-term finance options** such as a bank overdraft to cover temporary deficits. This provides immediate access to funds while waiting for higher receipts in future months. It doesn't prevent the deficit, but allows the Hotel to manage it.