Chapter 10

Operations and Finance

10.2 Identify the key costs and sources of finance for a business and explore why these may change over the lifecycle of the product or service.

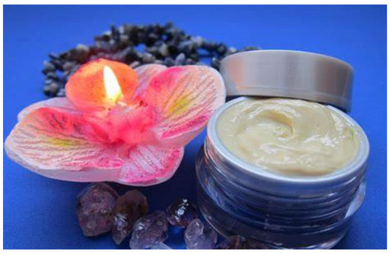
OL Paper 1 Q1 (f)

Irish Skincare Success Story Eyes Europe and Asia

EverGlow Organics Ltd is a successful Irish company specialising in organic skincare for men and women. The business has grown steadily in Ireland and now plans to expand into Europe and Asia. The company is motivated by a growing demand for organic products and the potential to save money through economies of scale.

Adapting to New Markets

While their products have been well-received in Ireland, the company's management team is mindful of differences in culture, language, traditions, and income levels in the new markets. The business may need to adjust elements of its marketing mix to appeal to international consumers. The company recognises that conducting market research will be crucial before entering these markets. They will need to receive direct feedback from potential consumers and analyse existing data on market trends in each country.



Funding and Financial Considerations

EverGlow Organics Ltd is considering various financing options, such as applying for a long term loan or seeking investors. In addition to the financial risk, the company is concerned about changing exchange rates and established businesses in the new countries.

Investing in People and Technology

To support its growth, the business will hire freelance content creators to promote its products to new audiences. The company also plans to invest in new technology to handle increased demand and ensure effective communication. Recently, the team conducted a force field analysis to examine the driving and restraining forces related to the expansion.

(f) *EverGlow Organics Ltd is considering various financing options.*

Identify a suitable source of finance EverGlow Organics Ltd may use to fund their plans. Give a reason for your choice.

Source of finance:
Reason:

10.3 Analyse the cashflow of a business and recommend a suitable course of action for the business to address the issues arising from the analysis.

OL Paper 2 Q4 (a)

(a) Cashflow Forecast Analysis.

Examine the cashflow forecast for the Lakeview Inn and answer the questions that follow.

CASHFLOW FORECAST LAKEVIEW INN 2025	JAN	FEB	MAR	APR	TOTAL
RECEIPTS	**€**	**€**	**€**	**€**	**€**
Room Sales	18,000	23,000	22,000	30,000	**93,000**
Food and Beverage Sales	8,000	10,000	11,000	15,000	**44,000**
Other	5,000	6,000	5,500	8,000	**24,500**
TOTAL RECEIPTS	**31,000**	**39,000**	**38,500**	**53,000**	**161,500**
PAYMENTS					
Purchases	14,000	18,000	16,500	22,000	**70,500**
Wages	10,500	13,000	11,500	16,000	**51,000**
Equipment Purchase	-	-	36,000	-	**36,000**
Other	4,000	6,000	3,000	6,000	**19,000**
TOTAL PAYMENTS	**28,500**	**37,000**	**67,000**	**44,000**	**176,500**
NET CASH	**2,500**	**2,000**	**(28,500)**	**9,000**	**(15,000)**
OPENING CASH	**500**	**3,000**	**5,000**	**(23,500)**	**500**
CLOSING CASH	**3,000**	**5,000**	**(23,500)**	**(14,500)**	**(14,500)**

(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 Lakeview Inn on how to better manage their finances to prevent this deficit.

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10.2 Identify the key costs and sources of finance for a business and explore why these may change over the lifecycle of the product or service.

OL Paper 1 Q1 (f) Solution

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Eyes Europe and Asia

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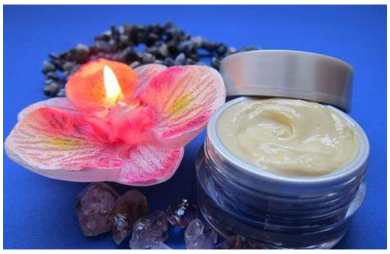

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and Technology

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(f) *EverGlow Organics Ltd is considering various financing options.*

Identify a suitable source of finance EverGlow Organics Ltd may use to fund their plans.
Give a reason for your choice.

Finance: Seeking investors (equity capital)
Reason: This is a long-term source of finance, appropriate for expansion. A business can raise money from investors by giving them some ownership of the business. This means they won't have to repay loans with interest each month, so will help with their monthly cashflow as they expand.

10.3 Analyse the cashflow of a business and recommend a suitable course of action for the business to address the issues arising from the analysis.

OL Paper 2 Q4 (a) Solution

(a) Cashflow Forecast Analysis.

Examine the cashflow forecast for the Lakeview Inn and answer the questions that follow.

CASHFLOW FORECAST LAKEVIEW INN 2025	JAN	FEB	MAR	APR	TOTAL
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CLOSING CASH	**3,000**	**5,000**	**(23,500)**	**(14,500)**	**(14,500)**

(i) Which month is expected to have the highest closing cash surplus?
February has the highest closing cash surplus of €5,000.

(ii) In which months is a closing cash deficit expected?
A negative closing cash is expected in both March and April.

(iii) According to the forecast, what is identified as the main reason for this deficit?
In March, Lakeview Inn plan to purchase equipment for €36,000 causing the deficit.

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

1. Spread payments out over time for the equipment. If it is a fixed asset, a medium term loan, leasing or hire-purchase could be used to pay for it over time in smaller payments, rather than through one larger payment that would cause the cashflow issue in March.

2. Access a bank overdraft. If the business knows that it will have a negative closing cash balance in March and April it could pre-arrange an overdraft for that amount with their bank to ensure that they don’t run short on available cash to pay for day-to-day expenses in the business.