- operating profit = gross profit – total expenses

You always pay the banks back first if you awe them. Then the government in the form of taxes, sole traders/partnerships pay income tax and companies pay corporation tax.

- net profit = operating profit – interest - taxes

Appropriation Account

Net profit is entirely your own money to spend as you want to. Appropriation account shows us what the business decides to do with the net profit.

Key Terms

- retained profits: money saved, can be used for future investment and meansthey will need to borrow less money to the bank
- dividends: a company will need to give money to their shareholders
- drawings: owner of the business takes out money for their own personal use BALANCE SHEET shows financial position of assets and liabilities of a business at specific moment

ASSETS: everything that is owned by a business which has value

NON CURRENT ASSETS: value of assets that the business has purchased and expects to keep for more than one year

CURRENT ASSETS: cash, cash equivalents, expected to be turned into cash during the next year

LIQUIDITY: how easy it is to turn current asset into cash

LIABILITIES: debts sum of money that is owed

CURRENT LIABILITIES: amount owed which are due to be paid within the next year

NON CURRENT LIABILITIES: long term liabilities that need to be settled in more than a years' time

EQUITY: value of capital invested into the company by shareholders and the profits that have been retained

LIQUIDITY RATIOS: help assess is there is efficient cash or equivalent current assets to be able to pay its debts as they become due, if doesn't have cash its debts becomes insolvent, focus on short term using current assets and current liabilities

CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITIES
This is how much business has for every £1 that is owed

ACID TEST RATIO = (CURRENT ASSETS - STOCK) / CURRENT LIABILITIES
When stock is harder and slower to be turned into cash

Key Terms

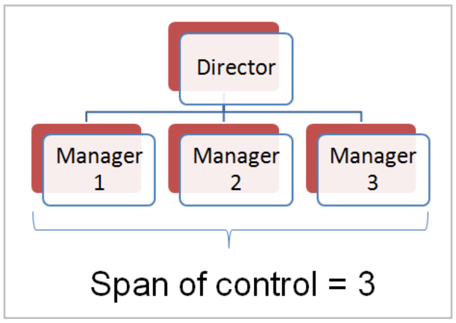
People in Business

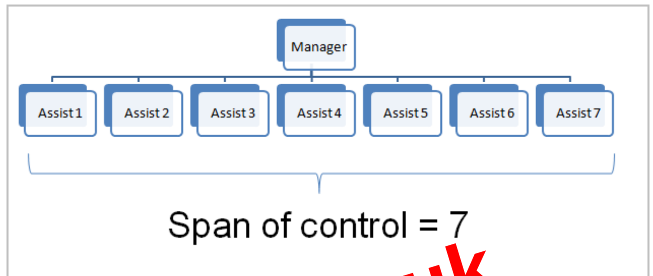
Reorganising Organisational Charts and Management Hierarchies

Key Terms

Organisational structure: the way the people in a business are organized

Span of control: how many people you are directly in control of





Span of Control

- The numbers of subordinates a manager is directly responsible for
- Narrow span of control: allow for closer supervision, more layers in hierarchy may be required, helps more effective communication
- Wide span of control: gives subordinates more independence, more appropriate if labour costs are significant, reduce number of managers factors:
- experience and personality of manager
- nature of business
- skills and attitudes of employees
- tradition and culture of organisation

Hierarchy: the number of levels in the organisational structure

Chain of command: the path through which messages are passed

Delayering: a company removing a layer of hierarchy in order to reduce costs, increase motivation or in case of a merger, in which two people would be doing the same job

Decision Making = Power & Authority

- centralised: authority rest with senior management at the centre of a business
- decentralised: authority given further down the hierarchy away from the centre
- most large business usually have decentralisation as it operates from several location, adding new business units and markets
- how much independence do business units/groups within a business have when it comes to the key decisions

Centralised Structures

Keep decision making firmly at the top of the hierarchy

Advantages	Disadvantages
Easier to enforce policies and rules Prevent parts of the business becoming too independent Easier to coordinate and control Economies of scale easier to achieve Greater use of specialisation Quicker decision making, stronger leadership	More bureaucratic, extra layers Lack of authority down hierarchy May reduce manager motivation

Decentralised Structures

Decision making is spread out to include more junior managers in the hierarchy, as well as individual business units or trading locations

Advantages	Disadvantages
Decisions are made closer to the customer Able to respond to local circumstances Improved level of customer service Consistent with aiming for a flatter hierarchy Good way of training and developing junior management Improve staff motivation	More difficult to ensure consistent practices and policies Diseconomies of scale Strong leadership is not present

2. What documents does a business have to complete before it can be registered as a company?	
3. Using the yellow pages, name 5 private limited companies who operate in your localarea.	
4. If Ltd was to go bust leaving debts of £500,000 how much would the owners haveto pay as a result?	
5. What advantages does a Private limited company have over a sole trader or partnership?	
6. Explain why the business affairs of a private limited company are not as private as those of a sole trader.	
7. What do the letters PLC represent?	
8. Where does a PLC sell its shares?	
9. What advantages does a PLC have overa private limited company?	
10. List 5 PLC's that operate in your localarea.	

PRACTICE EXAM PAPER

Time allowed
1 hour

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer all questions.
- You must answer the questions in the space provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in question 1 (c), 2 (c) and 3 (d).

Item A: Dotis Ltd

Dotis Ltd is a long-established glassware business that makes luxury crystal glasses and bowls. The company, which is based in an area of high unemployment, employs about 200 local people. Many of the workers have been at Dotis Ltd all their working lives and their parents and grandparents also worked there. Currently, many of Dotis Ltd's employees are over 50.

The quality of the glassware is checked at the end of the production process. Dotis Ltd has noticed recently that the percentage of glassware items rejected for being below standard has risen from 5% to 13%. The manager believes that some of the older employees are not as skilled as they used to be. The below-standard items are sold to wholesalers at about a third of the normal price, or scrapped if they are very poorly made.
Dotis Ltd is thinking of opening a shop at the factory to sell its products directly to the public. The shop would sell both quality and below-standard glassware. This factory shop would need a manager to supervise the 16 employees who would be working there. The plan is to use older employees as shop assistants.

1 (a) Explain **one** suitable method to promote the opening of the factory shop. **(2marks)**

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3 (bii) Explain how the change in Carpet2U's acid test ratio might affect the business. **(3marks)**

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Total for this question 22 marks. END OF QUESTIONS