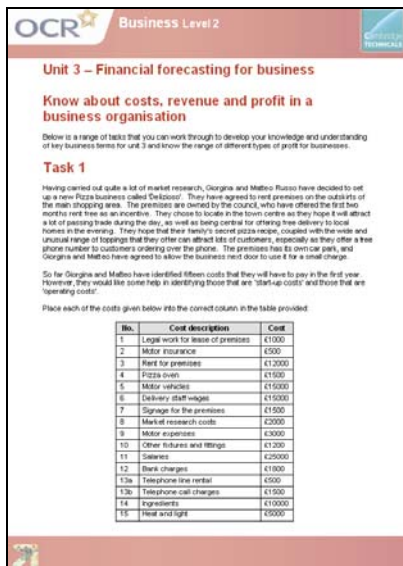


Unit 3 – Financial forecasting for business

Know about costs, revenue and profit in a business organisation

Instructions and answers for Teachers

These instructions should accompany the OCR resource 'Know about costs, revenue and profit in a business organisation', which supports the OCR Level 2 Cambridge Technical Certificate in Business Unit 3 – Financial forecasting for business



Unit 3 – Financial forecasting for business

Know about costs, revenue and profit in a business organisation

Below is a range of tasks that you can work through to develop your knowledge and understanding of key business terms for unit 3 and know the range of different types of profit for businesses.

Task 1

Having carried out quite a bit of market research, Georgia and Matteo Russo have decided to set up a new Pizza business called 'Delicious'. They have agreed to rent premises on the outskirts of the main shopping area. The premises are owned by the council, who have offered that the first two months rent free as an incentive. They chose to locate in the town centre as they hope it will attract a lot of passing trade during the day, as well as being central for offering free delivery to local homes in the evening. They hope that their family's secret pizza recipes, cooked with the wide and unusual range of toppings that they offer can attract lots of customers, especially as they offer a free phone number to customers ordering over the phone. The premises has its own car park, and Georgia and Matteo have agreed to allow the business next door to use it for a small charge.

So far Georgia and Matteo have identified fifteen costs that they will have to pay in the first year. However, they would like some help in identifying those that are 'start-up costs' and those that are 'operating costs'.

Place each of the costs given below into the correct column in the table provided.

No.	Cost description	Cost
1	Legal work for issue of premises	£1000
2	Motor insurance	£500
3	Rent for premises	£12000
4	Pizza oven	£1500
5	Motor vehicles	£15000
6	Delivery staff wages	£15000
7	Signage for the premises	£1500
8	Market research costs	£2000
9	Motor expenses	£3000
10	Other salaries and wages	£1200
11	Salaries	£25000
12	Bank charges	£1800
13a	Telephone line rental	£500
13b	Telephone call charges	£1500
14	Ingredients	£10000
15	Heat and light	£5000

Associated Files:
Know about costs, revenue and profit in a business organisation

Expected Duration:
Task 1 – 20 minutes
Task 2 – 30 minutes
Task 3 – 20 minutes

Below is a range of tasks that learners can work through to develop their knowledge and understanding of key business terms for unit 3 and know the range of different types of profit for businesses.

LESSONElements

The building blocks you need to construct informative and engaging lessons

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Task 1

Having carried out quite a lot of market research, Giordina and Matteo Russo have decided to set up a new Pizza business called 'Delizioso'. They have agreed to rent premises on the outskirts of the main shopping area. The premises are owned by the council, who have offered the first two months rent free as an incentive. They chose to locate in the town centre as they hope it will attract a lot of passing trade during the day, as well as being central for offering free delivery to local homes in the evening. They hope that their family's secret pizza recipe, coupled with the wide and unusual range of toppings that they offer can attract lots of customers, especially as they offer a free phone number to customers ordering over the phone. The premises has its own car park, and Giordina and Matteo have agreed to allow the business next door to use it for a small charge.

So far Giordina and Matteo have identified fifteen costs that they will have to pay in the first year. However, they would like some help in identifying those that are 'start-up costs' and those that are 'operating costs'.

Place each of the costs given below into the correct column in the table provided:

No.	Cost description	Cost
1	Legal work for lease of premises	£1000
2	Motor insurance	£500
3	Rent for premises	£12000
4	Pizza oven	£1500
5	Motor vehicles	£15000
6	Delivery staff wages	£15000
7	Signage for the premises	£1500
8	Market research costs	£2000
9	Motor expenses	£3000
10	Other fixtures and fittings	£1200
11	Salaries	£25000
12	Bank charges	£1800
13a	Telephone line rental	£500
13b	Telephone call charges	£1500
14	Ingredients	£10000
15	Heating and lighting	£5000



Start up costs			Operating costs		
No.	Cost description	Cost	No.	Cost Description	Cost
1	Legal work for lease of premises	£1000	2	Motor insurance	£500
4	Pizza oven	£1500	3	Rent for premises	£12000
5	Motor vehicles	£15000	6	Delivery staff wages	£15000
7	Signage for the premises	£1500	9	Motor expenses	£3000
8	Market research costs	£2000	11	Salaries	£25000
10	Other fixtures and fittings	£1200	12	Bank charges	£1800
13a	Telephone line rental	£500	13b	Telephone call charges	£1500
			14	Ingredients	£10000
			15	Heating and lighting	£5000
Total start up costs:		£22700	Total operating costs:		£73800

Task 2

Their business advisor, who works for their bank, has asked Giorgina and Matteo to provide a list of what they expect their fixed and variable costs to be.

In the table below, identify whether each of the costs given in task 1 (above) is a variable cost (that changes in direct proportion to production of pizzas) or is a fixed cost (that remains the same regardless of changes in the production of pizzas). Once you have done this you should calculate the total fixed costs as well as the total variable costs.

Variable costs			Fixed costs		
No.	Cost description	Cost	No.	Cost Description	Cost
6	Delivery staff wages	£15000	1	Legal work for lease of premises	£1000
9	Motor expenses	£3000	2	Motor insurance	£500
13b	Telephone call charges	£1500	3	Rent for premises	£12000
14	Ingredients	£10000	4	Pizza oven	£1500
			5	Motor vehicles	£15000
			7	Signage for the premises	£1500
			8	Market research costs	£2000
			10	Other fixtures and fittings	£1200
			11	Salaries	£25000
			12	Bank charges	£1800
			13a	Telephone line rental	£500
			15	Heating and lighting	£5000
Total variable costs:		£29500	Total fixed costs:		£67000



Finally once you have calculated the total fixed and variable costs you are asked to calculate the total costs for Delizioso:

Fixed costs	+	Variable costs	=	Total Costs
£29500	+	£67000	=	£96500

Task 3

Giorgina and Matteo have survived their first year in business, and would like to know what their Gross Profit and Net profit are. Some of their estimated costs weren't very accurate, but their understanding of costs has improved greatly. They now know that during the year:

- They sold 25,000 pizzas during the year at an average price of £5 each
- They received other revenue (for car park) of £500 every month during the year
- They incurred direct costs of £1 per pizza produced. During the year they produced 26,000 pizzas, although for various reasons it was not possible to sell 1000 of them.
- They incurred indirect costs of £69,600 for the year

Using this information complete the following boxes:

REVENUE	£
Sales Revenue (income from the sales of pizzas)	125000
Other revenue (income from car park)	6000
Total Revenue (total income from all revenues)	131000

Direct costs (costs which can be traced directly back to the production process)	26000
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Gross Profit (revenue – direct costs)	105000
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Indirect costs (costs which cannot be attributed to production process)	69600
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Net Profit (gross profit - indirect costs)	35400
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These activities offer an opportunity for maths skills development.

