

2A Pro-study Booklet

Unit 7.2-3 – Analysing the strategic position of a business: **internal factors**

Sept-Oct Half-Term

INDEPENDENT STUDY

PRO-STUDY



Business A Level 2024/25

AQA Specification:

Analysing the strategic position of a business

3.7.2 Analysing the existing internal position of a business to assess strengths and weaknesses: financial ratio analysis

Content	Additional information
How to assess the financial performance of a business using balance sheets, income statements and financial ratios	Financial ratio analysis to include: <ul style="list-style-type: none">• profitability (return on capital employed)• liquidity (current ratio)• gearing• efficiency ratios: payables days, receivables days, inventory turnover.
The value of financial ratios when assessing performance	Data may be analysed over time or in comparison with other businesses.

3.7.3 Analysing the existing internal position of a business to assess strengths and weaknesses: overall performance

Content	Additional information
How to analyse data other than financial statements to assess the strengths and weaknesses of a business	Data other than financial statements should include operations, human resource and marketing data. Data may be analysed over time or in comparison with other businesses.
The importance of core competences	
Assessing short- and long-term performance	
The value of different measures of assessing business performance	Methods of assessing overall business performance to include Elkington's Triple Bottom Line (Profit, People, Planet).

Task 1 – Due w/c 16th of September

Completed

Income Statements & The Balance Sheet

Pro-study is designed to get you familiar with the topic before we get into the detail in class. In addition to the answers to the questions set please also bring you notes. We want to make sure you are making notes effectively. I am including an example of a note taking framework (a link also) which you may or may not want to try out.

<http://www.wikihow.com/Take-Cornell-Notes>

In your notes you should make sure you write down a definition and an example of the key terms (and formula) in your own words. There are a lot of new key terms for this topic!

Key terms for this topic: balance sheet (Statement of Financial Position), assets, ratios, income statement, liabilities, shareholders, suppliers, managers, non-current assets, current assets, tangible assets, intangible assets, patents, goodwill, brands, net assets, total equity, working capital inventories, mortgage debentures, capital employed, trade credit, depreciation, inflation, current liabilities, profit, income statement, profit, loss, gross profit, net profit, tax, operating profit, net profit, exceptional items, extraordinary items, HM Revenue and customs, expenses.

Make notes from the textbook: Surridge and Gillespie Year 2 Chapter 26, p342-354

Task 1 - Income statement

Watch the video and make notes. (Headphones recommended for better sound quality.)

[Income Statement - Planet eStream \(collyers.ac.uk\)](http://www.planetestream.com/collyers.ac.uk) or scan the QR code.



Here is alternative video to watch and a quiz to check your knowledge after:



Activity: Put the following pieces of data into the correct order.

- ▶ Salaries were £20,000 this year
- ▶ Rent was £15,000 this year
- ▶ Advertising was £5,000 this year
- ▶ Depreciation was £15,000 this year
- ▶ The shareholders have agreed to a dividend for the year of £5,000.
- ▶ Cost of goods sold for the year was 75,000
- ▶ The firm sold 10,000 units during the year @ £15 each
- ▶ Corporation Tax is payable at £5,000
- ▶ Retained Profit on last years' balance sheet stood at £52,000
- ▶ The firm has an outstanding long-term loan (Non Current Liability) of £20,000, on which 10% interest is paid each year.

Using the information above create an income statement, putting the items above in the correct order.



Balance Sheet - Watch the tutorials and make notes. you can also view tutor2u's video.

<https://media.collyers.ac.uk/View.aspx?id=15025~5a~RR8PCwzKt2>

Look at the following items and decide which one of the boxes to tick. Remember that balance sheets consist solely of assets (items of a monetary value umm) and liabilities (which you owe).

	Fixed asset	Current asset	Current liability	Long term loan	Shareholder funds	Non-balance sheet item
Vehicles						
Wages paid						
Raw materials						
Shares issued						
Fixtures and fittings						
Managerial expertise						
Overdraft						



	Fixed asset	Current asset	Current liability	Long term loan	Shareholder funds	Non-balance sheet item
Supplier bills due						
Debtors						
Bank deposits						
Reserves						
Mortgage						



Task 2 – Due w/c 23rd of September

Completed

Profitability, Performance Ratio's & Financial Health

Key terms for this topic: ratios, profitability ratios, gross profit margin, operating profit margin, profit for the year, profitability, return on capital employed (ROCE), liquidity ratios, current ratio, gearing ratio, efficiency ratio, inventory turnover ratio, receivable days, payable days.

Now read Surridge and Gillespie Year 2 Chapter 26, p355-357.

Watch Profitability Ratios Tutorial: Gross and Operating Profit Margins.

<https://media.collyers.ac.uk/View.aspx?id=13635~5f~xexEbKDIGI>



Income Statement	Starbucks Inc		Sainsbury's	
	13	14	14	15
	\$m	\$m	£m	£m
Revenue	19,163	16,448	23,775	23,949
Gross Profit	11,376	9,589	1,208	1,387
Operating Profit	3,351	2,589	81	1,009

Calculate gross profit margin and operating profit margin for Starbucks and Sainsbury's for both years.

Show your workings here:



Now watch the video on 'Return on Capital Employed'

<https://web.microsoftstream.com/video/4f3adc89-d12f-48a4-812a-3efeeaa8786c>

Calculations – Calculate ROCE for both years for both companies.

	Apple Inc		French Connection	
	13	14	14	15
	\$m	\$m	£m	£m
Income Statement				
Revenue	170,910	182,795	190	178.5
Gross Profit	64,304	70,530	90.2	83.4
Operating Profit	49,000	52,500	(4.4)	(0.8)
Balance Sheet	\$m	\$m	£m	£m
Non Current (Fixed) Assets	133,714	163,308	12.8	12.2
Current Assets:	73,286	68,531	89.4	82.5
Current Liabilities:	(49,223)	(63,448)	(43.1)	(37.7)
Net Current Assets (CA-CL)	24,063	5,083	46.3	44.8
Non Current Liabilities	(37,000)	(56,844)	(0.5)	(0.2)
Net Assets	<u>120,777</u>	<u>115,547</u>	<u>58.6</u>	<u>56.8</u>
Total Equity	<u>120,777</u>	<u>115,547</u>	<u>58.6</u>	<u>56.8</u>

Continue...



Financial Health Ratios

Make notes from the textbook: Surrridge and Gillespie Year 2 Chapter 26, p357-359. Watch Financial Health Ratios Tutorial <https://media.collyers.ac.uk/view2.aspx?id=13066~5d~uPTCHGgGLT>

Planned Study: Calculate Current Ratio and Gearing

	Apple Inc.		French Connection	
	13	14	14	15
	£m	£m	£m	£m
Income Statement				
Revenue:	170,910	182,795	190	178.5
Gross Profit	61,301	70,530	90.2	83.1
Operating Profit	49,000	52,500	(4.4)	(0.8)
Balance Sheet				
	£m	£m	£m	£m
Non Current (Fixed) Assets	133,714	163,308	12.8	12.2
Current Assets:	73,286	68,531	89.1	82.5
Current Liabilities:	(19,223)	(63,118)	(13.1)	(37.7)
Net Current Assets (CA-CL)	54,063	5,083	46.3	44.8
Non Current Liabilities	(57,000)	(56,844)	(0.5)	(0.2)
<u>Net Assets</u>	<u>120,777</u>	<u>115,547</u>	<u>58.6</u>	<u>56.8</u>
<u>Total Equity</u>	<u>120,777</u>	<u>115,547</u>	<u>58.6</u>	<u>56.8</u>



Calculate the current ratio and gearing for Apple and French Connection for both years.

Challenge work: Consider these questions as a way to stretch and challenge yourself.

1. Why do plc's have to publish their accounts?
2. Why is a balance sheet sometimes called a 'snapshot' of the finances of a business?
3. Explain why even a charity such as Oxfam may want to make a surplus (profit).
4. Why is it sometimes said that ratios raise questions but don't answer them?
5. Why is it important to know both the gross profit margin and the operating profit margin?
6. Why is ROCE usually regarded as the single most important ratio?



Task 3 – Due w/c 30th of September

Completed

Financial Efficiency Ratios

Make notes from the textbook: SurrIDGE and Gillespie Year 2 Chapter 26, p359-360

Watch the video on payables and receivables days and



Inventory (stock) turnover.



Then complete the below revision chart for all the ratios.

Revision Chart for Financial Ratios			
Category + Ratio	Formula	Ways to improve	Consequences of a poor figure
Profitability:			
1. Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100$		



<p>2.</p> <p>Operating profit margin</p>	<p><u>Operating profit</u> x100</p> <p>Sales Revenue</p>		
<p>3.</p> <p>Return on Capital Employed (ROCE)</p>	<p><u>Operating Profit</u> x100</p> <p>Capital Employed</p> <p>Note: net profit and operating profit are the same thing</p>		
<p>Financial Health:</p>			
<p>1.</p> <p>Current Ratio</p>	<p><u>Current Assets</u></p> <p>Current Liabilities</p>		
<p>2.</p> <p>Gearing</p>	<p><u>Non current Liabilities</u> x100</p> <p>Capital Employed</p>		



Financial Efficiency:			
1. Payables Days	<u>Trade Payables</u> x365 Cost of sales		
2. Receivables Days	<u>Trade Receivables</u> x365 Sales Revenue		
3. Stock Turnover	<u>Cost of sales</u> = No of times stock		

Challenge work: Consider these questions as a way to stretch and challenge yourself.

1. Why might the managers of a company be pleased if its inventory turnover ratio is falling?
2. What could the figure for receivables days tell you about the way in which a company controls its finances?
3. Identify one advantage and one disadvantage of a company shortening its receivables collection period.



Task 4 – Due w/c 7th of October

Completed

Profit Quality and Value of Financial Ratios

Key terms for this topic: window dressing

Make notes from the Textbook: Surridge and Gillespie Year 2 Chapter 26, p350-351, p361 and p354 for profit quality and window dressing.

Value of financial ratios when assessing performance



Read the Tecso article on the BBC website.

<http://www.bbc.co.uk/news/business-32408661>.

What has gone on? Do a summary in a 100 words.

Thomas Cook Story - have a read and make a few notes.



<https://www.bbc.co.uk/news/business-49890029>

1. Give 3 reasons why managers be tempted to window dress their accounts (ie make them look better)?

Challenge work: Consider these questions as a way to stretch and challenge yourself.

1. Why is it helpful to use inter-firm ratio comparisons? When might it be unhelpful?

Task 5 – Due w/c 14th of October

Completed

Other measures of judging the performance of a business

Key terms for this topic: operational data, productivity, unit costs, quality, Passat utilisation
HR data absenteeism, labour productivity, labour turnover, unit labour costs, employee or
labour retention.

Make notes from the textbook: SurrIDGE and Gillespie Year 2 Chapter 27, p364-372 and p375-379 (short v long-term). Read the chapter pages and make notes.

How to analyse the position of a business:

1. Explain one circumstance in which capacity utilization can be a vital measure of a business's performance?
2. Explain one reason why a law firm with high rates of employee retention may be expected to perform better than one with low rates of retention.
3. Explain one reason why environmental data may offer a good indication of the future performance of an oil company?
4. Where do you work? (or your parents work) and what performance measures do they track?

Challenge work: Consider these questions as a way to stretch and challenge yourself.

1. Why are performance measures used especially within operations management?
2. Why might it be hard to manage things you cannot measure?



Task 6 – Due w/c 21st of October

Completed

Core Competencies

Key terms for this topic: core competency, competitive advantage, outsourcing, core products, markets, research and development (R&D), profit quality, employee engagement, customer satisfaction, brand, sustainability, fair trade, social responsibility, Elkington's triple bottom line (People, Planet, Profit).

Make notes from the textbook: Surridge and Gillespie Year 2 Chapter 27, p373-374

Core Competencies are the basis for Roger's Golden Rule #1 – Stick to the knitting – stick to what you do best.

Read up on Core Competencies and make notes.

Answer the following questions.

1. Distinguish between core competencies and competitive advantage.
2. What are the three factors that can be used to judge whether an organisation's attributes are genuine core competencies?
3. Explain why core competencies are the basis for Golden Rule #1
4. Can you identify any businesses with core competencies? Name them and say what you think the core competence is. Be ready to defend it in class.

Core competencies were written about in a book by Gary Hamel and CK Prahalad – it is in the office in G105.

Why not make flash cards or mind maps of all the topics covered so far? Bring them to class to show and swap with your peers. Don't leave revision till the last minute.

Half-Term

Pro-Study Unit 1 (3.1) What is Business?

