1. Nadia makes violins in her garage at home. She estimates her costs for 2016 as follows:

* Machinery hire: £2000 per annum
* Marketing: £400 per annum
* Raw materials: £45 per violin.

If Nadia sells each violin for £125, the break-even output for 2016 would be:

1. 19 violins
2. 25 violins
3. 30 violins
4. 192 violins **[1]**
5. Which of the following is likely to be a variable cost on a dairy farm?
6. Animal feed
7. Business rent
8. Milking equipment
9. Public liability insurance **[1]**

**Business scenario:** *Convenience Corner*

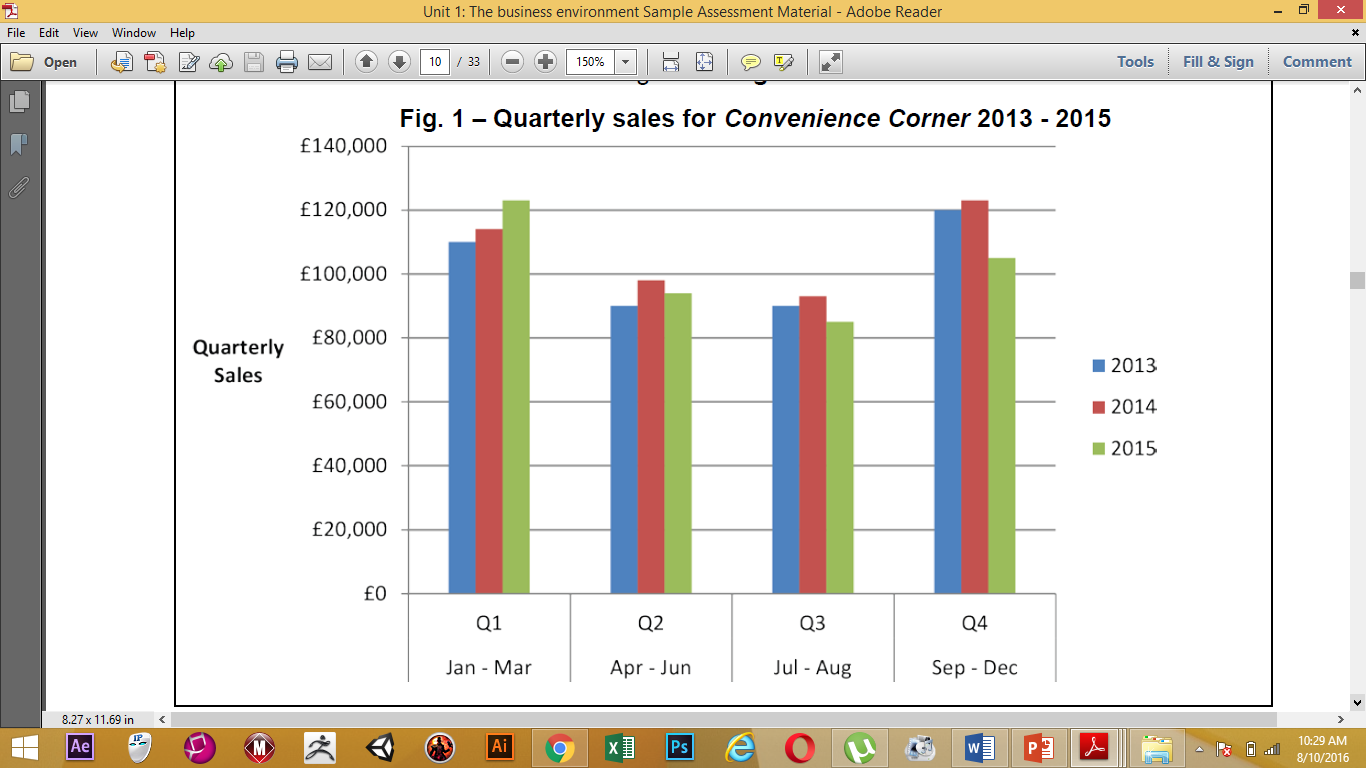
Kirsten Halliburn is a sole trader. She owns *Convenience Corner*, an independent general store located in the centre of a large housing estate. Kirsten has owned the store for over 20 years. She relies on the profit it makes to support herself and her family.

The store sells a range of fresh, frozen and packaged foods. It also sells toiletries, household cleaning products, pet food, greetings cards and newspapers. Even though space is severely limited, Kirsten manages to stock a small selection of vegetarian, international and organic foods to cater for local demand. *Convenience Corner* opens at 6 am, seven days a week. The store usually remains open for a minimum of 16 hours each day. Kirsten believes that meeting customer needs is the key to business success. Kirsten, therefore, likes to keep the store’s closing times flexible. While there is a steady flow of customers, the store remains open. The store frequently remains open throughout bank holiday periods.

In March 2014, a national supermarket chain was granted permission to build a new supermarket close to *Convenience Corner*. The supermarket opened in July 2015. Its opening hours are 8am to 8pm Monday to Sunday.

Kirsten is concerned about the sales performance of *Convenience Corner*. She wonders how much impact the increased competition from the supermarket has had on *Convenience Corner*, and how much impact it may continue to have in the future. She worries that her objective to increase sales at *Convenience Corner* by 3% year on year may no longer be achievable.

Performance data from 2013 to 2015 is given in **Fig. 1** below.



1. Kirsten relies on the profit which *Convenience Corner* makes to support her family. Other than by increasing sales, state **one** way in which Kirsten could increase *Convenience Corner’*s profit.

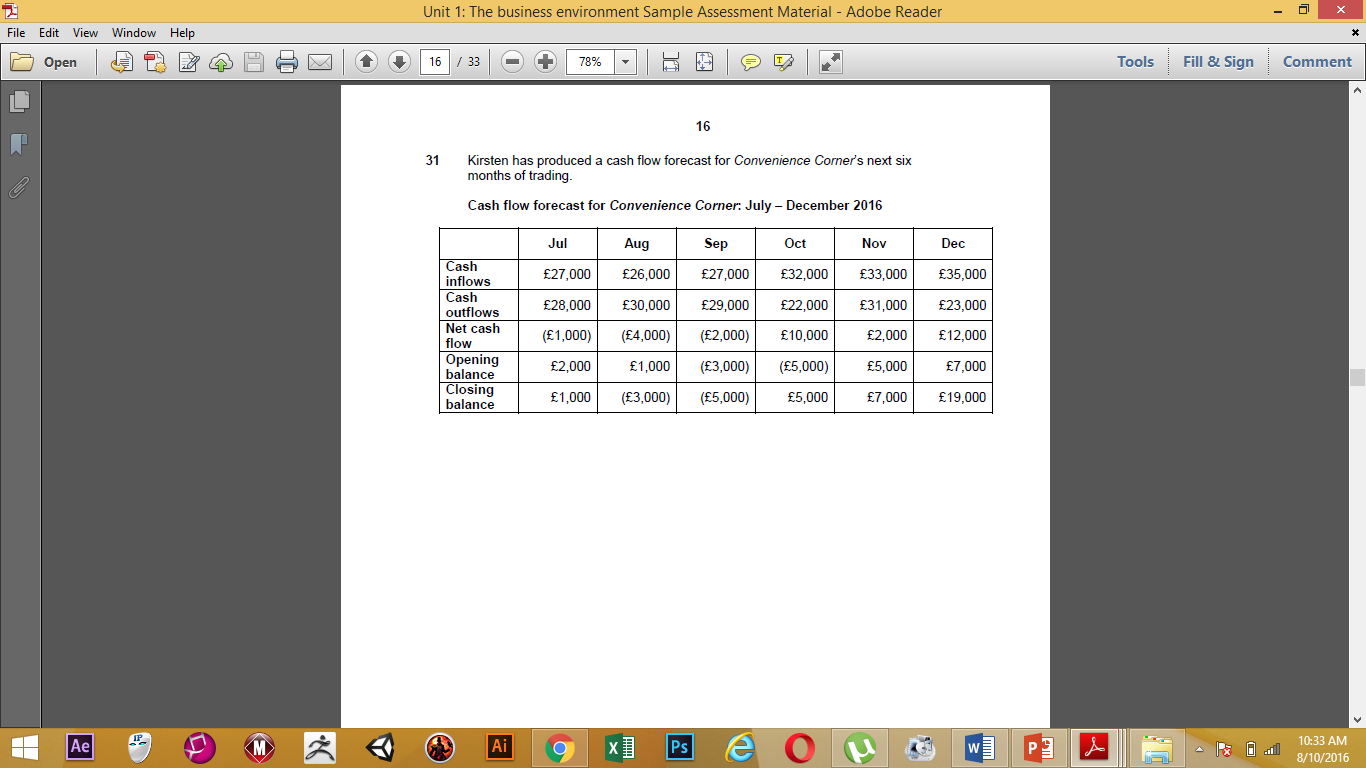
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1. Using the information in **Fig. 1** and any other relevant information, should Kirsten be concerned about the sales performance of *Convenience Corner*? Give reasons for your answer.

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1. Kirsten has produced a cash flow forecast for *Convenience Corner*’s next six months of trading.

**Cash flow forecast for *Convenience Corner*: July – December 2016**



**(a)** State the meaning of each of the following terms:

* + opening balance \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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  + net cash flow \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
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**(b)** Using the data given in the cash flow forecast on the previous page, analyse the cash flow position of *Convenience Corner*.

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1. Recommend ways in which *Convenience Corner* could respond to the increased competition from the supermarket. Give reasons for your recommendations.

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