

GAC012 Practical Business Decisions, Accounts and Research

GAC Business

Connect a business decision to evidence and stakeholders

River Café is an invented business used throughout these notes. It sells lunches near a college. Its owner wants shorter queues, enough cash to pay bills and customers who return. All figures are practice data. They are not claims about a real company.

A business combines land, labour, capital and enterprise. The café uses premises, staff, equipment and organising decisions. Its service depends on goods from farming and manufacturing businesses. The sectors are linked: a supplier's crop loss can affect café costs and menus.

Stakeholders may want different things from the same decision. Staff want fair pay and manageable shifts. Customers want value and quick service. Owners need a sustainable return. Suppliers need payment when agreed. The community may care about waste, noise and jobs.

If wages rise, profit does not have to fall by the full increase. Better service or lower staff turnover might partly offset the extra cost. Suppliers may also be affected if orders or payment timing change. Explain a likely effect and the condition behind it; do not assume everyone is unaffected or guaranteed to benefit.

Ownership affects control, finance and risk. Compare one-owner control with shared decisions and outside investment. Do not treat every partnership as legally identical. Legal forms and owner liability depend on the jurisdiction and form. For a real research task, identify the firm's actual registered form from an appropriate source.

Explain external change before choosing a response

Suppose a competing café opens nearby. Some customers may choose it instead. That can reduce River's demand at each price, rather than simply move buyers along one unchanged demand curve. A change in River's own price causes a movement along its demand curve, other things equal. New customer preferences or a substitute's price can shift the curve itself.

Price elasticity of demand compares percentage changes in quantity demanded and price. Use the starting values consistently in this simple practice calculation. Other methods, such as using midpoint values, can give a different result. Follow the method

required by your brief.

River raises price from 25 to 27.50 yuan. Quantity demanded falls from 500 to 480 lunches. We want the size of the quantity response compared with the price change.

$$\text{price change percentage} = \frac{\text{new price} - \text{old price}}{\text{old price}} \times 100$$

$$\text{price change percentage} = \frac{27.50 - 25}{25} \times 100 = 10\%$$

$$\text{quantity change percentage} = \frac{\text{new quantity} - \text{old quantity}}{\text{old quantity}} \times 100$$

$$\text{quantity change percentage} = \frac{480 - 500}{500} \times 100 = -4\%$$

$$\text{PED} = \frac{\text{quantity change percentage}}{\text{price change percentage}}$$

$$\text{PED} = \frac{-4}{10} = -0.4$$

Its absolute value, 0.4, is below one: this example has inelastic demand over that change. Do not label every essential product inelastic without evidence. Alternatives, time and the buyer's budget matter.

Revenue is price times quantity, not profit.

$$\text{old revenue} = \text{old price} \times \text{old quantity}$$

$$\text{old revenue} = 25 \times 500 = 12\,500 \text{ yuan}$$

$$\text{new revenue} = \text{new price} \times \text{new quantity}$$

$$\text{new revenue} = 27.50 \times 480 = 13\,200 \text{ yuan}$$

Revenue rises by 700 yuan. We still need cost data to calculate the profit change. The observed response does not prove the price rise caused all the change if other conditions also changed.

Use PEST to organise external evidence. For River, consider food rules, customer budgets, lunch habits and ordering technology. Use SWOT to connect that evidence to internal facts. Trained staff are a strength; slow ordering is a weakness. A new nearby college building could be an opportunity. A new competitor could be a threat. Each point needs evidence and an implication for a choice, not just a label.

Read profit, cash and financial position separately

An **income statement** summarises revenue and expenses for a period. A **balance sheet** describes resources, obligations and owner funding at a particular date. A cash flow forecast predicts receipts and payments. These documents answer different questions.

In one practice month River sells 500 lunches at 25 yuan each. Ingredients used cost 10 yuan per lunch. Wages are 4,000 yuan and rent is 2,000 yuan. For this simplified calculation, ignore tax, interest, depreciation and changes in ingredient stocks.

Income item	Yuan
Sales revenue	12,500
Ingredients used	5,000
Gross profit	7,500
Wages and rent	6,000
Operating profit	1,500

Gross profit subtracts the cost of goods sold from revenue. Here, ingredients used are the stated simplified cost of goods sold. **Operating profit** subtracts operating expenses as well.

$$\text{gross profit} = \text{revenue} - \text{cost of goods sold}$$

$$\text{gross profit} = 12\,500 - 5\,000 = 7\,500 \text{ yuan}$$

$$\text{operating profit} = \text{gross profit} - \text{operating expenses}$$

$$\text{operating profit} = 7\,500 - 6\,000 = 1\,500 \text{ yuan}$$

Now consider cash timing for that same month. Some lunches are sold to an event organiser on agreed later payment. Only 8,000 yuan of current sales is received immediately. River also receives 2,000 yuan owed from earlier sales. It pays all ingredients,

wages and rent this month. It buys equipment for 3,000 yuan. Opening cash is 1,000 yuan.

Cash forecast item	Yuan
Current sales received	8,000
Earlier sales received	2,000
Total receipts	10,000
Ingredients, wages and rent paid	11,000
Equipment paid	3,000
Total payments	14,000

$$\text{net cash flow} = \text{receipts} - \text{payments}$$

$$\text{net cash flow} = 10\,000 - 14\,000 = -4\,000 \text{ yuan}$$

$$\text{closing cash} = \text{opening cash} + \text{net cash flow}$$

$$\text{closing cash} = 1\,000 - 4\,000 = -3\,000 \text{ yuan}$$

The forecast shows a 3,000-yuan funding shortfall, despite operating profit of 1,500 yuan. The negative forecast is a warning to arrange funding or change timing; it is not money River already holds. Uncollected current sales total 4,500 yuan. Earlier collections are not this month’s new sales revenue. Equipment is a payment now but not fully an operating expense in this simplified profit calculation.

An **asset** is a business resource; a **liability** is an obligation. **Equity** is the owner’s remaining interest after liabilities. Use this separate financial-position snapshot, not the month-end cash forecast above:

Position at a stated date	Yuan
Cash and customer amounts owed	7,000
Stock and equipment	13,000
Total assets	20,000
Supplier amounts owed and loan	8,000
Equity	12,000

$$\text{equity} = \text{assets} - \text{liabilities}$$

$$\text{equity} = 20\,000 - 8\,000 = 12\,000 \text{ yuan}$$

Equipment value does not mean the café has that amount of cash available. A loan receipt increases cash and a liability; it is not sales revenue or profit.

Use a plan to compare feasible choices

A useful objective is: reduce the measured median lunch wait from eight minutes to five within six weeks. State who measures it, when and how. Also check service quality and staff workload. One faster service measure alone does not establish a better business.

River's monthly fixed operating costs are 6,000 yuan. Price is 25 and variable cost per lunch is 10. Break-even asks how many lunches cover fixed costs through contribution.

$$\text{contribution per unit} = \text{price} - \text{variable cost per unit}$$

$$\text{contribution per unit} = 25 - 10 = 15 \text{ yuan}$$

$$\text{break-even units} = \frac{\text{fixed costs}}{\text{contribution per unit}}$$

$$\text{break-even units} = \frac{6\,000}{15} = 400 \text{ lunches}$$

At 500 lunches, the amount above break-even is 100 lunches. This is the **margin of safety**, measured here in units. The calculation assumes constant price, variable cost per unit and fixed cost over the relevant output range. If contribution is zero or negative, selling more cannot cover positive fixed costs under those assumptions.

Compare a pre-order trial with a new machine. The trial may cost less but require staff training. The machine may improve capacity but worsen the short-term cash forecast. Check cost, demand evidence, staffing, risks and how you would review the result. Do not choose an option solely because one predicted number is higher.

Evaluate management and employee support

Managers plan the trial, organise people and resources, lead the team and control results against objectives. **Delegation** gives a team member authority for a task; the manager still reviews its completion. Name the decision boundary, resources, deadline and reporting arrangement.

An **autocratic style** makes decisions with little staff input. It can be useful for a clear urgent action, but may overlook staff knowledge. A **democratic style** invites staff

input. It may improve ideas and commitment but take longer. River could discuss a new ordering routine with staff, then use clear instructions during the busy trial. Evaluate the fit to the situation rather than calling one style always best.

Herzberg's **two-factor theory** separates sources of dissatisfaction from motivating features of work. Pay and working conditions can reduce dissatisfaction; achievement, recognition and responsibility can support satisfaction. It is a theory to test against context, not a guarantee about every employee. River should check unsafe or unclear shifts before assuming that a certificate will solve low morale. It could then combine a fair routine with training, recognition and meaningful responsibility.

Human resources work includes recruitment, selection, induction, training and review. For a new café worker, specify the actual tasks and needed skills, then assess applicants against the same criteria. **Induction** introduces procedures, people and safe working routines. Training develops skills; appraisal checks progress and identifies support needs.

Law sets requirements; contracts record agreed terms; employee relations handle co-operation and disagreement. For a real case, identify the applicable jurisdiction and check current official rules. Do not copy a country's pay or hours rule into another country's case. If shifts cause a dispute, gather the records, hear both sides and use the agreed process. A written policy alone does not prove that staff were treated fairly or that the business complies with the law.

Build a marketing strategy and test its evidence

Choose a target group before the four Ps. River targets nearby students needing a quick weekday lunch. Its product could be a simple pre-order lunch; price must fit the intended budget and cover relevant costs. Place includes convenient collection. Promotion should explain collection times and the actual offer. These choices need to work together: advertising speed is misleading if the collection queue stays slow.

Research should ask a decision question: would a pre-order trial solve the queue problem for this group? Collect useful observations and a short neutral survey with appropriate permission. Ask 'Which collection time would you use?' rather than 'Would you like our excellent fast service?' The second wording encourages praise and weakens the evidence.

In an invented survey, 18 of 30 lunch-queue volunteers say they would consider pre-ordering.

$$\text{sample share} = \frac{\text{number saying yes}}{\text{sample size}} \times 100$$

$$\text{sample share} = \frac{18}{30} \times 100 = 60\%$$

This is 60% of those volunteers, not 60% of all college students or guaranteed paying customers. People absent from the queue may have different needs. Stated interest may differ from actual use. Combine survey responses with queue observations, existing sales records and a limited trial. Check dates, definitions and purpose when using someone else's market figures.

Communicate a research finding in an appropriate format

A business report needs a title, purpose, method, findings, analysis, recommendation and limitations. Record sources and dates for real-company evidence. Separate observed facts from your interpretation. Do not label invented practice figures as company accounts.

For River, the recommendation might be a two-week pre-order trial with a cost limit and staff training. Check median wait, orders served, complaints and the trial's cash effect. The volunteer survey suggests interest but cannot establish demand across the whole college. The owner should review the measured trial result before expanding.

A presentation shows the decision, key evidence and reasoning in readable slides. A detailed report preserves methods, calculations and sources for checking. Choose the required format from the actual brief; do not assume every task requires the same headings.

Practice and explained answers

1. Name two stakeholders affected by a wage rise. Give a possible effect and one condition for each.
2. Classify trained staff and a new competitor in SWOT. Explain their internal or external origin.
3. Explain why a substitute's price change differs from River changing its own price.
4. Calculate the new revenue at price 27.50 and sales of 480. Does this determine new profit?
5. Explain why River can make 1,500 yuan operating profit but forecast a cash short-fall.
6. If equipment purchase is delayed, calculate the revised closing cash. What risk remains?
7. Calculate equity for assets of 20,000 and liabilities of 8,000. Is all equity cash?

8. If variable cost rises to 13 yuan per lunch, calculate break-even with unchanged fixed cost and price.
9. Choose a management style for planning the trial and explain one drawback.
10. Apply two-factor theory to poor shifts and lack of recognition. Why is pay alone not a guaranteed solution?
11. Interpret the 60% survey result and identify two limitations.
12. Write a supported trial recommendation, its success measures and the evidence still needed before expansion.

Explained answers

Answer 1. Staff may gain income if paid hours remain similar. Owners face higher wage cost, but service or retention may improve.

Answer 2. Trained staff are an internal strength. A new competitor is an external threat if it attracts River's customers.

Answer 3. A substitute's price can shift River's demand. River's own price changes quantity demanded along its curve, other things equal.

Answer 4. Profit also requires costs. Calculate revenue from price and quantity:

$$\begin{aligned}\text{revenue} &= \text{price} \times \text{quantity} \\ \text{revenue} &= 27.50 \times 480 = 13\,200 \text{ yuan}\end{aligned}$$

Answer 5. Sales include amounts not yet collected, while equipment requires payment now. Profit and cash use different timing and classifications.

Answer 6. Delaying equipment reduces payments by 3,000 yuan. Calculate the revised closing cash:

$$\begin{aligned}\text{revised payments} &= \text{original payments} - \text{equipment payment} \\ \text{revised payments} &= 14\,000 - 3\,000 = 11\,000 \text{ yuan}\end{aligned}$$

$$\begin{aligned}\text{closing cash} &= \text{opening cash} + \text{receipts} - \text{payments} \\ \text{closing cash} &= 1\,000 + 10\,000 - 11\,000 = 0 \text{ yuan}\end{aligned}$$

There is no cash buffer for an unexpected bill; the equipment need also remains.

Answer 7. Subtract liabilities from assets. Assets include non-cash resources:

$$\begin{aligned}\text{equity} &= \text{assets} - \text{liabilities} \\ \text{equity} &= 20\,000 - 8\,000 = 12\,000 \text{ yuan}\end{aligned}$$

Answer 8. The new variable cost reduces each lunch's contribution. Divide fixed cost by the revised contribution:

$$\begin{aligned}\text{contribution per unit} &= \text{price} - \text{variable cost per unit} \\ \text{contribution per unit} &= 25 - 13 = 12 \text{ yuan}\end{aligned}$$

$$\begin{aligned}\text{break-even units} &= \frac{\text{fixed costs}}{\text{contribution per unit}} \\ \text{break-even units} &= \frac{6\,000}{12} = 500 \text{ lunches}\end{aligned}$$

Answer 9. Staff discussion can reveal ordering problems and improve commitment. A democratic approach may take longer before a decision.

Answer 10. Improve the shift conditions that cause dissatisfaction, then consider recognition and useful responsibility. Needs differ across staff, so theory and pay changes do not guarantee motivation.

Answer 11. Eighteen of the thirty volunteers expressed interest. Queue volunteers may not represent all students; interest is not a purchase.

Answer 12. Trial pre-ordering for two weeks within a stated cost limit. Measure wait, orders, complaints and cash. Review actual use and staff workload before expanding; the small volunteer survey alone is insufficient.