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Unit 3-Financial Forecasting for Business Delight Lollies

12412

Task One

In task one, we have been asked to identify 4 different costs that James and Lucy have to pay, these costs are; start up costs, running costs, fixed and variable costs.

Fixed Costs- Fixed costs do not change with production. No matter how much profit that you make you will still have to pay for things such as: rent, business rates, and interest on loan payments, insurance, salaries. Fixed costs always stay the same, even if you make no profit at all.

Variable Costs- Variable costs change with the number of goods and how much a business tends to make. The costs increase as the more profit you bring back to the business. Examples of Variable costs are: raw materials, refreshments for customers, and wages

Starts up costs- Start up costs are costs in which you only ever pay once, and that is usually at the start of the business. Examples of start up costs are premises, machinery, equipment, fixtures and fittings and market research to start up the business.

Running Costs- Running costs are paid everyday to run the business, examples of these are wages, bills, raw materials and insurance.

Fixed	Variable
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Rent £40	Each Box purchased each day: £5.50
License for Trade £20	
Block of Ice £50	
Delivery Charge (weekly) £14	
Total £124	Total : £27.50

Overall Total: £151.50

Fixed	Variable
Rent £40	Each Box purchase £55
License of Trade £20	
Block of Ice £50	
Delivery Charge £14	

Overall Total: £399

Task Two

The following section I will be explaining the importance of costs, revenues and profits.

It is important to have low costs for a business because it helps achieve profit maximisation and also you can then keep up with the other businesses in the area. Also it can help businesses keep clear of any debt that has overcome their business.

A business can reduce its fixed costs by many ways. If a business moves to cheaper premises then they won't have to be paying a higher rent and the money coming in can be turned into profit and can be spent on other useful equipments that can help the business proceed.

Variable costs can be reduced by any businesses. This can be done by getting a new supplier who offers cheaper raw materials. However if they find a cheaper supplier then the quality of the product may be reduced, this is something most business must think about.

Lucy and James can reduce their costs in many ways. One way in which Lucy and James can reduce their costs is by moving to a cheaper premise. Their rent is at £40 a week, if they move out to a cheaper premise then the rent will decrease and more money can be put into profit.

It is important to maximise profit because if you gain a higher amount of profit then you can spend that extra money you gain on stuff like equipment and machinery that might be able to make your business more successful. One way in which businesses can increase their profit is increasing the prices of their profit.

A business can increase their revenue in many ways. One way in which they can do this is by increasing the prices of their products if they get the same amount of customers each time. Also if a customer is buying two of the same product they could offer them discounts for example buy 2 for the price of 1.

James and Lucy can increase their revenue in many ways. One way in which they can do this is by offering their customer's discounts for example buy 2 ice lollies for the price of 1. Cheaper prices will also increase their revenue as the consumers will prefer to buy something for cheaper than what other businesses are offering it for. Another way they can increase their revenue is by putting up posters around their local area and then more people will recognise their business and more people will turn up for some ice lollies.

Costs and revenue are very important in making profit. If you reduce your costs then you will be making more profit. For example if you move to cheaper premises then you will be paying less money for rent, and let's just say you're getting the same amount of customers and you are charging them the same amount of price you will be making a greater profit. To make a greater profit you can reduce more costs and increase your product price to a reasonable amount that the customers will not mind

paying, and then more money will be coming into yo ur business and can be spent on other things.