

AS Business Studies 9707

5AS: Finance and accounting

Recommended Prior Knowledge

There is no requirement for prior knowledge for this unit.

Context

This unit provides an understanding of the role of finance and accounting in business decisions. The emphasis should always be on how the accounts of a business can help in the decision making process rather than a study of accounts from the accountant/bookkeeper's perspective. Finance should be seen in relation to other aspects of the business both as an enabler and a constraint.

Outline

The need for finance is developed into the various sources of finance and their relationship with size and legal structure. This enables candidates to make choices of appropriate sources of finance in given situations. Short term finance, particularly through effective management of working capital, is developed. Costs are developed with a particular reference to break even and also as foundation for the A level work on contribution. Some basic understanding of the structure of accounts is needed in order to develop ratios and their uses in business decisions.

References to the endorsed textbook, A level Business Studies, 2nd edition by Peter Stimpson and Al Farquharson are in RED. Although activities have been selected from this book, these are only suggestions – there are many other useful activities that can be undertaken including others in the endorsed textbook and associated CD-ROMs and in other recommended textbooks.

AO	Learning outcomes	Suggested Teaching activities	Learning resources
5AS.1	The need for business finance	<p>Finance and accounting could usefully be linked in with a Young Enterprise activity in which students set up and run their own business. The activity would be useful in investigating the need for finance, identifying potential sources, forecasting likely cash flows, and monitoring/assessing the financial performance of the business.</p> <p>Banks often provide useful promotional material about setting up a business and these can also be useful. Visiting speakers from local groups such as business associations or people who run their own businesses could be useful.</p> <p>A good place to start the idea that Cash and Profit are separate entities. If students are running a Young Enterprise business then many of the ideas about working capital will arise during the course of setting up and running the business. Ideas behind the working capital cycle can be developed through discussing inflows and outflows for a retail outlet such as a school shop.</p> <p>Useful activities include:</p> <ul style="list-style-type: none"> • Two US companies – different sources of finance (p 275) 	<p>Chapter 26 http://www.bbc.co.uk/schools/gcsebitesize/business/finance/sourcesoffinancerev1.shtml and http://www.projectalevel.co.uk/as_a2_business_studies/sources_of_finance are useful for basic information. http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1073858805 provides useful information and links for starting up a business.</p>
	<ul style="list-style-type: none"> • Start up capital • Capital for expansion 		<p>http://www.planware.org/workingcapital.htm has useful material</p>
5AS.2	Sources of finance	<p>Introductory Activities:</p> <ul style="list-style-type: none"> • Indian companies take AIM (page 483) • Going exclusive with ice cream (page 488) <p>Links in directly with 5AS.1. At this stage students will not have covered Gearing (it is in 5AL). However it is possible to discuss choices with an eye to the relationship between debt and equity without consideration of the ratio itself.</p>	<p>http://www.bized.co.uk/learn/business/accounting/sources/index.htm is a good starting point.</p>
	<ul style="list-style-type: none"> • Legal structure and sources • Short term and long term • Internal sources • External sources • Factors influencing the source • Selecting the source 		

AO	Learning outcomes	Suggested Teaching activities	Learning resources
5AS.3	<p>Forecasting cash flows and managing working capital</p> <ul style="list-style-type: none"> Purposes of cash flow forecasts Cash flow forecasts in practice Methods of improving cash flow 	<p>Revision +</p> <ul style="list-style-type: none"> Sharma Taxis needs finance (page 490) EasyJet takes off (page 491) <p>A useful topic to integrate ICT by means of the use of spreadsheets.</p> <p>A useful activity:</p> <ul style="list-style-type: none"> Fashion Shop forecasts look good (page 498) 	<p>Examination questions:</p> <ul style="list-style-type: none"> May 2006 Paper 1 Q5 May 2007 Paper 2 Q 1 May 2007 paper 2 Q 2(c) Nov 2007 Paper 2 Q 4 A level <p>Chapter 27</p> <p>http://www.bizhelp24.com/accounting/the-cash-flow-forecast-14.html and http://www.bized.co.uk/educators/level2/finance/activity/cashflow12.htm are useful. http://www.mindtools.com/pages/article/newTMC_06.htm may help with setting up a spreadsheet. http://schools.becta.org.uk/index.php?section=cu&catcode=ss_cu_ac_bus_03&rid=8614 is also useful.</p>
REINFORCEMENT		<p>Revision +</p> <ul style="list-style-type: none"> Gita Fashions (page 504) Setting up in business (page 504) 	<p>Examination questions:</p> <ul style="list-style-type: none"> Nov 2008 Paper 2 Q 1(b) Nov 2008 Paper 3 Q 1 A level
5AS.4	<p>Costs</p> <ul style="list-style-type: none"> Cost information Uses of cost information Break even analysis 	<p>Many students will have little idea about the costs involved in personal activities. It would be useful to identify with the class the costs of running a car, for example. This allows fixed, variable and semi-variable costs to be identified. Bized's business simulation has a useful section identifying costs.</p>	<p>Chapter 28</p> <p>www.tutor2u.net has a presentation on costs.</p> <p>The Bized business simulation is at: http://www.bized.co.uk/virtual/cb/welcome.htm</p>

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	REINFORCEMENT	<p>Useful activities:</p> <ul style="list-style-type: none"> • Location decisions and break even (page 513) • Winchester Car Roofracks (page 514) <p>Revision +</p> <ul style="list-style-type: none"> • Decision time at the pottery (Page 524) • Abbey Restaurant (page 525) 	<p>Examination questions:</p> <ul style="list-style-type: none"> • May 2006 paper 2 Q 1(d) • Nov 2007 Paper 2 Q 2(b) • Nov 2008 Paper 1 Q 6
5AS.5	Accounting fundamentals	<p>The clear intention of the syllabus is that Accounts should be taught from the perspective of ‘How can accounts help in business decisions?’ This means that accounting fundamentals are simply briefly studied to enable students to <u>use</u> accounts rather than produce them.</p> <p>It is useful to start with how accounts might be used by the main stakeholders in order to create an appropriate focus.</p> <p>Useful activities:</p> <ul style="list-style-type: none"> • Sky’s the limit for satellite dishes (p 528) • Mauritius Tourist Flights Ltd.(p 533) <p>The contents of the Income statement (formerly Profit & Loss) can be developed from some ‘real life’ accounts, preferably from the students’ own country. Many of these are available from the Internet. Some are available from Bized, but these tend to be UK companies. A great deal of understanding can be developed by getting students to try to identify what has happened from one year to the next for a particular company.</p> <p>Useful activity:</p> <ul style="list-style-type: none"> • Calculating profits (page 537) <p>The Balance sheet can be developed in a similar manner. It is well worth spending time ensuring understanding of why profit (which belongs to owners rather than the business) is a liability. It is important to develop</p>	<p>Chapter 29 http://www.bized.co.uk/virtual/vla/profit_loss/index.htm is useful for understanding how the Income statement responds to changes in variables.</p> <p>http://www.bized.co.uk/compact/ratios/profit1.htm can be developed to improve understanding of the Income Statement as well as interpretation of Carphone Warehouse’s statement using simple accounting ratios.</p> <p>http://www.investopedia.com/articles/04/031004.asp gives a useful explanation of the Balance sheet.</p>
	<ul style="list-style-type: none"> • Main users of accounts 		
	<ul style="list-style-type: none"> • Income statement 		
	<ul style="list-style-type: none"> • Balance sheet 		

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		<p>an understanding of the links between the two accounting statements and how they might interact. Related spreadsheets could be very useful for this exercise.</p> <p>Useful activity:</p> <ul style="list-style-type: none"> • Understanding balance sheets (page 540) • Mauritius Telecom (page 543) 	
	<ul style="list-style-type: none"> • Liquidity ratios 	<p>Useful activity:</p> <ul style="list-style-type: none"> • Has BP plc got enough liquidity to pay its short term debt? (page 548) 	
	<ul style="list-style-type: none"> • Profitability ratios • Practical uses of ratio analysis 	<p>Useful activity: How is my business doing? (page 549)</p>	
		<p>There's a danger that students learn how to calculate ratios without thinking about what they mean. It is important that students focus more on uses than the arithmetic. It is always useful to ask 'What does this tell us?'</p>	
	<ul style="list-style-type: none"> • Limitations of published accounts 	<p>This can usefully be tied in with the concept of stakeholders. In particular, investors and the workforce are going to be more interested in the future than the past.</p>	
	REINFORCEMENT	<p>Revision +</p> <ul style="list-style-type: none"> • Highfield Leisure Ltd (page 550) • Shivani's first balance sheet (page 551) 	<p>Uses of accounts questions:</p> <ul style="list-style-type: none"> • Nov 2007 paper 2 Q 1(c) <p>Liquidity Examination questions:</p> <ul style="list-style-type: none"> • May 2006 Paper 3 Q 3 A level