

Unit 6 Business Finance and Accounting

The purpose of this unit is to give students an understanding of the role of finance in business. It probably relates less to students' own experience than most other units and will, therefore, require greater guidance from teachers. If the Young Enterprise strategy is adopted, much of the unit can be incorporated in the process of setting up and running a business. For the accounting topics, the emphasis is on the interpretation of accounts rather than the production of accounts. Exposure to real accounts and what they tell the student is important.

Prior knowledge of Finance is essential before commencing the accounts topics, and prior knowledge of the terminology from units 1 to 5 is desirable but not essential for both Finance and Accounting.

It is recommended that units 1 to 5 precede this unit although this is not essential. Prior knowledge of types of business is required (unit 2).

The topics will require access to a suitable textbook. For this purpose, IGCSE Business Studies Second Edition by Karen Borrington and Peter Stimpson is recommended. Chapters 6 to 9 are relevant, particularly for case studies and exercises. The accompanying CD-ROM provides valuable resources.

Assessment will mainly be through class exercises, multiple choice and case studies.

The topics covered are:

- 6.1 Use of funds
- 6.2 Short and long term financial needs
- 6.3 Sources of internal and external funds
- 6.4 Factors affecting the methods of finance chosen
- 6.5 Cash and cashflow forecasts
- 6.6 Profit
- 6.7 Users of accounts
- 6.8 Purpose and main elements of profit and loss account
- 6.9 Purpose and main elements of balance sheet
- 6.10 Simple interpretation of financial statements using ratios
- 6.11 Working capital
- 6.12 Financial budgets
- 6.13 Revision

The Scheme is neither intended to be prescriptive, nor complete as local conditions will vary: time and resource availabilities are likely to differ considerably. More, the Scheme is intended to give ideas to teachers upon which they can build. It is certainly not intended that teachers undertake all of the activities shown in the various units – that would be impossible in the time usually available – but rather to offer choices which could depend on local conditions. Timings for topics have not been given as there is a

great deal of variability in time available for the qualification from centre to centre.

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| | Topic | Specification | Chapter | Activities | Resources | Glossary |
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| 6.1, 6.2 and 6.3 | <p>Use of funds</p> <p>Short and long term financial needs</p> <p>Sources of internal and external funds (short and long term).</p> | <p>Identify the main needs for funds.</p> <p>Appreciate the difference between short and long term finance.</p> <p>Identify internal and external sources of funds available to business.</p> <p>Understand the impact on business of different sources of funds.</p> | 9 | <p>Practical exercises exploring sources of finance together with explanation</p> | <p>Investigate accounts of two businesses to explore sources used particularly by a low and high geared business also www.londonstockexchange.com and major banks e.g. www.natwest.co.uk , www.barclays.co.uk Also find incentives from Government in your country. See resource list.</p> | <p>Capital expenditure</p> <p>Internal growth</p> <p>Internal sources</p> <p>Prospectus</p> <p>Revenue expenditure</p> <p>Shares</p> <p>Start up capital</p> <p>Loan</p> <p>Overdraft</p> <p>Hire purchase</p> <p>Lease</p> <p>Retained profits</p> |
| 6.4 | <p>Factors affecting the methods of finance chosen.</p> | <p>Explain the basis upon which the choice of sources of funds is made.</p> | 9 | <p>Class activities mainly from book. Give students different case studies of businesses that are seeking finance and get them to decide which would be the most suitable sources of finance to use and why. You could invite a Bank Manager into class to talk about the forms of finance available through the Bank.</p> | <p>www.ft.com , www.the-times.co.uk , www.economist.co.uk and see resource list.</p> | <p>Interest</p> <p>Dividends</p> <p>Gearing</p> <p>Risk</p> <p>Short term</p> <p>Long term</p> |

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| 6.5 | Cash and cash flow forecasts. | Explain the importance of cash Construct and interpret a simple cash flow forecast. | 6,8 | IGCSE CD-ROM Cash Flow game and worksheets. Mainly through use of book exercises and spreadsheets. | IGCSE Business Studies CD-ROM | Cash flow Forecast |
| 6.6 | Profit (what it is and why it matters) | Explain the concept of profit Explain the function of profit Distinguish between cash and profit | | Explanation through a practical, simple cash flow that clearly shows cash as different from profit. This could be brought out in the cash flow game – 6.5. | Cash flow from textbook. | |
| 6.7 | Users of accounts | What they might gain from analysing accounts. | 7 | Class discussion | | |

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| <p>6.8 and 6.9</p> | <p>Purpose and main elements of profit/loss account Purpose and main elements of balance sheet.</p> | <p>Understand the main elements of a profit/loss account statement. Understand the main elements of the balance sheet.</p> | <p>7</p> | <p>Mainly tackled through classroom explanation, handout to fill in blank accounts items, Case studies and exercises from book. Useful to compare accounts of two completely different businesses e.g. a retailer and an oil company. IGCSE CD-ROM worksheets.</p> | <p>Follow links at www.digitalbrain.com IGCSE Business Studies CD-ROM</p> | <p>Accounts Accountant Appropriation account Assets Balance sheet Cost of goods sold Current assets Current liabilities Debtors Final accounts Fixed assets Depreciation Gross profit Liabilities Long term liabilities Liquidity Net profit Profit & Loss account Revenue Sales revenue Trading account</p> |
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| 6.10 | Simple interpretations of financial statements using ratios | Alternative ways that businesses can judge their success (e.g. ROCE, market share). Interpret the performance of a business by using simple accounting ratios (return on capital employed - ROCE, net profit margin, gross profit margin, current ratio and acid test) | 7 | Class explanation together with exercises and case studies from book or worksheets from IGCSE CD-ROM. | IGCSE Business Studies CD-ROM | Capital employed Working capital Liquidity Net profit margin Gross profit margin Current ratio Acid test ratio ROCE |
| 6.11 | Working capital | Identify and calculate working capital | 7,8 | This could be discussed in 6.8, 6.9 | | Working capital |
| 6.12 | Financial budgets | Understand the function of financial budgets | 8 | This could be discussed in 6.1,6.2 6.3 | | |
| 6.13 | Revision | | | | Multiple choice questions e.g. from IGCSE CD-ROM and revision websites such as www.learn.co.uk , www.revision-notes.co.uk , www.bbc.co.uk/schools/gcsebitesize/business/ and revision questions at end of | |

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| | | | | | chapters of IGCSE Business Studies textbook. IGCSE Study Guide for Business Studies and IGCSE Business Studies Revision CDROM. | |
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