

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

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**Cambridge International Diploma in Business
Standard Level**

Scheme of Work

5163
Business Finance
Core Module



UNIVERSITY *of* CAMBRIDGE
International Examinations

Introduction

The overall programme comprises three core and six option modules:

Core	Business Organisation and Environment Effective Business Communication Business Finance
Option	Marketing Human Resources Management Interpersonal Business Skills Business Start-Up Customer Care Information and communications technology

The modules have been chosen to reflect the key areas of business. It is important that in the delivery of each module, tutors appreciate that the programme is concerned with **Skills and Knowledge**. Students should be encouraged not only to demonstrate their knowledge but also their acquisition and development of complementary skills.

The programme has **four general aims** that are designed to encourage the students to:

- understand key concepts of business
- apply acquired skills to real work situations
- think about and resolve business problems
- work independently using their initiative

The over-riding objective of the programme is to prepare students either for employment or, if already in employment, for advancement. Employers expect those completing the Cambridge International Diploma Business modules to be able to offer a working combination of skills and knowledge.

The accompanying scheme of work focuses specifically around the skills and knowledge of each competence criterion and clearly they must form the essence of the delivery of the modules.

Business Finance (5163) Standard

The overall aim of this module is to allow candidates to understand the significance of finance within the activities of business organisations. Tutors and candidates should therefore appreciate that there is likely to be some overlap with other modules within the Diploma e.g. Business Organisation and Environment 5161. *The cross-referencing of information/ideas between modules should be encouraged as it will promote positive reinforcement and will contribute towards an holistic approach towards the study of business.*

The assessment objectives of the Business Finance module may possibly be subdivided into two distinct groups:

- objectives 1.0 and 2.0 which deal in more general terms with the nature and availability of finance for business
- objectives 3.0, 4.0 and 5.0 which deal in more specific detail with the structure of the accounting framework and the methods and techniques employed to manage and control the financial affairs of business organisations

Although this distinction between the objectives may be useful in planning the delivery, and order of delivery of the module, *there is likely to be considerable overlap between the competence criterion and associated skills and knowledge within the module.* In developing exercises and

activities to assist in the delivery of the objectives care should be taken to ensure that the tasks to be undertaken are not too broad or involve too many competence criterion.

Tutors and candidates are urged to study closely the previous Examination papers for this module. Unlike many standard accounting papers, the Business Finance module contains a single case study scenario with a number of related compulsory tasks. The case study is designed to provide sufficient stimulus material to allow testing of objectives across the whole breadth of the module. The use of Case study exercises in this way is recommended to tutors, in addition to individual testing of competence criterion via distinct criterion exercises.

It is important that the role of the Accountant and the various accounting processes are put forward as a positive influence on the activities of the organisation, rather than being seen as a limiting or restricting factor. Encouraging candidates to think positively about the control and monitoring of financial affairs enhances their understanding of the purpose of accounting and will help them to think in terms of the 'wider picture'.

Tutors and candidates need to be aware that in the final assessment process the '**own figure rule**' will be applied. This ensures that candidates are not unduly penalised for making a single mistake when arriving at a solution to tasks. It is essential that candidates minimise the risk of losing marks by providing evidence of **how** they have arrived at their solutions as marks will be available for the understanding of the process of problem solving, in addition to providing the correct answer. Tutors are recommended to stress the need to provide such evidence during the delivery of the module.

Although there are no formal candidate entry requirements for the Diploma programme, it will be assumed that the candidates will have a background of achievement in literacy and numeracy skills. The lack of basic numeracy skills would present a barrier to progress in the Business Finance module and Centres might therefore wish to consider the introduction of a diagnostic numeracy exercise to assess individual candidate's abilities.

The Scheme of Work

The module is designed to be delivered over a period of 40 hours. The time allocation for the delivery of each assessment objective will be influenced by both the personal preferences of the tutor and the experience and capabilities of the candidates. Similarly, the order of delivery of the objectives cannot be prescribed to fit all circumstances. *The Scheme of Work that follows should therefore be seen as an exemplar rather than a prescribed format, and is very much the personal preference of the author.*

The module is designed to allow delivery in a variety of ways. It is likely that candidates will experience the module through a range of methods including formal lectures. Self-directed study, individual and group classroom exercises, role-play and business simulations. In addition various media can be employed to facilitate the delivery of the module e.g. video, computer programme. Again it is likely that the delivery format adopted will vary according to the preferences of both the tutor and the candidate group.

For each of the competence criterion within the module there are classroom ideas and exercises in the Tutor Support Guide. These have been included in the scheme of work as examples of the type of exercises that would provide positive reinforcement for candidates. *Tutors are encouraged to develop their own exercises to complement this approach.*

Scheme of Work

1.0 Understand the importance and use of finance in different types of Business organisations

Total Time (6 hours)

Session Plan One

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">demonstrate understanding of the nature of business (1.1)	<ul style="list-style-type: none">the meaning and purpose of business; profit: definition, justification; the 'money cycle' or 'circular flow'

Notes on delivery and activities	Duration in hours
<p>Students could be given an introduction to the nature of business by explaining the various classifications of business activities/organisations by:</p> <ul style="list-style-type: none">level of activity (primary/secondary etc)sector (private/public)motive (profit/not for profit)structure (incorporated/unincorporated)involvement (workers/customers etc) <p>Students to prepare a list of organisations with which they are involved and to explain involvement.</p> <p>The idea of the circular flow could be illustrated by getting students to explain the consequences of a major business failure - effects on suppliers, customers, workers, investors etc. (use topical examples if available)</p>	1

Resources:

- Hall Jones and Raffo, Business Studies, Units 1 and 2

Session Plan Two

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">understand the reasons for business finance (1.4)	<ul style="list-style-type: none">acquisition of assets tangible (e.g. land, vehicles, buildings) and intangible (e.g. patents, trademarks, copyright); provision of working capital (e.g. labour costs, purchase of raw materials and components, cash)

Notes on delivery and activities	Duration in hours
<p>After introducing the concept of business finance, students could be asked to classify a list of types of finance:</p> <ul style="list-style-type: none">tangibleintangibleworking capital <p>Explanation of differences in allocation of finance to be given e.g. car assembly - large tangible assets, service industries - larger working capital.</p>	1

Resources:

Hall Jones and Raffo, Business Studies, Unit 41

Session Plan Three

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">demonstrate understanding of the financial and legal implications of different types of business organisations (1.2)	<ul style="list-style-type: none">financial and legal responsibilities of sole traders, partnerships and incorporated bodies; duties of directors or owners

Notes on delivery and activities	Duration in hours
After introduction of idea of incorporated/unincorporated businesses students to prepare list of organisations with which they are familiar and to classify them	2

Resources:

Hall Jones and Raffo, Business Studies, Unit 3

Session Plan Four

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate knowledge and awareness of the capital structure of incorporated bodies (1.3) 	<ul style="list-style-type: none"> shares and share type (preference, cumulative, ordinary) short term finance (e.g. trade credit, debt factoring) long term finance (e.g. retained profits, bank loans, venture capital)

Notes on delivery and activities	Duration in hours
<p>After introduction of different capital structures students to prepare a table to show advantages / disadvantages to the organisation of using different structures</p> <p>This activity will introduce students to the concepts of stock control, capital, pricing, profit and the recording of financial information. Teachers can adapt and add to this scenario to suit the time frame and the number of students participating.</p> <p>The Clock Factory</p> <p><i>Resources required:</i></p> <p>Coloured card \$4 Coloured pens \$2 each Paper fasteners \$6 Scissors \$25 Calculators \$30</p> <p><i>Time required:</i> 1 hour+</p> <p><i>Class organisation:</i> Groups of 4-6 students</p> <p><i>Students should be presented with the following scenario-</i></p> <p>You are a newly formed company producing novelty clocks. You have been given a bank loan of \$200 to start up the business, employing all the people in your group. You only have one local supplier of materials from whom you must purchase all your materials.</p> <p>Your task is to design and produce a number of novelty clocks within the time period allowed. Your workers are paid at \$10 an hour.</p> <p>You will be required to submit your prototype to the customer prior to starting production and will be given a guaranteed price on all future items matching the production quality of your prototype.</p> <p>The more clocks you make the more money you will have to purchase additional materials. You may present your goods to the customer at any time during the production period. The customer reserves the right to reject, or negotiate discounting terms, for sub-standard products.</p> <p>You must nominate one individual to keep a record of all transactions you make during the production period, including wages.</p>	2

- The following case study introduces students to sources of finance for business. Allowing students to put themselves in the place of a bank employee being approached for a loan.

Anybank PLC

Imagine you are the manager of a branch of a bank called Anybank plc. Two of your customers – Jack and Gowri Kumaran – come to see you about starting a cleaning business. They ask you for a bank loan to help them get started. They are unable to give you any financial details about their business plan – they did not realise that you would want to see some forecasts. You turn down their request for a bank loan until they are able to provide you with more information.

- 1) Write a letter to Jack and Gowri explaining why you cannot offer them a loan without more details about their new business idea.
- 2) Explain to them why you will need to see:
 - i) A cash flow forecast
 - ii) A forecast profit and loss account for their first year
 - iii) A forecast balance sheet for the business at the end of their first year of trading.

Three weeks later, Jack and Gowri ask to see you again and present you with the following forecasts for the business.

Cash flow budget for 2001 (\$000) Jack and Gowri Cleaning Services. Figures in brackets are negative.

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug	Sep	Oct.	Nov.	Dec.
Opening bank balance	0	5	(1)	(2)	(2)	(2)	(2)	(5)	(4)	(3)	(4)	(5)
Cash inflows												
Receipts from customers	-	-	5	6	8	8	8	10	10	8	8	8
Bank loan	10											
Owner's capital	5											
Total cash inflow	15		5	6	8	8	8	10	10	7	7	7
Cash outflows												
Wages	4	4	4	4	5	5	5	6	6	5	5	5
Cleaning materials	1	1	1	1	2	2	2	2	2	2	2	2
Rent	3											
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenses	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Total cash outflow	10	6	6	6	8	8	11	9	9	8	8	8
Net cash flow	5	(6)	(1)	0	0	0	(3)	1	1	(1)	(1)	(1)
Closing balance	5	(1)	(2)	(2)	(2)	(2)	(5)	(4)	(3)	(4)	(5)	(6)

Forecast profit and loss account for Jack and Gowri Cleaning Services
Year ending 31/12 /01

	(\$000)
Sales Revenue	87
Cost of sales	20
Gross profit	67
Wages and other expenses	80
Net profit / loss	(13)

The forecasted balance sheet was also provided and this showed not only the bank loan of \$10,000 but an overdraft of \$6,000. Capital employed was forecasted to be \$40,000.

3. As their bank manger, now that you have the information you asked for, would you lend the original \$10,000 to Jack and Gowri?
4. Write a report to them, giving your decision and the reasons for it.

Activity reproduced with permission of John Murray (Publishers) Ltd. - Borrington and Stimpson
IGCSE Business Studies p119

Resources:

- Hall Jones and Raffo, Business Studies, Unit 40

2.0 Understand the need for and use of financial procedures and reporting

Total Time (6 hours)

Session Plan Five

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">demonstrate knowledge and understanding of the basic concepts of financial accounting (2.2)	<ul style="list-style-type: none">concepts include; business entity (business has separate identity as 'an artificial legal person') historic cost (valuation of assets at original cost); realisation (profits earned when products legally sold), money terms (values of goods and services expressed accurately, consistency (maintenance of valuation decisions), disclosure (assumed compliance with accounting standards), double-entry (source of funds vs. use of funds)

Notes on delivery and activities	Duration in hours
Once the basic concepts of accounting have been introduced - individual students/groups should be allocated a concept and should then explain how the concept operates - possibly by reference to published accounts or own examples	3

Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

Session Plan Six

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate knowledge and understanding of internal and external needs of financial reporting (2.1) 	<ul style="list-style-type: none"> internal users of records: management, employees owners – e.g. monitor, analyse and evaluate performance; financial controls; records of assets and liabilities; capital; taxation; profits external users of records; e.g. banks (loans, overdrafts), suppliers (trade credit), media (reporting), prospective investors (security of investment, growth), government departments (statistics)

Notes on delivery and activities	Duration in hours
<p>The need for financial recording is best illustrated by considering financial reports of real or mock businesses. Teachers may create their own records using a fictitious business or use more complex company reports. Many company reports can be found in local libraries or accessed through company web-sites. Teachers introducing students to published accounts at this level may wish to use those of large companies who often accompany their records with user-friendly explanations.</p> <p>Activity</p> <p>Students can be asked to obtain, or teachers can provide, the published accounts of a number of businesses. Students should be asked to consider the information provided in the accounts, the audience for which the accounts are written, and the format of information included.</p> <p>Teachers will need to provide help to students at this level in drawing conclusions about the organisations financial status from the information presented.</p>	2

Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

Session Plan Seven

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">understand the relationship between accounting concepts and standards (2.2)	<ul style="list-style-type: none">appreciate the need for international harmonisation of standards: growth of international investment, use of electronic dealing, transnational firms

Notes on delivery and activities	Duration in hours
After explaining the need for recognised standards of accounting, students could be asked to explain their significance through 'what if' scenarios e.g. what if the prudence concept was not employed internationally. Tutors may supplement this approach by reference to actual published accounts based upon different concepts/standards.	1

Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

For the following objectives a practical or 'hands on' approach is considered appropriate. Once the skills and knowledge for each competence criterion have been introduced tutors should work with students through activities, such as those given as examples, to ensure that there is the required level of understanding. Further exercises/activities should then be provided for the students to complete individually or in groups. The time allocation for these objectives refers to initial teaching time it is likely that students will have to spend well in excess of this time in order to develop the skills necessary to successfully complete these assessment objectives.

4.0 Understand the elements of accounts and accounting records

Total Time (5 hours)

Session Plan Eight

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate knowledge and understanding of financial records and main books of account (4.2) 	<ul style="list-style-type: none"> records; invoice, receipt, bank statement, delivery note, purchase order, petty cash voucher, credit note, paying-in-slip books: day book or journal, cash book, ledgers (sales, purchases, nominal, general), bank reconciliation distinction between cash and credit transactions, purpose of petty cash

Notes on delivery and activities	Duration in hours
<p>Students could be asked to prepare relevant financial transaction documentation based on a real or fictional project. This task could be integrated into a mini-business project where students are producing real documentation and processing real transactions.</p> <p>Most standard computer software now carries templates for invoices, purchases orders etc. where this is not available students could produce their own, using standard conventions.</p>	4

Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

Session Plan Nine

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none">demonstrate understanding of the concept of double-entry bookkeeping (4.1)	<ul style="list-style-type: none">every transaction recorded twice i.e. as a debt and a creditapplication of equation: capital = assets - liabilitiesmechanism to ensure the balance-sheet balances

Notes on delivery and activities	Duration in hours
<p>Students could be asked to prepare relevant financial transaction documentation based on a real or fictional project. This task could be integrated into a mini-business project where students are producing real documentation and processing real transactions.</p> <p>Most standard computer software now carries templates for invoices, purchases orders etc. where this is not available students could produce their own, using standard conventions.</p>	1

Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

3.0 Identify and explain the need for and use of financial, management and cost accounting methods.

Total Time (12 hours)

Session Plan Ten

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate understanding of the nature of financial accounting (3.1 hours) 	<ul style="list-style-type: none"> 'true and fair view' i.e. accurate record of organisation's financial position; concerned with past record; recording and assembling data; summarising financial detail; presenting and communicating information; monitoring and analysing performance

Notes on delivery and activities	Duration in hours
<p>Students could be asked to prepare relevant financial transaction documentation based on a real or fictional project. This task could be integrated into a mini-business project where students are producing real documentation and processing real transactions.</p> <p>Most standard computer software now carries templates for invoices, purchases orders etc. where this is not available students could produce their own, using standard conventions.</p>	2

Resources:

- Hall Jones and Raffo, Business Studies, Units 38, 39 and 40

Session Plan Eleven

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate understanding of the nature of management accounting (3.2) 	<ul style="list-style-type: none"> use of financial information for internal management purposes: analysis, break-even calculation, budgetary control, cost or profit centres, investment appraisal forecasts and planning

Notes on delivery and activities	Duration in hours																												
<p>This case study presents students with a fictional budget for a company and asks them to consider aspects of budgetary control.</p> <p>College Books</p> <p>Here is part of the cost budget, for last year, produced by College Books Ltd. The manager is comparing the original budget figures with the actual costs for last year.</p> <p>College Books Ltd Budget for last year</p> <table border="1"> <thead> <tr> <th>Cost area</th> <th>Budget (\$)</th> <th>Actual (\$)</th> <th>Variance (\$)</th> </tr> </thead> <tbody> <tr> <td>Staffing</td> <td>14,000</td> <td>17,000</td> <td>(3,000)</td> </tr> <tr> <td>Paper</td> <td>5,200</td> <td>4,800</td> <td>400</td> </tr> <tr> <td>Equipment</td> <td>6,500</td> <td>7,500</td> <td>(1,000)</td> </tr> <tr> <td>Electricity and telephone</td> <td>4,000</td> <td>5,000</td> <td>x</td> </tr> <tr> <td>Rent</td> <td>3,000</td> <td>3,000</td> <td>-</td> </tr> <tr> <td>Total</td> <td>32,700</td> <td>37,300</td> <td>y</td> </tr> </tbody> </table> <p>1) Calculate the x and y variances. 2) Should the manager be satisfied with the cost levels of this firm? Explain your answer. 3) If the manager wanted to reduce costs to the budgeted levels, which costs do you think he should pay most attention to?</p> <p><small>Activity reproduced with permission of John Murray (Publishers) Ltd. – Borrington and Stimpson <i>IGCSE Business Studies</i> p82</small></p>	Cost area	Budget (\$)	Actual (\$)	Variance (\$)	Staffing	14,000	17,000	(3,000)	Paper	5,200	4,800	400	Equipment	6,500	7,500	(1,000)	Electricity and telephone	4,000	5,000	x	Rent	3,000	3,000	-	Total	32,700	37,300	y	5
Cost area	Budget (\$)	Actual (\$)	Variance (\$)																										
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Resources:

- Hall Jones and Raffo, Business Studies, Unit 11

Session Plan Twelve

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate understanding of the nature of cost accounting (3.3) 	<ul style="list-style-type: none"> allocation of costs to different activities; recognition of various costs - direct and indirect, fixed and variable, overheads, marginal, unit; enable managers to make decisions on e.g. Pricing, 'make or buy' decisions

Notes on delivery and activities	Duration in hours
<p>Olympus Computers</p> <p>This following case study contextualises costs in relation to a Computer Company. Using a fictional example to explain the various types of cost.</p> <p>Definitions to learn:</p> <ul style="list-style-type: none"> direct costs are those that can be directly related to or identified with a particular product or department marginal costs are the extra costs a business will incur by producing one or more unit of output indirect costs are those costs which cannot be directly related to a particular product. They are often termed overheads or overhead costs <p>The Olympus Computer Co. manufacture three different types of computer, A, B and C, in one factory. The three computer models all use different parts and components. They are assembled on separate production lines. The Managing Director wants to know:</p> <ol style="list-style-type: none"> how much on average each computer costs to manufacture whether it would be profitable to increase the production of any of these computers <p>The Managing Director asks the Production Manager to calculate:</p> <ol style="list-style-type: none"> the direct cost of each product – these costs that can be directly related to or identified with a particular product or department. For example, the direct costs of making sports shoes will be the raw materials and production labour needed to make them. It is clear that these costs can be related directly to the sports shoes. They are usually variable costs, for example the materials used to make a product, but they could be fixed. An example of a fixed direct cost would be a special machine needed only for one of the computer designs made by Olympus Computers the marginal cost of each product – the extra costs a business will incur by producing one more unit of output. These would be the extra direct costs of making an additional unit. For example, the marginal cost of one additional computer would be the cost of components and labour cost of assembling it the total indirect costs of production – those costs which cannot be directly related to a particular product. They are often termed overheads or overhead costs. They are usually fixed costs, for example the rent of the factory, but they could be variable. An example of variable indirect costs would be the maintenance cost of machinery. This would increase with the number of units produced, but could not be directly related to any one unit of output made. 	5

To be able to calculate the total cost of each computer type, these indirect costs have to be allocated or spread in some way between the three products. Different techniques exist to enable managers to do this, but one of the easiest is to calculate the proportion of factory floor space used by the production line for each product and to allocate the indirect costs on this basis.

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Having learnt to apply costing theory students can be presented with the case study below to test the application of this theory:

Car Production

A car manufacturer produces three types of vehicle, X, Y, and Z. It has calculated the costs of these three products to be:

	X	Y	Z	(all \$000)
Direct material costs	5,000	10,000	8,000	
Direct labour costs	10,000	14,000	6,000	
Special machinery costs	3,000	0	0	
Proportion of indirect costs	6,000	12,000	6,000	
Annual output of vehicles	4,000	12,000	5,000	

The total cost of manufacturing X = \$24,000,000

The average cost per unit of X = $\frac{\$24,000,000}{4,000 \text{ units}} = \$6,000$ per vehicle

- 1) Calculate the total cost of manufacturing vehicle types Y and Z.
- 2) Calculate the average cost of manufacturing Y and Z.
- 3) Calculate the average direct cost of manufacturing Z.
- 4) What is likely to be the marginal cost of making an additional Z vehicle?

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Resources:

- Hall Jones and Raffo, *Business Studies*, Units 10 and 12

5.0 Demonstrate the application of basic accounting techniques

Total Time (11 hours)

Session Plan Thirteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate elementary record and bookkeeping skills (5.1) 	<ul style="list-style-type: none"> record transactions; analyse information into accounts: use and understand double-entry system

Notes on delivery and activities	Duration in hours																											
<p>Good Hope Enterprises – Case 2</p> <p>For each of the following transactions, tick in the correct column to indicate whether they are cash inflows or cash outflows for Good Hope Enterprises Ltd.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #cccccc;"> <th style="width: 60%;">Transaction</th> <th style="width: 20%;"></th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Purchase of a new computer for cash</td> <td></td> <td></td> </tr> <tr> <td>Sale of goods to customers – no credit given</td> <td></td> <td></td> </tr> <tr> <td>Interest paid on bank loan</td> <td></td> <td></td> </tr> <tr> <td>Wages paid to staff</td> <td></td> <td></td> </tr> <tr> <td>Debtors pay their bills</td> <td></td> <td></td> </tr> <tr> <td>Additional shares are sold to shareholders</td> <td></td> <td></td> </tr> <tr> <td>Creditors are paid</td> <td></td> <td></td> </tr> <tr> <td>Bank overdraft is paid off</td> <td></td> <td></td> </tr> </tbody> </table> <p>Activity reproduced with permission of John Murray (Publishers) Ltd. – Borrington and Stimpson <i>IGCSE Business Studies</i> p101</p>	Transaction			Purchase of a new computer for cash			Sale of goods to customers – no credit given			Interest paid on bank loan			Wages paid to staff			Debtors pay their bills			Additional shares are sold to shareholders			Creditors are paid			Bank overdraft is paid off			5
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Balance Sheets

A Managing Director of a company is trying to write out the balance sheet for the business. The following items have been listed. You have been asked to help the Managing Director by putting them all under their correct heading. Copy out the table and tick the correct box.

	Current assets	Fixed assets	Current liabilities	Long-term liabilities	Share capital	Reserves
Company vehicles						
Cash in the till						
Ten-year bank loan						
Ordinary share capital						
Money owed by customers						
Unsold goods						
Factory						
Retained profit						
Amounts owed to suppliers						
Tax owed to government						

Activity reproduced with permission of John Murray (Publishers) Ltd. – Borrington and Stimpson *IGCSE Business Studies* p93

Resources:

- Hall Jones and Raffo, Business Studies, Units 38, 39 and 40

Session Plan Fourteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> demonstrate the ability to prepare a basic set of company accounts (5.2) 	<ul style="list-style-type: none"> cash flow statement; profit and loss account; balance sheet

Notes on delivery and activities	Duration in hours																																																																																																																																																																																						
<p>Gardeners Green</p> <p>Manuel Guitano set up in business as a sole trader nine years ago. He called his business Gardener's Green. Manuel designs the gardens for hotels, offices and large private houses. He also maintains customers' gardens. The business is very busy in the spring, summer and autumn but not very busy in the winter.</p> <p>Manuel is a sole trader and therefore the owner of the business. He employs six full-time employees. These employees have been with him for the past four years. Experienced gardeners are not always easy to find. Gardener's Green has a small amount of land with six green houses although there is space for more. Gardener's Green grows about 50 per cent of the plants that it supplies to customers.</p> <p>The work is seasonal and so are the incomes to the business, but expenses occur every month. Look at the cash flow forecast below to see what is likely to happen in the next financial year. There is a cash flow problem. You have been asked by Manuel to consider this problem and make recommendations as to what he can do to solve it.</p> <p>Cash flow forecast for Gardener's Green 1997/1998. 00's All figures in brackets are negative.</p> <table border="1"> <thead> <tr> <th></th> <th>Aug. \$</th> <th>Sept. \$</th> <th>Oct. \$</th> <th>Nov. \$</th> <th>Dec. \$</th> <th>Jan. \$</th> <th>Feb. \$</th> <th>Mar. \$</th> <th>Apr. \$</th> <th>May \$</th> <th>Jun. \$</th> <th>Jul. \$</th> </tr> </thead> <tbody> <tr> <td>Cash Inflows</td> <td>700</td> <td>800</td> <td>10</td> <td>14</td> <td>2</td> <td>2</td> <td>10</td> <td>500</td> <td>800</td> <td>800</td> <td>600</td> <td>600</td> </tr> <tr> <td>Sales revenue</td> <td></td> </tr> <tr> <td>Cash outflows</td> <td>200</td> </tr> <tr> <td>Wages</td> <td></td> </tr> <tr> <td>Plants and trees purchased</td> <td>200</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>300</td> <td>300</td> <td>300</td> <td>300</td> <td>300</td> </tr> <tr> <td>Seed and compost</td> <td>0</td> <td>60</td> <td>60</td> <td>0</td> <td>0</td> <td>60</td> <td>80</td> <td>80</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Heating and water</td> <td>10</td> </tr> <tr> <td>Bank interest</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>10.18</td> <td>35.49</td> <td>46.49</td> <td>31.50</td> <td>9.10</td> <td>2.16</td> <td>0</td> </tr> <tr> <td>Business tax on land</td> <td>1</td> </tr> <tr> <td>Total cash outflow</td> <td>411</td> <td>271</td> <td>271</td> <td>211</td> <td>211</td> <td>281.18</td> <td>326.49</td> <td>637.49</td> <td>612.50</td> <td>520.10</td> <td>513.16</td> <td>511</td> </tr> <tr> <td>Opening balance</td> <td>1</td> <td>290</td> <td>819</td> <td>558</td> <td>361</td> <td>152</td> <td>(127.18)</td> <td>(443.67)</td> <td>(581.16)</td> <td>(393.66)</td> <td>(113.76)</td> <td>(2692)</td> </tr> <tr> <td>Net cash flow</td> <td>289</td> <td>529</td> <td>(261)</td> <td>(197)</td> <td>(209)</td> <td>(279.18)</td> <td>(316.49)</td> <td>(137.49)</td> <td>187.50</td> <td>279.90</td> <td>86.84</td> <td>89</td> </tr> <tr> <td>Bank balance (closing)</td> <td>290</td> <td>819</td> <td>558</td> <td>361</td> <td>152</td> <td>(127.18)</td> <td>(443.67)</td> <td>(581.16)</td> <td>(393.66)</td> <td>(113.76)</td> <td>(26.92)</td> <td>62.08</td> </tr> </tbody> </table>		Aug. \$	Sept. \$	Oct. \$	Nov. \$	Dec. \$	Jan. \$	Feb. \$	Mar. \$	Apr. \$	May \$	Jun. \$	Jul. \$	Cash Inflows	700	800	10	14	2	2	10	500	800	800	600	600	Sales revenue													Cash outflows	200	200	200	200	200	200	200	200	200	200	200	200	Wages													Plants and trees purchased	200	0	0	0	0	0	0	300	300	300	300	300	Seed and compost	0	60	60	0	0	60	80	80	0	0	0	0	Heating and water	10	10	10	10	10	10	10	10	10	10	10	10	Bank interest	0	0	0	0	0	10.18	35.49	46.49	31.50	9.10	2.16	0	Business tax on land	1	1	1	1	1	1	1	1	1	1	1	1	Total cash outflow	411	271	271	211	211	281.18	326.49	637.49	612.50	520.10	513.16	511	Opening balance	1	290	819	558	361	152	(127.18)	(443.67)	(581.16)	(393.66)	(113.76)	(2692)	Net cash flow	289	529	(261)	(197)	(209)	(279.18)	(316.49)	(137.49)	187.50	279.90	86.84	89	Bank balance (closing)	290	819	558	361	152	(127.18)	(443.67)	(581.16)	(393.66)	(113.76)	(26.92)	62.08	6
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- 1) Who else, apart from Manuel, is likely to be interested in a cash flow forecast for Gardener's Green? Give reasons for your answer.
- 2) Refer to the cash flow forecast.
 - i. Why do some costs stay the same every month? Use an example to explain your answer.
 - ii. Why do some costs vary in some months? Use an example to explain your answer.
- 3) Manuel has just been informed that his major supplier of plants and trees is about to raise prices. If these costs rise how will the cash flow forecast for Gardener's Green be affected?
- 4) What can be done to improve the cash flow of his business? Make three recommendations to Manuel, explaining their advantages and disadvantages, for improving the cash flow of Gardener's Green.

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Good Hope Enterprises – Case 1

A business records the following transactions for one month:

Sales of goods	\$45,000 (50% for cash; 50% on one month's credit)
materials purchases and used	\$12,000 (all paid in cash during the month)

Assume no other transactions.

- 1) Calculate the gross profit made by the business in this month.
- 2) Calculate the cash held by the business at the end of the month (assume they had no cash at the start of the month).
- 3) Explain why the answers to 1 and 2 are different.

There is a clear difference between the profit made by Good Hope Enterprises Ltd and the cash flow over the same period. Why is the cash figure lower than the gross profit?

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Resources:

- Hall Jones and Raffo, Business Studies, Units 38, 39, 40 and 45

Resources

The range of resources employed to deliver this module will largely depend upon the prime method chosen for delivery e.g. classroom-based or distance learning with some tutorial support. Tutors are recommended to employ as wide a range of resources as is practicable and the following list of resources should not be viewed as exclusive.

Recommended Reading:

Business Studies Dave Hall 2nd Edition Causeway Press
ISBN 1873929900

This is a general text that covers all of the areas of the Business Finance module and in addition it will be useful for other modules in the Diploma

Success in the Principles of Accounting Geoffrey Whitehead, John Murray ISBN 0719572126

An elementary text that covers the areas of the module and is readable for students with no prior knowledge of the subject

Tutor Support Guide

Media resources:

There is a wide range of resources available for use with this module, although the availability will be influenced by geographical and other factors. In general terms, students should be referred to any regular broadcast business programmes and to publications that include business news items.

The use of computerised business simulations to assist in the teaching of this module should be treated with some caution. Often these simulations require an overall knowledge of the subject that is not present at the beginning of the course, and this may lead to some confusion for the students.

The Internet is a valuable source of up-to-date business information that could be integrated into the teaching of this module. Again, the use of this resource should be closely monitored and perhaps limited to reference to the news items that are provided in the business sections of the ISP employed.

The following websites are considered to be useful for general news regarding business matters.

www.businessweek.com
www.economist.co.uk
www.newsday.com
www.ft.com

Recommended text – Hall, Jones and Raffo