

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

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**Cambridge International Diploma in Business  
Advanced Level**

Scheme of Work

5173  
Business Finance  
Core Module



UNIVERSITY *of* CAMBRIDGE  
International Examinations

## Introduction

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The overall programme comprises three core and six option modules:

Core	Business Organisation and Environment Effective Business Communication <b>Business Finance</b>
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 in 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 (5173) Advanced**

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 International Diploma e.g. Business Organisation and Environment 5171. *The cross-referencing of information/ideas between modules should be encouraged as it will promote positive reinforcement and will contribute towards a holistic approach towards the study of business.*

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

- (a) Objectives 1.0 and 2.0 which deal in more general terms with the nature and availability of finance for business
- (b) 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'.

Centres are reminded that the module is designated as being of Advanced level and therefore candidates will be expected to be *reflective* and *evaluative* within their answers to the tasks set by the examiner. For example, they should think about how useful particular information is when making business decisions. Tutors are recommended to encourage this approach during the delivery of the module.

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 60 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

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### 1.0 Understand the importance and use of finance in different types of business organisations.

**Total Time (8 hours)**

#### Session Plan One

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

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"><li>level of activity (primary/secondary etc)</li><li>sector (private/public)</li><li>motive (profit/not for profit)</li><li>structure (incorporated/unincorporated)</li><li>involvement (workers/customers etc)</li></ul> <p>Students to prepare a list of organisations with whom 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"><li>understand the reasons for business finance (1.4)</li></ul>	<ul style="list-style-type: none"><li>acquisition of assets tangible (e.g. land, vehicles, buildings) and intangible (e.g. patents, trademarks, copyright)</li><li>provision of working capital i.e. day to day finance available for business expenses (e.g. labour costs, purchase of raw materials and components, cash) formula: working capital = current assets - current liabilities</li></ul>

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 - tangible / intangible / working capital.</p> <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"> <li>demonstrate understanding of the financial and legal implications of different types of business organisation (1.2)</li> </ul>	<ul style="list-style-type: none"> <li>financial and legal responsibilities of sole traders, partnerships and incorporated bodies; duties of directors and/or owners; and other officials</li> <li>implications of personal liability and doctrine of 'ultra vires' audit; submission of accounts; submission of data to government departments</li> </ul>

Notes on delivery and activities	Duration in hours
<p><b>Stagecoach Holdings</b></p> <p>Brian Souter, a chartered accountant, formed Stagecoach in 1980 along with his sister, Mrs Ann Gloag, who was a nurse. He acquired a handful of buses and operated a service between Dundee and London. He employed his father as a driver and undercut the established Scottish bus company to break into the market.</p> <p>The company expanded when the National Bus Company was broken up and privatised in 1985. Stagecoach bought bus companies in Hampshire, Cumbria and the East Midlands. Further acquisitions were made from failed management but-outs and a few Scottish bus companies. Following each purchase tiers of management were eliminated, routes were re-examined, different sized buses were introduced, heavy investment in new fleets was made, productivity deals with the workforce were agreed and middle management were allowed to flourish. In addition, from time to time the company profited from property deals. For example, as a result of privatisation the company acquired the Keswick bus station for £55, 000 which it sold for £705, 000. In another deal, it sold the bus station in Whitehaven for £1.1m having bought it for £165, 000.</p> <p>Stagecoach at the time employed 11,000 people and operated 3,300 buses. It also had business interests in Kenya, Malawi, New Zealand and China. In 1992 Stagecoach's pre-tax profits were £8.2m compared with £2.5m in 1991. This improvement was achieved on a turnover growth from £103.3m to £140.7m.</p> <p>In 1993 Brian Souter announced that Stagecoach would be floated on the Stock Exchange. The floatation, Mr Souter said, would give the company the resources it needed to continue its expansion. About 35 municipal bus companies in England were due for privatisation over the following two years and the government was also going to sell the London Buses. Another possible opportunity was the franchising of British Rail services.</p> <p>Stagecoach Holdings was being sold to the public for about £100m. At the time, of the company's 21 million issued shares Mr Souter, the chief executive, owned 9.1 million and Mrs Gloag the managing director owned 8.7 million. In addition, some Scottish financial institutions had an important financial interest in the business and were expected to take between 16 and 23% of the shares.</p> <p>Source: adapted from the <i>Financial Times</i>, 26.01.1993</p>	<p>3</p>

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|---|--|
| <ol style="list-style-type: none"><li>1) How would the official name of the company have changed if Stagecoach had 'gone public'?</li><li>2) What evidence is there in the case to suggest that Stagecoach holdings was originally a private limited company?</li><li>5) Explain why Mr Souter decided to 'go public'?</li><li>5) What problems may Mr Souter have faced in going public?</li><li>5) Based on the information in the case, explain the benefits to investors that may have been used in a prospectus advertising the sale of the company.</li></ol> |  |
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**Resources:**

- Hall Jones and Raffo, Business Studies, Unit 3

## Session Plan Four

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and awareness of the sources of funding of incorporated bodies (1.3)</li> </ul>	<ul style="list-style-type: none"> <li>internal: profits; sale of assets; depreciation</li> <li>external (short term): bank loans and overdrafts; trade credit: leasing; debt factoring; trade bills</li> <li>external (long term): share capital (ordinary, preference, deferred, cumulative, bonus issue, rights issue); loan capital (mortgage, debenture)</li> </ul>

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 is designed to encourage students to research current trends in the real business world. Students are given the opportunity to invest \$10,000 in the shares of quoted companies. Each week the share prices are checked and capital gains calculated. Students can change their share portfolio, but shares can only be sold after two weeks have elapsed. Commission should be deducted at a fixed rate. Students are free to choose their own portfolio or can be directed towards groups e.g. electrical, retail.</p> <p>After a set period, final results should be calculated. You can also ask groups/individuals to monitor news items of the companies chosen, using financial newspapers and company websites. This will enable you to analyse why changes in share prices occur and the effect it has on businesses.</p> <p><b>The Shares Game</b></p> <p>You have (an imaginary) \$10,000 to 'invest'. Choose no fewer than five and no more than ten publicly quoted companies and then allocate your \$10,000 as you wish. Monitor the companies' share price movements over a period of 30 trading days:</p> <p>Track and note the movements of share prices of your investments over the 30 days.</p> <ol style="list-style-type: none"> <li>At the end of the period, calculate your profit or loss</li> <li>Compile a simple index (initial buying price 100) so that you can plot your investments in a graph and compare them</li> <li>Track and note the movement of the stock exchange index and then compare its trend with those of your investments</li> <li>Investigate any news items relating to the companies in your portfolio which could explain any changes in their share prices.</li> </ol> <p>The activity asks students to look into their local financial institutions. This may be given as an on-going research exercise, as students will need time to request and obtain information before completing their analysis.</p> <p><b>Financial Services</b></p> <p>Research the services provided by the financial services sector for small businesses in your region. Present your findings as to which institution offers the 'best' support and why.</p>	3

## **Rights issues**

### **Allied rights out**

The food and drinks group Allied-Lyons has ruled out a rights issue in order to cut borrowing of nearly £2 billion, which represents about 66% of shareholders funds.

It will only tap investors for cash if it makes a major acquisition, although a move is not imminent.

### **It ASDA be right**

ASDA, the fourth largest supermarket group, said 94% of its £347m rights issue had been taken up by shareholders. The money raised will be used to cut debts to around £100m and to speed up the refitting of some stores for £2m each and relocation of some other poor performers at £12-20m a time. Two years ago, ASDA faced debts of nearly £1bn. It is already investing £130m a year but still losing market share to new openings by Sainsbury, Tesco and Safeway.

### **Burton right on**

Burton Group, which includes Top Shop, Debenhams and Dorothy Perkins, has had a 90% take-up for its £163m rights issue.

Burton, which recently said that 20,000 full-time jobs were to go and 3,000 part-time staff hired instead, will use some of the cash to cut borrowings to around £160m.

### **Big rights ahead**

Recent successful rights issues include ASDA the supermarket chain (£347m), High Street fashion group Burton (£163m), Trafalgar House (£204m) and Commercial Union (£438m). Kingfisher is also asking for £313m to buy French electrical retailer Darty.

The stock market rise has encouraged companies to raise new capital, support recession-hit balance sheets and make acquisitions. But some are raising extra funds now because they are worried that the governments heavy borrowing programme for 1993/4 will drain funds out of the market and lead to cash shortage.

- 1) Explain what is meant by a rights issue
- 2) Why do companies need to raise such funds?
- 3) What factors can determine the timing of such issues?

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## **Resources:**

- Hall Jones and Raffo, Business Studies, Unit 40

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

Total Time (8 hours)

### Session Plan Five

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"><li>demonstrate knowledge and understanding of the basic concepts of financial accounting (2.3)</li></ul>	<ul style="list-style-type: none"><li>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), accruals or matching (costs and revenue matched with the period in which they occur), 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), materiality (items ignored if insignificant to overall results), going concern (business viability)</li></ul>

#### Notes on delivery and activities

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

#### Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

## Session Plan Six

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and understanding of internal and external needs of financial reporting (2.1)</li> </ul>	<ul style="list-style-type: none"> <li>internal users of records: management, employees, owners e.g. Monitor, analyse and evaluate performance; financial controls; records of assets and liabilities; capital; decision-making; taxation; profits</li> <li>external users of records: e.g. Banks (loans, overdrafts), suppliers (trade credit), media (reporting), prospective investors (investment potential), owners or shareholders (vested interest), government departments (statistics)</li> </ul>

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 to use more complex company reports. Many company reports can be found in local libraries or can now be 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>For this activity students should be divided into groups, representing various internal and external stakeholders – directors, shareholders, management, workers, suppliers, creditors (bank). Various scenarios of success/failure of a fictitious organisation can then be introduced and the groups' interests can then be presented in terms of a press release/media interview.</p> <p><b>Voltare Holdings</b>            Voltare Holdings is a large manufacturing industry located on the outskirts of one of your region's largest cities. It has successfully traded nationally for 15 years but has seen a sharp downturn in business in the last 18 months. Its problems started when a large customer withdrew their contract following a series of late deliveries and faulty products.</p> <p>The news of the loss of their major customer spread quickly and more customers followed. The lack of orders has led to 50 production staff being made redundant in the last 6 months. Voltare Holdings have tried to secure further capital to keep the business going, with no success. Even with the reduction in staff Voltare Holdings has now reached a financial position where it is unable to keep afloat.</p> <p><b>Task:</b>            You are acting as one of a series of stakeholders in Voltare Holdings. Produce a press release from your point of view as a stakeholder. Include why these problems may have occurred and what you believe can be done in response to the problems the business now faces.</p>	<p>2</p>

### **Sunnils Restaurant**

Sunnil owns a small restaurant and is updating his business records before visiting the accountant. Three transactions are giving him some concern.

During the year Sunnil employed a new chef, Sandhu. Sandhu came from a neighbouring restaurant and news of his appointment resulted in a very welcome drift of custom in Sunnil's favour. By the end of the year Sandhu's reputation had doubled turnover. Sunnil is not sure how to record this valuable acquisition.

Two days before the end of the trading year Sunnil received a quarterly bill for the leasing of some kitchen equipment. The bill for £600 has not been paid and relates to a period which includes two months before the end of the trading year and one month after. Sunnil decides not to record it at all because it is still unpaid.

At the beginning of the year Sunnil purchased some dining furniture at a secondhand shop for £300. Six months later, a regular customer who is in the antiques trade kindly advised him that the furniture was Edwardian, and possibly worth £2, 000. Sunnil now wonders whether the assets should be revalued.

**Task:** Explain how Sunnil should treat the above transactions according to the appropriate accounting concepts and conventions.

Activity reproduced with permission of Causeway Press – Business Studies p271

### **Resources:**

- Hall Jones and Raffo, Business Studies, Unit 38

## Session Plan Seven

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate awareness and appreciation of social accounting factors (2.2)</li> </ul>	<ul style="list-style-type: none"> <li>limitations of financial reporting as basis for management decisions; prospective conflict of interpretation; impact and influence of external factors i.e. Political, economic, social and technological (PEST issues)</li> </ul>

Notes on delivery and activities	Duration in hours
<p><b>The Cooperative Bank</b></p> <p>The Cooperative Bank has strict guidelines governing the conduct of its business. It believes that all commercial enterprises, whatever their size, should have a policy which controls the way their business is conducted. It also believes that such a policy must be actively implemented, otherwise it is 'no more than a collection of fine words.'</p> <p>The guidelines are in the form of a twelve-point ethical policy. The bank will:</p> <ul style="list-style-type: none"> <li>not invest or provide financial services to oppressive organisations or regimes</li> <li>not finance the manufacture or sale of weapons</li> <li>not invest in businesses involved in animal experiments</li> <li>not finance businesses using factory-farming methods</li> <li>not support organisations involved in blood sports</li> <li>not finance tobacco manufacturers</li> <li>try to make sure their services are not used for money laundering, tax evasion or the trafficking of drugs and to be constantly vigilant of its dealings in order to avoid these areas</li> <li>encourage business to support the environment</li> <li>promote business relations with firms that have similar ethical stance</li> <li>improve and strengthen its customer charter which sets standards for its dealings</li> <li>consider its consumers' views and change its policies to suit them</li> <li>not speculate against the pound during periods of crisis (this was added in May 1992 as a result of the international currency crisis)</li> </ul> <p>This ethical stance taken by the Cooperative Bank has found support amongst its customers. Research revealed 85% support for the Bank's stance among a survey of 30, 000 customers. Among the general public, however, only 15% were strongly in favour, 75% neutral and 10% opposed. The bank aims to keep its charter under constant review. A bank spokesman has commented 'basically what we are saying is that we are trying; we are not perfect.'</p> <p>Source: adapted from The Cooperative Bank booklet, <i>What we stand for</i> and <i>The Guardian</i>, 9.1.1993</p> <ol style="list-style-type: none"> <li>Why might the Cooperative Bank be said to be operating in an ethical way?</li> <li>Why might the bank have adopted this stance?</li> <li>Discuss three effects that such a policy is likely to have on the bank's business.</li> <li>How might pressure groups have influenced the bank's decisions?</li> <li>Explain possible conflicts that may arise between the bank and other interested parties from this stance being taken.</li> </ol> <p>Activity reproduced with permission of Causeway Press – Business Studies, p510</p>	2

### Resources:

- Hall Jones and Raffo, Business Studies, Units 71 and 72

## Session Plan Eight

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"><li>understand the relationship between accounting concepts, standards and policies (2.4)</li></ul>	<ul style="list-style-type: none"><li>concepts are designed to meet declared standards; methods are designed to apply the concepts; policies contain disclosure of methods used</li><li>consider the need for international harmonisation of standards i.e. growth of international investment, use of electronic dealing, transnational firms</li></ul>

Notes on delivery and activities	Duration in hours
<p>After explaining the need for recognised standards of accounting student 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.</p> <p>Tutors may supplement this approach by reference to actual published accounts based upon different concepts/standards.</p>	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 (9 hours)**

##### Session Plan Nine

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

Notes on delivery and activities	Duration in hours
<p><b>T. W. Norman</b></p> <p>In a four-day trading period T. W. Norman, a secondhand car dealer, recorded the following transactions:</p> <p>3.7.01 Introduced £1, 000 capital to fund the business venture  3.7.01 Bought a car for resale for £600 and paid cash  3.7.01 Bought some spare parts for £50 cash  5.7.01 Sold the car for £850 cash  6.7.01 Paid £100 wages to a mechanic in cash  7.7.01 Bought a car on credit from Fast Motors Ltd for £500</p> <p>1) Produce a simple receipts and payments table to illustrate these transactions  2) Why must the totals on both sides be equal?  3) Explain the effect that each transaction would have on:  i. assets ii. liabilities</p> <p>Activity reproduced with permission of Causeway Press – Business Studies, p272</p> <p><b>Starting-up</b></p> <p>You are given the opportunity to establish your own mini-enterprise with the offer of a loan of £500. The loan is to be repaid in six month's time.</p> <p>You are required to draw up samples of documents that would show how you intend to repay the loan and the types of records that you would keep to monitor the progress of your business.</p> <p>Explain the significance of each document/record that you have suggested.</p>	4

##### Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

### Session Plan Ten

<b>Competence Criteria</b>	<b>Skills and Knowledge</b>
<ul style="list-style-type: none"><li>demonstrate understanding of the concept of double-entry bookkeeping (4.1)</li></ul>	<ul style="list-style-type: none"><li>concept of duality i.e. Every transaction has two aspects - one of giving and one of receiving; application of equation <math>\text{capital} = \text{assets} - \text{liabilities}</math>; mechanism to ensure the balance-sheet balances</li></ul>

<b>Notes on delivery and activities</b>	<b>Duration in hours</b>
See activities for competence criteria 4.2	1

#### Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

## Session Plan Eleven

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and understanding of the use and nature of ratios (4.3)</li> </ul>	<ul style="list-style-type: none"> <li>e.g. mark-up and margins; gross and net profit: return on capital employed; assets, net working capital; acid test i.e. Liquidity ratio; gearing; earnings per share, market price</li> </ul>

Notes on delivery and activities	Duration in hours																												
<p><b>Northern Textiles</b></p> <p>The table below contains financial information for three companies: Rochdale Textiles plc, Bolton Textiles plc and Liverpool Textiles plc. As an employee working for a firm of stockbrokers in Greater Manchester, you have been asked to answer the questions below for a client.</p> <p><b>Table A summary of financial information from three textile companies</b></p> <table border="1"> <thead> <tr> <th></th> <th>Rochdale</th> <th>Bolton</th> <th>Liverpool</th> </tr> </thead> <tbody> <tr> <td>Turnover</td> <td>£10m</td> <td>20 m</td> <td>100m</td> </tr> <tr> <td>Gross Profit</td> <td>£3m</td> <td>£5.5m</td> <td>£40m</td> </tr> <tr> <td>Net Profit before tax</td> <td>£1.5m</td> <td>£2.5m</td> <td>£22m</td> </tr> <tr> <td>Earnings per share</td> <td>12.1p</td> <td>9.9p</td> <td>31.9p</td> </tr> <tr> <td>Dividend per share</td> <td>7.2p</td> <td>7.1p</td> <td>10.8p</td> </tr> <tr> <td>Current share price</td> <td>130p</td> <td>198p</td> <td>240p</td> </tr> </tbody> </table> <ol style="list-style-type: none"> <li>Calculate the gross profit margin and the net profit margin for each of the three companies and comment on each firm's overheads.</li> <li>Discuss the factors which might account for the differences in the above ratios for each of the companies.</li> <li>Calculate the price/earnings ratio and the dividend yield in the case of each company.</li> <li>On the basis of your answers to the previous question, which company would you advise a client to invest in if:             <ol style="list-style-type: none"> <li>they wanted fast financial returns?</li> <li>they wanted capital growth?</li> </ol>             Explain your answers.           </li> <li>What other information might be helpful to you when providing this advice?</li> </ol> <p>Activity reproduced with permission of Causeway Press – Business Studies, p323</p>		Rochdale	Bolton	Liverpool	Turnover	£10m	20 m	100m	Gross Profit	£3m	£5.5m	£40m	Net Profit before tax	£1.5m	£2.5m	£22m	Earnings per share	12.1p	9.9p	31.9p	Dividend per share	7.2p	7.1p	10.8p	Current share price	130p	198p	240p	4
	Rochdale	Bolton	Liverpool																										
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Current share price	130p	198p	240p																										

### Resources:

- Hall Jones and Raffo, Business Studies, Unit 45

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

**Total Time (16 hours)**

#### **Session Plan Twelve**

<b>Competence Criteria</b>	<b>Skills and Knowledge</b>
<ul style="list-style-type: none"><li>demonstrate understanding of the nature of financial accounting (3.1)</li></ul>	<ul style="list-style-type: none"><li>'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 financial information for internal and external users; monitoring and analysing performance; planning</li></ul>

<b>Notes on delivery and activities</b>	<b>Duration in hours</b>
<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 Thirteen

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

Notes on delivery and activities	Duration in hours																																			
<p><b>Grant Engineering</b></p> <p>Grant Engineering is a medium-sized company with a workforce of 140 and an annual turnover of around £5m. Its main factory is located on a small industrial site on the edge of Norwich. It produces mainly sheet metal components and claims to be one of the UK's leading subcontractors in sheet metal and powder painting.</p> <p>Its commitment to capital investment is impressive. It has recently purchased a new robotic welder and a new computer system for the office. It has also opened a new plant in Harwich, concentrating on the coating of metal sheets. The directors openly emphasise the importance of capital expenditure in their business. They feel that customer confidence will increase if new technology is continually introduced.</p> <p>In the past, the company has never used any investment appraisal techniques. Instead it has stressed the relevance of capacity, order levels and in particular, 'intuition'. A particular machine would be bought if it was needed to fulfil orders and improve the security of the company in the eyes of the customers. In addition, the effect of interest rates on investment expenditure was said to be unimportant. The business would not delay buying a machine if it was needed just because the interest rate happened to be high. Similarly, it would not purchase a machine because interest rates were low. Only if high interest rates adversely affected customer demand would Grant Engineering change its investment plans.</p> <p>The directors of the company are considering more investment in the future. They have identified two alternatives – a new fleet of company cars costing £160,000 and a computerised cutting machine costing £200,000.</p> <p><b>Table</b> <i>Return on two investment projects for Grant Engineering</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th colspan="6" style="text-align: right;">(£000)</th> </tr> <tr> <th style="text-align: left;">Year</th> <th style="text-align: center;">1</th> <th style="text-align: center;">2</th> <th style="text-align: center;">3</th> <th style="text-align: center;">4</th> <th style="text-align: center;">5</th> <th style="text-align: center;">6</th> </tr> </thead> <tbody> <tr> <td>Return:</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Car Fleet</td> <td style="text-align: center;">20</td> <td style="text-align: center;">30</td> <td style="text-align: center;">40</td> <td style="text-align: center;">40</td> <td style="text-align: center;">50</td> <td style="text-align: center;">50</td> </tr> <tr> <td>Cutting Machine</td> <td style="text-align: center;">50</td> <td style="text-align: center;">50</td> <td style="text-align: center;">50</td> <td style="text-align: center;">60</td> <td style="text-align: center;">60</td> <td style="text-align: center;">60</td> </tr> </tbody> </table> <p>The table shows the expected income from the projects over a six-year period. Grants accountants have suggested that a quantitative approach to appraisal should be tried.</p>		(£000)						Year	1	2	3	4	5	6	Return:							Car Fleet	20	30	40	40	50	50	Cutting Machine	50	50	50	60	60	60	5
	(£000)																																			
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Cutting Machine	50	50	50	60	60	60																														

- |   |  |
|---|--|
| <ol style="list-style-type: none"><li>1) Explain how factors like capacity, order levels and intuition could affect the investment decision.</li><li>2) Calculate the ARR for each project.</li><li>3) Calculate the NPV for each project (assume that <math>r=10\%</math>).</li><li>4) Based on your answers to questions 2 and 3, which project do you think Grant Engineering should select?</li><li>5) Under what circumstances will interest rates; influence the investment decision; not influence the business decision?</li><li>6) Why do you think Grant's accountants suggested using a quantitative approach to investment appraisal?</li></ol> |  |
|---|--|

Activity reproduced with permission of Causeway Press – Business Studies, p261

**Resources:**

- Hall Jones and Raffo, Business Studies, Unit 11

## Session Plan Fourteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate understanding of the nature of cost accounting (3.3)</li> </ul>	<ul style="list-style-type: none"> <li>allocation of costs to different activities; recognition of various costs - direct and indirect, fixed and variable, prime cost, overheads; recognition of various methods - standard, unit, job, batch, process, marginal, absorption, variance analysis</li> <li>enable management to make decisions on e.g. Pricing, break-even calculations, 'make or buy' decisions</li> </ul>

Notes on delivery and activities	Duration in hours																																												
<p><b>XYZ Ltd</b></p> <p>XYZ Manufacturing Limited has four production departments. It has estimated costs for the next 12 months as follows:</p> <p><b>Overheads</b></p> <table> <tr> <td>Rent and rates</td> <td>£45,000</td> </tr> <tr> <td>Administration</td> <td>£22,000</td> </tr> <tr> <td>Depreciation</td> <td>£16,000</td> </tr> <tr> <td>Maintenance</td> <td>£10,000</td> </tr> <tr> <td>Heat, light and power</td> <td>£12,000</td> </tr> <tr> <td>Indirect labour</td> <td><u>£40,000</u></td> </tr> <tr> <td></td> <td><u>£145,000</u></td> </tr> </table> <table> <thead> <tr> <th>Department</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Direct labour</td> <td>12,500</td> <td>10,000</td> <td>15,000</td> <td>7,500</td> <td>45,000</td> </tr> <tr> <td>Direct materials</td> <td>22,500</td> <td>17,000</td> <td>20,000</td> <td>10,000</td> <td>69,500</td> </tr> <tr> <td>Overheads</td> <td>?</td> <td>?</td> <td>?</td> <td>?</td> <td><u>145,000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td><u>259,500</u></td> </tr> </tbody> </table> <p>The total overheads are to be shared amongst the four departments using the full-cost method. The allocation is based on the proportion of direct material costs which each cost centre uses. Therefore the overheads for Department 1 would be allocated as follows:</p> $\text{Appportioned overheads} = \frac{\text{Cost centre basis}}{\text{Total basis}} \times \text{Total overheads}$ $= \frac{22,500}{69,000} \times 145,000 = £46,942$ <ol style="list-style-type: none"> <li>Using the full-cost method, complete the overhead allocation for XYZ Manufacturing Ltd on a direct material basis.</li> <li>Now calculate the overhead allocation on a direct labour basis.</li> <li>Comment on any significant differences between the two sets of figures and state, with reasons, which basis you feel would be most appropriate to use.</li> <li>The planned output for each department is:             <ol style="list-style-type: none"> <li>5,000 units</li> <li>7,500 units</li> <li>8,000 units</li> <li>2,700 units</li> </ol>             Calculate the unit cost for each using the figures given and the allocation of overheads which you worked out in the first question.           </li> </ol> <p>Activity reproduced with permission of Letts Educational – GNVQ Advanced Business, p461</p>	Rent and rates	£45,000	Administration	£22,000	Depreciation	£16,000	Maintenance	£10,000	Heat, light and power	£12,000	Indirect labour	<u>£40,000</u>		<u>£145,000</u>	Department	1	2	3	4	Total	Direct labour	12,500	10,000	15,000	7,500	45,000	Direct materials	22,500	17,000	20,000	10,000	69,500	Overheads	?	?	?	?	<u>145,000</u>						<u>259,500</u>	5
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### Resources:

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

## Session Plan Fifteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and awareness of budgetary control methods (3.4)</li> </ul>	<ul style="list-style-type: none"> <li>purpose of a budget i.e. planned outcome not forecast; means of control, co-ordination, and review; setting targets</li> <li>budgetary applications may include sales, revenue, expenses, profit, personnel capital expenditure</li> </ul>

Notes on delivery and activities	Duration in hours																																																
<p><b>Derby Drains</b></p> <p>The sales budget for Derby Drains is shown in the table. It was prepared by the managing director for a six-month period and passed to the sales manager for distribution in the department. The company had experienced some selling difficulties in recent months due to a recession and a decline in the building industry. A great deal of dissatisfaction was expressed by many of the sales team since the targets (to which bonuses were related) were, in their opinion, very optimistic.</p> <p><b>Table Sales budget for Derby Drains</b></p> <p>Sales Budget</p> <table border="1"> <thead> <tr> <th></th> <th>Jan</th> <th>Feb</th> <th>Mar</th> <th>Apr</th> <th>May</th> <th>Jun</th> <th>units</th> </tr> </thead> <tbody> <tr> <td>North</td> <td>3,000</td> <td>3,000</td> <td>3,500</td> <td>3,500</td> <td>4,000</td> <td>5,000</td> <td></td> </tr> <tr> <td>South</td> <td>6,000</td> <td>6,000</td> <td>7,000</td> <td>7,000</td> <td>8,000</td> <td>10,000</td> <td></td> </tr> <tr> <td>East</td> <td>2,000</td> <td>3,000</td> <td>3,000</td> <td>3,000</td> <td>3,500</td> <td>3,500</td> <td></td> </tr> <tr> <td>West</td> <td>3,000</td> <td>3,000</td> <td>4,000</td> <td>4,000</td> <td>5,000</td> <td>6,000</td> <td></td> </tr> <tr> <td>Total</td> <td>14,000</td> <td>15,000</td> <td>17,500</td> <td>17,500</td> <td>20,500</td> <td>24,500</td> <td></td> </tr> </tbody> </table> <p>1) What might the forecasts in the sales budget be based on?            2) Describe the disadvantages of preparing the sales budget without the assistance of the sales manager.            3) What are the dangers of setting over optimistic targets in budgets?</p> <p>Activity reproduced with permission of Causeway Press – Business Studies, p327</p>		Jan	Feb	Mar	Apr	May	Jun	units	North	3,000	3,000	3,500	3,500	4,000	5,000		South	6,000	6,000	7,000	7,000	8,000	10,000		East	2,000	3,000	3,000	3,000	3,500	3,500		West	3,000	3,000	4,000	4,000	5,000	6,000		Total	14,000	15,000	17,500	17,500	20,500	24,500		4
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### Resources:

- Hall Jones and Raffo, Business Studies, Unit 46

## 5.0 Demonstrate the application of basic accounting techniques

Total Time (19 hours)

### Session Plan Sixteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"><li>demonstrate knowledge and understanding of the trial balance (5.1 )</li></ul>	<ul style="list-style-type: none"><li>use and significance of the trial balance; limitations of the trial balance</li></ul>

Notes on delivery and activities	Duration in hours
<p><b>Bookkeeping</b></p> <p>1<sup>st</sup> January. A trader starts a business with an £11, 000 cheque.</p> <ol style="list-style-type: none"><li>1) He buys a secondhand van for £5, 200 and pays by cheque</li><li>2) He buys goods on credit from PRY Ltd, for £3, 000</li><li>3) He buys goods on credit from C. Dodd for £2, 600</li><li>4) He pays PRY Ltd £3, 000 - £500 cash plus a cheque</li><li>5) He pays C. Dodd by cheque £2, 548. Discount £52</li><li>6) Sales for cash £10, 000, cheque £3, 000</li><li>7) He pays wages to staff £1, 600 cash</li><li>8) He pays rent £800</li><li>9) Closing stock 31 March, £420</li><li>10) Depreciation of van 5% of cost</li></ol> <p><b>Task</b></p> <p>You are required to make the above bookkeeping entries in the books of account and draw up a trial balance for the trading period concerned.</p> <p>Activity reproduced with permission of Letts Educational – GNVQ Advanced Business, p476</p>	4

#### Resources:

- Hall Jones and Raffo, Business Studies, Unit 38

## Session Plan Seventeen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and understanding of adjustments prior to final accounts (5.2)</li> </ul>	<ul style="list-style-type: none"> <li>stock valuation methods e.g. Last In/First Out, Average Cost of Stock, treatment of bad debts; fixed asset depreciation methods e.g. straight line, reducing balance</li> </ul>

Notes on delivery and activities	Duration in hours										
<p><b>Stock valuation</b></p> <p>During a trading period the following stock transactions were recorded for a company:</p> <table> <tr> <td>01.07.99</td> <td>50 units were bought @ £2 per unit</td> </tr> <tr> <td>03.08.99</td> <td>100 units were bought @ £2.20 per unit</td> </tr> <tr> <td>19.08.99</td> <td>100 units were issued</td> </tr> <tr> <td>23.09.99</td> <td>200 units were bought @ £2.30 per unit</td> </tr> <tr> <td>25.09.99</td> <td>150 units were issued</td> </tr> </table> <ol style="list-style-type: none"> <li>Assuming that the opening stock was zero, calculate the value of closing stock using the: FIFO method; LIFO method; Average Cost method. Present your answers in tables using a spreadsheet.</li> <li>If the stock listed in the transactions above was perishable, which of the three methods is most suitable for the physical issuing of stock? Explain why?</li> <li>Why do you think that the LIFO method is the least favoured by firms?</li> </ol> <p>Activity reproduced with permission of Causeway Press – Business Studies, p305</p> <p><b>Depreciation</b></p> <p>A company purchases a new furnace for £200,000 and expects it to remain in use for ten years. At the end of its useful life, it is estimated that the furnace will have a scrap (residual) value of £10,000.</p> <ol style="list-style-type: none"> <li>Calculate the annual depreciation allowance using the straight-line method.</li> <li>Draw up a table showing how the furnace is written off over its life.</li> <li>What is the book value at the end of year 6?</li> <li>Draw a line graph showing the annual book value over the life of the furnace.</li> </ol> <p>Activity reproduced with permission of Causeway Press – Business Studies, p301</p>	01.07.99	50 units were bought @ £2 per unit	03.08.99	100 units were bought @ £2.20 per unit	19.08.99	100 units were issued	23.09.99	200 units were bought @ £2.30 per unit	25.09.99	150 units were issued	7
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### Resources:

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

## Session Plan Eighteen

Competence Criteria	Skills and Knowledge
<ul style="list-style-type: none"> <li>demonstrate knowledge and understanding of the structure and purpose of the final accounts (5.3)</li> </ul>	<ul style="list-style-type: none"> <li>cash flow statement; profit and loss account; the balance sheet</li> </ul>

Notes on delivery and activities	Duration in hours																											
<p><b>Profit and loss</b></p> <p>From the following information, prepare a trading and profit and loss account for the business of Trevor Jones.</p> <table> <tr> <td>Stock at 1<sup>st</sup> July £2,410</td> <td>Purchases £18,000</td> <td>Sales £29,550</td> </tr> <tr> <td>Wages £8,420</td> <td>Postage £120</td> <td>Rent and rates £1,160</td> </tr> <tr> <td>Transport £490</td> <td>Insurance £220</td> <td>Stationary £80</td> </tr> <tr> <td>Lighting and heat £590</td> <td>Stock at 30<sup>th</sup> June £2,500</td> <td></td> </tr> </table> <p>Activity reproduced with permission of Letts Educational – GNVQ Advanced Business, p477</p> <p><b>Balance Sheet</b></p> <p>From the following information, compile trading and profit and loss accounts and a balance sheet for the year ended 31 December for T. Tucker.</p> <table> <tr> <td>Opening Stock £13,500</td> <td>Purchases £40,000</td> <td>Overheads £8,000</td> </tr> <tr> <td>Premises £50,000</td> <td>Vans £12,000</td> <td>Debtors £3,200</td> </tr> <tr> <td>Capital £75,000</td> <td>Closing Stock £9,500</td> <td>Cash-in-hand £300</td> </tr> <tr> <td>Sales £60,000</td> <td>Cash at bank £13,000</td> <td>Loans £1,000</td> </tr> <tr> <td>Creditors £4,000</td> <td></td> <td></td> </tr> </table> <p>Using the information from the activity in session plan sixteen, prepare a trading and profit and loss account for the three months ended 31 March.</p> <p>Take out a balance sheet as at 31 March.</p> <p>Activity reproduced with permission of Letts Educational – GNVQ Advanced Business, p479</p>	Stock at 1 <sup>st</sup> July £2,410	Purchases £18,000	Sales £29,550	Wages £8,420	Postage £120	Rent and rates £1,160	Transport £490	Insurance £220	Stationary £80	Lighting and heat £590	Stock at 30 <sup>th</sup> June £2,500		Opening Stock £13,500	Purchases £40,000	Overheads £8,000	Premises £50,000	Vans £12,000	Debtors £3,200	Capital £75,000	Closing Stock £9,500	Cash-in-hand £300	Sales £60,000	Cash at bank £13,000	Loans £1,000	Creditors £4,000			8
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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.

Dave Hall, Business Studies (2nd Edition) Causeway Press, 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**

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

Tutor Support Guide

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

Alan Millichamp, Finance for Non-Financial Managers, Continuum International Publishing Group, 08264537191

L Chadwick and D Kirkby, Financial Management, International Thomson Business Press, 0415111067X

The above texts are quite advanced for beginners and should be employed very selectively and only in the latter stages of the module.

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 obtaining news of a general interest to the business finance student.

[www.businessweek.com](http://www.businessweek.com)

[www.economist.co.uk](http://www.economist.co.uk)

[www.newsday.com](http://www.newsday.com)

[www.ft.com](http://www.ft.com)