

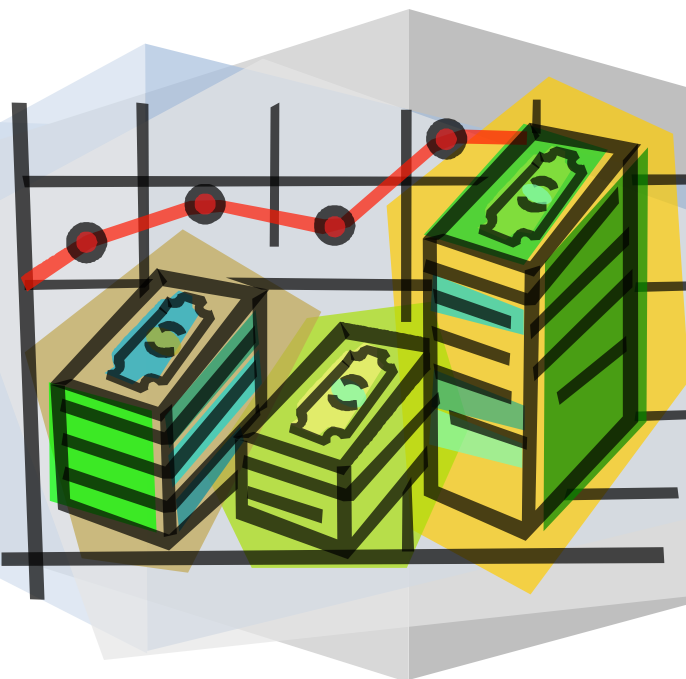
Business Management

H

N5

Management of People and Finance

3.2 – Finance



**Question
Bank**

WHAT IS FINANCE ALL ABOUT?

- | | | |
|---|---|---|
| 1 | Describe what the ROLE of FINANCE staff is in a business. | 2 |
| 2 | Describe 3 ACTIVITIES that are commonly carried out by FINANCE staff. | 3 |
| 3 | Explain how EFFECTIVE work by FINANCE staff can BENEFIT a business. | 3 |
| 4 | Explain why a business can FAIL due to POOR work by FINANCE staff. | 1 |
| 5 | Describe what each of the following terms mean. | 4 |
| | a ADMINISTRATION | |
| | b ADMINISTRATOR | |
| | c GOING CONCERN | |
| | d LIQUIDATION | 4 |

INTERNAL FINANCE

- | | | |
|----|--|---|
| 6 | Describe what INTERNAL FINANCE is. | 1 |
| 7 | Suggest how long INTERNAL FINANCE is usually available for. | 1 |
| 8 | Describe what EQUITY FINANCE is. | 1 |
| 9 | Describe what CAPITAL is, and identify which businesses use it. | 3 |
| 10 | Describe what ORDINARY Shares are, and identify which business can use them. | 2 |
| 11 | Describe what PREFERENCE Shares are, and identify which business can use them. | 2 |
| 12 | Explain how Ordinary and Preference Shares are different. | 2 |
| 13 | Explain why a business would use INTERNAL FINANCE. | 2 |
| 14 | Suggest DISADVANTAGES that might arise from using INTERNAL FINANCE. | 2 |

THE STOCK MARKET

15	Describe what the STOCK MARKET does.	1
16	Explain what the difference between a PRIVATE and INSTITUTIONAL INVESTORS is.	1
17	Explain why the price of shares constantly varies on the stock market.	2
18	Explain why PLCs must provide the stock market with information about their performance.	2
19	Explain what INSIDER DEALING is and describe what will happen if it occurs.	2
20	Describe what a STOCK index is.	1
21	Explain the difference between a BULL and a BEAR MARKET.	2
22	Explain how the stock market can be used to provide finance for Limited Companies.	2

EXTERNAL FINANCE

23	Describe what EXTERNAL FINANCE is.	1
24	Outline 3 SOURCES of EXTERNAL FINANCE.	3
25	Describe what a MORTGAGE is and suggest a reason why a business would use it.	2
26	Describe what is meant by a SECURE LOAN.	1
27	Explain how SALE AND LEASEBACK provides finance for a business.	1
28	Outline what a VENTURE CAPITALIST does.	1
29	Suggest one DRAWBACK of using a VENTURE CAPITALIST as a source of finance.	1
30	Explain how VENTURE CAPITALISTS make money.	2
31	Explain what the difference between a HIRE PURCHASE and a LEASE is.	2
32	Explain how using a HIRE PURCHASE or a LEASE can increase the amount of finance available.	1
33	Explain why businesses are keen to use GRANTS as external finance.	1
34	Explain how an OVERDRAFT is different from a LOAN.	1
35	Describe what DEBT FACTORING is and explain when a business could use it.	2
36	Describe what is meant by TRADE CREDIT and explain how it can provide finance for a business.	2
37	Explain why a business that is always using SHORT TERM finance should be worried.	1
38	Suggest 3 ADVANTAGES from the use of EXTERNAL FINANCE	1
39	What DISADVANTAGES are there to using EXTERNAL FINANCE?	2

CHOOSING METHODS OF FINANCE

40 Describe at least 3 factors that influence the method of finance that a business uses. 3

DEALING WITH PAYMENTS RECEIVED

41 Explain why a business will receive payments. 1

42 Describe at least 2 ways that payments can be made to a business. 2

43 Outline the steps that should be taken to PROCESS payments received. 4

PAYING FOR BUSINESS ACTIVITIES

44 Identify at least 5 payments that have to be made to keep a business running. 5

MANAGING CASH FLOW

45 Describe what CASHFLOW is and explain why it important to business success. 2

46 Explain the difference between POSITIVE and NEGATIVE cashflow. 2

47 Describe 5 reasons for CASHFLOW PROBLEMS in a business. 5

48 Suggest how a business can collect relevant cash flow information in order to manage its' cashflow effectively. 1

CASH BUDGETS

- 49 Explain what a CASH BUDGET does. 1
- 50 Explain why budgets must be realistic estimates and not just guesses. 1
- 51 Describe what each of the following parts of a Cash Budget is.
- a RECEIPTS
 - b CASH AVAILABLE
 - c PAYMENTS
 - d CLOSING BALANCE 4
- 52 Explain why the CLOSING balance of one month becomes the OPENING balance for the next. 1
- 53 Explain the difference between a DEFICIT and a SURPLUS. 1
- 54 Explain why DEFICITS must be prevented. 1
- 55 Describe 5 actions a business can take to address a DEFICIT in a cash budget. 5
- 56 Explain how a cash budget can be helpful when it shows SURPLUSES. 1

TRADING, PROFIT AND LOSS ACCOUNTS

- 57 Explain what the purpose of TRADING, PROFIT AND LOSS ACCOUNT is. 2
- 58 Identify the name of a document similar to a TRADING, PROFIT AND LOSS ACCOUNT. 1
- 59 Describe what the TRADING ACCOUNT does. 1
- 60 Describe what GROSS PROFIT is and how is it calculated. 2
- 61 Outline what the COST OF SALES figure shows. 1
- 62 Describe what the PROFIT AND LOSS ACCOUNT does. 1
- 63 Explain how NET PROFIT is different from GROSS PROFIT. 2
- 64 Describe what EXPENSES are and identify 3 examples of them. 4
- 65 Describe what an APPROPRIATION ACCOUNT does, and identify who uses one. 3
- 66 Suggest 3 reasons TRADING, PROFIT AND LOSS ACCOUNTS may not provide a full picture of how well as business is performing. 3
- 67 Use the following information to MANUALLY or ELECTRONICALLY prepare A King's TRADING, PROFIT AND LOSS ACCOUNTS for the year ended 31 December LAST year.
- 68

Sales	£30,000	Opening Stock	£1,000
Purchases	£6,000	Closing Stock	£2,000
Rent	£1,000	Wages	£12,000
Rates	£1,000	Power	£1,000
Phones	£1,000	Advertising	£4,000

- 69 Use the following information to MANUALLY or ELECTRONICALLY prepare A King's TRADING, PROFIT AND LOSS ACCOUNTS for the year ended 31 December THIS year.

Sales	£40,000	Opening Stock	£2,000
Purchases	£10,000	Closing Stock	£2,000
Rent	£2,000	Wages	£15,000
Rates	£1,500	Power	£1,500
Phones	£1,000	Advertising	£5,000

THE BALANCE SHEET

70 Explain what the purpose of the BALANCE SHEET is. 2

71 Describe what the NET WORTH section of the Balance Sheet does, and outline the meaning of each of the following terms that appear within it.

- a FIXED ASSET
- b DEPRECIATION
- c CURRENT ASSET
- d DEBTOR
- e CURRENT LIABILITY
- f CREDITOR
- g WORKING CAPITAL 8

72 Describe what the FINANCED BY section of the Balance Sheet does, and outline the meaning of each of the following terms that appear within it.

- a CAPITAL
- b LONG TERM LIABILITY
- c RETAINED PROFIT 4

73 Explain why the NET WORTH and FINANCED BY sections must be of equal value. 1

74 Use the following information to MANUALLY or ELECTRONICALLY prepare A King’s BALANCE SHEET as at 31 December LAST year.

Factory	£50,000	Factory Depreciation	£20,000
Machinery	£10,000	Machinery Depreciation	£5,000
Closing Stock	From P&L	Debtors	£8,000
Bank	£5,000	Creditors	£10,000
Capital	£35,000	Profit	From P&L

75 Use the following information to MANUALLY or ELECTRONICALLY prepare A King’s BALANCE SHEET as at 31 December THIS year.

Factory	£50,000	Factory Depreciation	£25,000
Machinery	£10,000	Machinery Depreciation	£6,000
Closing Stock	From P&L	Debtors	£12,000
Bank	£6,000	Creditors	£5,000
Capital	£35,000	Profit	Last yr’s BS + this yr’s P&L

RATIO ANALYSIS

- 76 What does RATIO ANALYSIS do? 3
- 77 What problems can there be with the use of RATIO ANALYSIS? 2
- 78 Using the Final Accounts that you have prepared for A King, MANUALLY or ELECTRONICALLY find out the following information about PROFITABILITY.
- a NET PROFIT RATIO – last year AND this year
 - b GROSS PROFIT RATIO – last year AND this year
 - c RETURN ON CAPITAL EMPLOYED RATIO – last year AND this year
 - d MARK UP RATIO – last year AND this year 8
- 79 Using your PROFITABILITY ratios from Q51, comment on what has happened to each ratio and why this might have happened. 8
- 80 Using the Final Accounts that you have prepared for A King, MANUALLY or ELECTRONICALLY find out the following information about LIQUIDITY.
- a CURRENT RATIO – last year AND this year
 - b ACID TEST RATIO – last year AND this year 4
- 81 Using your LIQUIDITY ratios from Q54, comment on what has happened to each ratio and why this might have happened. 4
- 82 Using the Final Accounts that you have prepared for A King, MANUALLY or ELECTRONICALLY find out the RATE OF STOCK TURNOVER RATIO for last year AND this year. 2
- 83 Using your RATE OF STOCK TURNOVER RATIO from Q55, comment on what has happened and why this might have been the case. 2

BREAKEVEN ANALYSIS

- 84 Describe what BREAKEVEN ANALYSIS is. 1
- 85 Outline what the BREAKEVEN POINT is. 1
- 86 Describe what each of the following terms mean are and identify an example of each.
- a FIXED COSTS
 - b VARIABLE COSTS
 - c TOTAL COSTS
 - d REVENUE 8
- 87 Describe what a BREAKEVEN CHART does. 1
- 88 Explain why breakeven analysis is useful to businesses. 2

FACTORS AFFECTING FINANCE

- 89 Identify an INTERNAL FACTOR that can assist in the success of financial activities. 1
- 90 Explain how the INTERNAL FACTOR identified in Q69 helps financial activities. 1
- 91 Identify an INTERNAL FACTOR that can cause problems for financial activities. 1
- 92 Explain how the INTERNAL FACTOR identified in Q71 hinders financial activities. 1
- 93 Explain how an example of how each of the following EXTERNAL FACTORS affects financial activities (positively or negatively). 5
- a POLITICAL FACTORS
 - b ECONOMIC FACTORS
 - c SOCIAL FACTORS
 - d ENVIRONMENTAL FACTORS
 - e COMPETITIVE FACTORS
- 94 Describe what a SPREADSHEET is. 1
- 95 Outline the BENEFITS of using SPREADSHEETS. 3
- 96 Explain how TECHNOLOGICAL FACTORS have affected the management of finance in modern businesses. 3

FINANCE – SUMMARY TASK

Stone Petroleum PLC is a petrol company and would like you to complete the following tasks for them to help them manage the finances of their business.

- 1 Suggest and justify 3 suitable sources of finance that Stone Petroleum PLC could use to expand their business.

- 2 Use the following information to MANUALLY or ELECTRONICALLY prepare Stone Petroleum PLC's CASH BUDGET for January to March of next year.

<i>January Sales</i>	<i>£25,000</i>	<i>February Sales</i>	<i>£25,000</i>
<i>March Sales</i>	<i>£15,000</i>	<i>April Sales</i>	<i>£30,000</i>
<i>Rent (every month)</i>	<i>£2,000</i>	<i>Wages (every month)</i>	<i>£8,000</i>
<i>Purchases (every month)</i>	<i>£10,000</i>	<i>Equipment Purchase (Feb)</i>	<i>£30,000</i>

Using the CASH BUDGET that you have prepared for Stone Petroleum PLC, answer the following questions.

- a When will there be SURPLUSES?
 - b Describe something that SURPLUSES can be used for.
 - c When will there be DEFICITS?
 - d Explain why these DEFICITS have occurred.
 - e Describe at least 3 things that can be done to deal with DEFICITS.
-
- 3 Use the following final accounts to calculate the following ratios for Stone Petroleum PLC.
 - a NET PROFIT RATIO
 - b GROSS PROFIT RATIO
 - c RETURN ON CAPITAL EMPLOYED RATIO
 - d MARK UP RATIO
 - e CURRENT RATIO
 - f ACID TEST RATIO
 - g RATE OF STOCK TURNOVER RATIO for last year AND this year.

**TRADING, PROFIT AND LOSS and APPROPRIATION ACCOUNTS OF
STONE PETROLEUM PLC FOR THE YEAR ENDED 31 DEC 2013**

	£	£	£
	Sales		240,000
	LESS COST OF GOODS SOLD		
This is the TRADING ACCOUNT.	Opening Stock	15,000	
	add Purchases	95,000	
		110,000	
	less Closing Stock	26,000	
	COST OF GOODS SOLD		84,000
	GROSS PROFIT		156,000
	Discount Received	5,000	
	Decrease in Provision for Bad Debts	2,000	
	Royalties Received	4,000	11,000
			167,000
	LESS EXPENSES		
This is the PROFIT & LOSS ACCOUNT.	Wages*	35,000	
	Insurance*	18,000	
	Bad Debts	4,000	
	Discount Allowed	2,000	
	Depreciation of Premises*	10,000	
	Depreciation of Equipment*	21,000	
	Debenture Interest*	2,000	92,000
	PROFIT BEFORE TAX		75,000
	Taxation of Profit		24,750
	PROFIT AFTER TAX		50,250
	Unappropriated Profit from previous years		23,000
			73,250
This is the APPROPRIATION ACCOUNT.	<i>Interim Dividends Paid:</i>		
	Ordinary	2,000	
	<i>Final Dividends Proposed:</i>		
	Preference	3,000	
	Ordinary	5,000	
	Transfer to Reserve	6,000	16,000
	Unappropriated profit for the year		57,250

BALANCE SHEET OF STONE PETROLEUM PLC AS AT 31 DEC 2013

	£	£	£	
	INTANGIBLE ASSETS			
This section calculates the business' ASSET VALUE.	Goodwill		15,000	
	Patents & Trademarks		18,000	
			33,000	
	FIXED ASSETS			
	Premises	100,000	30,000	70,000
	Equipment	150,000	66,000	84,000
				154,000
	INVESTMENTS			10,000
	CURRENT ASSETS			
	Stock		26,000	
Debtors*		27,000		
Prepaid Insurance		1,000		
Bank		8,000		
		62,000		
CURRENT LIABILITIES				
Creditors	23,000			
Accrued Wages	5,000			
Accrued Debenture Interest	1,000			
Tax Due	24,750			
Preference Dividend Due	3,000			
Ordinary Dividend Due	5,000	61,750	250	
			197,250	
This is the FINANCED BY SECTION.	FINANCED BY			
	<i>Share Capital</i>		<i>Authorised</i>	<i>Issued</i>
	10% Preference Shares of £1 each		30,000	30,000
	Ordinary Shares of £1 each		70,000	55,000
				85,000
	<i>Reserves</i>			
	General Reserve		20,000	
	Share Premium Account		15,000	
	Unappropriated Profit		57,250	92,250
				92,250
<i>Shareholders Funds</i>				
10% Debentures (2025)			20,000	
			197,250	