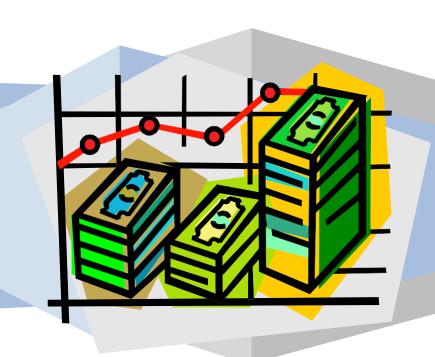
Management of People and Finance

H N5

3.2 – Finance



Question Bank

WHAT IS FINANCE ALL ABOUT?

1	Describe what the ROLE of FINANCE staff is in a business.				
2	Describe 3 ACTIVITIES that are commonly carried out by FINANCE staff.				
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			
INTE	RNAL 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			

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1

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
EXTE	ERNAL 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

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CHOOSING METHODS OF FINANCE

40	Describe at least 3 factors that influence the method of finance that a business uses.	3
DEAI	LING 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
PAYI	NG FOR BUSINESS ACTIVITIES	
44	Identify at least 5 payments that have to be made to keep a business running.	5
MAN	IAGING 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

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CASH BUDGETS

49	Explain what a CASH BUDGET does.		
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.				
58	Identify the name of a document similar to a TRADING, PROFIT AND LOSS ACCOUNT.				
59	Describe what the TRADING A	CCOUNT does.			1
60	Describe what GROSS PROFIT	is and how is it calc	ulated.		2
61	Outline what the COST OF SAI	ES figure shows.			1
62	Describe what the PROFIT AN	D LOSS ACCOUNT d	oes.		1
63	Explain how NET PROFIT is dif	ferent from GROSS	PROFIT.		2
64	Describe what EXPENSES are a	and identify 3 exam	ples of them.		4
65	Describe what an APPROPRIA	TION ACCOUNT doe	es, and identify who uses one.		3
66	Suggest 3 reasons TRADING, F well as business is performing		CCOUNTS may not provide a full picture	e of how	3
67 68	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.				
00	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.				
		C40 000	Opening Stock	62.000	
	Sales	£40,000	Opening Stock	£2,000	
	Sales Purchases	£40,000 £10,000	Closing Stock	£2,000 £2,000	

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Power

Advertising

£1,500

£1,000

Rates

Phones

£1,500

£5,000

THE BALANCE SHEET

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

2

1

From P&L

6

- 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

Capital

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b LONG TERM LIABILITY

SHEET as at 31 December LAST year.

- c RETAINED PROFIT 4
- 73 Explain why the NET WORTH and FINANCED BY sections must be of equal value.

£35,000

74 Use the following information to MANUALLY or ELECTRONICALLY prepare A King's BALANCE

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

Profit

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	n £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

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RATIO ANALYSIS

76	What does RATIO ANALYSIS do?		
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	

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BREAKEVEN ANALYSIS

84	Describe what BREAKEVEN ANALYSIS is.	
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

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FACTORS AFFECTING FINANCE

89	Identify an INTERNAL FACTOR that can assist in the success of financial activities.					
90	Explain how the INTERNAL FACTOR identified in Q69 helps financial activities.					
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).					
	a POLITICAL FACTORS					
	b ECONOMIC FACTORS					
	c SOCIAL FACTORS					
	d ENVIRONMENTAL FACTORS					
	e COMPETITIVE FACTORS	5				
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.					

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9

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.

- Suggest and justify 3 suitable sources of finance that Stone Petroleum PLC could use to expand their business.
- Use the following information to MANUALLY or ELECTRONICALLY prepare Stone Petroleum PLC's CASH BUDGET for January to March of next year.

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

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.

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TRADING, PROFIT AND LOSS and APPROPRIATION ACCOUNTS O 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 add Purchases	15,000 95,000 110,000	
	less Closing Stock COST OF GOODS SOLD	26,000	84,000
	0001 01 00020 0022		01,000
	GROSS PROFIT Discount Received	5,000	156,000
	Decrease in Provision for Bad Debts Royalties Received	2,000 4,000	11,000 167,000
	LESS EXPENSES		107,000
	Wages* Insurance*	35,000 18,000	
This is the PROFIT &	Bad Debts Discount Allowed	4,000 2,000	
LOSS	Depreciation of Premises*	10,000	
ACCOUNT.	Depreciation of Equipment* Debenture Interest*	21,000 2,000	92,000
	Dependire 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
	Interim Dividends Paid:		
T1 1 2 4 4 4	Ordinary	2,000	
This is the APPROPRIATION ACCOUNT.	Final Dividends Proposed: 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	Goodwill Patents & Trademarks			15,000 18,000 33,000
business'	FIXED ASSETS			
ASSET VALUE.	Premises Equipment	100,000 150,000	30,000 66,000	70,000 84,000 154,000
	INVESTMENTS			10,000
	CURRENT ASSETS			
	Stock Debtors* Prepaid Insurance Bank		26,000 27,000 1,000 8,000 62,000	
	CURRENT LIABILITIES		3_,333	
	Creditors Accrued Wages Accrued Debenture Interest Tax Due Preference Dividend Due Ordinary Dividend Due	23,000 5,000 1,000 24,750 3,000 5,000	61,750	250
This is the FINANCED	Clamary Dividenta Bae	0,000	01,700	197,250
BY SECTION.	FINANCED BY			,
CLOTION.	Share Capital 10% Preference Shares of £1 each Ordinary Shares of £1 each	า	Authorised 30,000 70,000	Issued 30,000 55,000 85,000
	Reserves General Reserve Share Premium Account Unappropriated Profit		20,000 15,000 57,250	92,250 92,250
	Shareholders Funds 10% Debentures (2025)			20,000
	1070 Depontates (2020)			197,250
				.0.,200

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