

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.



