

# 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 |

## EXTERNAL FINANCE

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

## CHOOSING METHODS OF FINANCE

33	Describe at least 3 factors that influence the method of finance that a business uses.	3
34	Explain how the UK Government can help businesses decide on sources of finance to use.	1
35	Describe methods of finance that the European Union can advise businesses about.	2
36	Describe what support agencies are and identify an example of one.	5
37	Identify a professional person who could help businesses with finance decisions.	1
38	Suggest 2 pieces of information will be included in a Business Plan?	2
39	Why would a business prepare a Business Plan?	2

## **DEALING WITH PAYMENTS RECEIVED**

- 40 Explain why a business will receive payments. 1
- 41 Describe at least 2 ways that payments can be made to a business. 2
- 42 Outline the steps that should be taken to PROCESS payments received. 4

## **PAYING FOR BUSINESS ACTIVITIES**

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

## **MANAGING CASH FLOW**

- 44 Describe what CASHFLOW is and explain why it important to business success. 2
- 45 Explain the difference between POSITIVE and NEGATIVE cashflow. 2
- 46 Describe 5 reasons for CASHFLOW PROBLEMS in a business. 5
- 47 Suggest how a business can collect relevant cash flow information in order to manage its' cashflow effectively. 1

## **CASH BUDGETS**

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

## **TRADING, PROFIT AND LOSS ACCOUNTS**

56	Explain what the purpose of TRADING, PROFIT AND LOSS ACCOUNT is.	2
57	Identify the name of a document similar to a TRADING, PROFIT AND LOSS ACCOUNT.	1
58	Describe what the TRADING ACCOUNT does.	1
59	Describe what GROSS PROFIT is and how is it calculated.	2
60	Outline what the COST OF SALES figure shows.	1
61	Describe what the PROFIT AND LOSS ACCOUNT does.	1
62	Explain how NET PROFIT is different from GROSS PROFIT.	2
63	Describe what EXPENSES are and identify 3 examples of them.	4
64	Describe what an APPROPRIATION ACCOUNT does, and identify who uses one.	3
65	Suggest 3 reasons TRADING, PROFIT AND LOSS ACCOUNTS may not provide a full picture of how well as business is performing.	3

## **BREAKEVEN ANALYSIS**

66	Describe what BREAKEVEN ANALYSIS is.	1
67	Outline what the BREAKEVEN POINT is.	1
68	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
69	Describe what a BREAKEVEN CHART does.	1
70	Explain why breakeven analysis is useful to businesses.	2

## FACTORS AFFECTING FINANCE

- 71 Identify an INTERNAL FACTOR that can assist in the success of financial activities. 1
- 72 Explain how the INTERNAL FACTOR identified in Q69 helps financial activities. 1
- 73 Identify an INTERNAL FACTOR that can cause problems for financial activities. 1
- 74 Explain how the INTERNAL FACTOR identified in Q71 hinders financial activities. 1
- 75 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
- 76 Describe what a SPREADSHEET is. 1
- 77 Outline the BENEFITS of using SPREADSHEETS. 3
- 78 Explain how TECHNOLOGICAL FACTORS have affected the management of finance in modern businesses. 3

## FINANCE – SUMMARY TASK

A King owns a dental supply business 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 A King could use to expand their business.

2 Use the following information to MANUALLY or ELECTRONICALLY prepare A King'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 A King, answer the following questions.

- When will there be SURPLUSES?
- Describe something that SURPLUSES can be used for.
- When will there be DEFICITS?
- Explain why these DEFICITS have occurred.
- Describe at least 3 things that can be done to deal with DEFICITS.

3 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.

<i>Sales</i>	<i>£300,000</i>	<i>Opening Stock</i>	<i>£10,000</i>
<i>Purchases</i>	<i>£60,000</i>	<i>Closing Stock</i>	<i>£20,000</i>
<i>Rent</i>	<i>£10,000</i>	<i>Wages</i>	<i>£120,000</i>
<i>Rates</i>	<i>£10,000</i>	<i>Power</i>	<i>£10,000</i>
<i>Phones</i>	<i>£10,000</i>	<i>Advertising</i>	<i>£40,000</i>

Using the TRADING, PROFIT AND LOSS ACCOUNTS that you have prepared for A King, answer the following questions.

- Will there be a NET PROFIT or a NET LOSS?
- What do you think A King should try and change next year?

4 Identify the expected BREAKEVEN POINT for A King in June of next year.

