

# Unit 5: Business Accounting

<b>Unit code:</b>	<b>M/502/5415</b>
<b>QCF Level 3:</b>	<b>BTEC National</b>
<b>Credit value:</b>	<b>10</b>
<b>Guided learning hours:</b>	<b>60</b>

## ● Aim and purpose

The aim of this unit is to enable learners to understand the purpose of accounting, and the associated processes and its role in the managing of a business. Learners will develop the skills and knowledge needed to understand financial information.

## ● Unit introduction

Understanding how a business operates and what makes it successful, requires knowledge of the accounting process. Accounting involves recording business transactions and, this in turn, leads to the generation of financial information which can be used as the basis of good financial control and planning. Inadequate record keeping and a lack of effective planning ultimately lead to poor financial results. It is vital that owners and managers of businesses recognise the indications of potential difficulties. Remedial action can then be taken.

The unit is divided into two parts. The first develops an understanding of the accounting processes necessary to provide accurate and relevant financial information. The second part covers the practical aspect of carrying out those accounting activities.

Learners will be introduced to accounting terminology as they study the purpose and function of accounting and consider the various categories of business income and expenditure. It is important to know the sources of an organisation's income and the nature of its expenditure, as this clarifies the basis of its profitability and enables more effective control of the business. Control begins with the planning process and learners will study the use of a cash flow forecast which requires managers to set cash flow targets that can be monitored and adjusted on a regular basis. Learners will consider the effective management of cash flow and the implications of cash flow problems. The link between business failure and cash flow problems will be highlighted.

The measurement of an organisation's financial performance and position requires an understanding of a basic profit and loss account and balance sheet with this understanding learners can analyse profitability, liquidity and efficiency of the organisation through the application of ratio analysis. Analysis will always require comparison of current figures with those from a previous accounting period, or those of a similar business organisation. Learners will discover how to carry out ratio analysis as well as the meaning and implication of the figures.

## ● Learning outcomes

**On completion of this unit a learner should:**

- 1 Understand the purpose of accounting and the categorisation of business income and expenditure
- 2 Be able to prepare a cash flow forecast
- 3 Be able to prepare profit and loss accounts and balance sheets
- 4 Be able to review business performance using simple ratio analysis.

# Unit content

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## 1 Understand the purpose of accounting and the categorisation of business income and expenditure

*Purpose:* record transactions; monitor activity; control; management of the business (planning, monitoring, controlling); measurement of financial performance (gross profit, net profit, value owed to and by the business)

*Capital income:* sole traders; partners; shares; loans; mortgages

*Revenue income:* sales (cash and credit transactions); rent received; commission received

*Capital expenditure:* fixed assets (land and buildings; office equipment; machinery; furniture and fittings; motor vehicles); intangibles eg goodwill, patents, trademarks

*Revenue expenditure:* premises costs eg rent, rates, heating and lighting, insurance; administrative costs eg telephone charges, postage, printing, stationery; staff costs eg salaries, wages, training, insurance, pensions; selling and distribution costs eg sales staff salaries, carriage on sales, marketing; finance costs eg bank charges, loan and mortgage interest; purchase of stock (cash and credit transactions)

## 2 Be able to prepare a cash flow forecast

*Cash flow forecast:* structure; timescale; credit periods; receipts (cash sales, debtors, capital, loans, other income); payments (cash purchases, trade creditors, revenue expenditure, capital expenditure, Value Added Tax (VAT)); opening and closing cash/bank balances

*Cash flow management:* problems within the cash flow forecast eg insufficient cash to meet payments due; solutions eg overdraft arrangements, negotiating terms with creditors, reviewing and rescheduling capital expenditure

## 3 Be able to prepare profit and loss accounts and balance sheets

*Profit and loss account:* purpose and use; trading account and calculation of gross profit (sales, purchases, opening and closing stocks); calculation of net profit (overheads, other revenue income eg discounts received); commission received; transfer of net profit to balance sheet

*Balance sheet:* purpose and use; vertical presentation; order of permanence; fixed assets; current assets; intangible assets; long-term liabilities; current liabilities; working capital; net assets; transfer of net profit from profit and loss account; capital employed

*International Equivalents:* changes to reporting requirements under the International Accounting Standards (IAS), eg statement of comprehensive income, statement of financial position.

## 4 Be able to review business performance using simple ratio analysis

*Profitability:* gross profit percentage of sales; net profit percentage of sales; return on capital employed (ROCE)

*Liquidity:* current ratio; acid test ratio/liquidity ratio

*Efficiency:* debtors' payment period; creditors' payment period; rate of stock turnover

## Assessment and grading criteria

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria for a pass grade describe the level of achievement required to pass this unit.

Assessment and grading criteria		
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
<b>P1</b> describe the purpose of accounting for an organisation [IE]		
<b>P2</b> explain the difference between capital and revenue items of expenditure and income [TW]		
<b>P3</b> prepare a 12-month cash flow forecast to enable an organisation to manage its cash [CT, RL, SM]	<b>M1</b> analyse the cash flow problems a business might experience	<b>D1</b> justify actions a business might take when experiencing cash flow problems
<b>P4</b> prepare a profit and loss account and balance sheet for a given organisation [SM]		
<b>P5</b> perform ratio analysis to measure the profitability, liquidity and efficiency of a given organisation. [CT]	<b>M2</b> analyse the performance of a business using suitable ratios.	<b>D2</b> evaluate the financial performance and position of a business using ratio analysis.

**PLTS:** This summary references where applicable, in the square brackets, the elements of the personal, learning and thinking skills applicable in the pass criteria. It identifies opportunities for learners to demonstrate effective application of the referenced elements of the skills.

<b>Key</b>	IE – independent enquirers	RL – reflective learners	SM – self-managers
	CT – creative thinkers	TW – team workers	EP – effective participators

# Essential guidance for tutors

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## Delivery

Delivery of this unit should include a variety of delivery methods that use a range of sources and resources, to enable learners to gain a wider knowledge and appreciation of the accounting function. Accounting is a vital part of any organisation dealing with money or monetary worth. Learners should be encouraged to appreciate that the knowledge and skills gained here are equally useful when approaching personal finance.

Simulation is an excellent means of delivery, giving learners a good understanding of accounting principles and developing their accounting skills. Simulations include simple business and accounting games and the preparation of accounting documents such as cash flow forecasts. Using computerised spreadsheets, particularly in preparing cash flow forecasts, removes the calculation element of the task, allowing learners to concentrate more closely on the results.

Case studies allow learners to develop their analytical and evaluative skills particularly where group work and discussions are used. Visiting speakers, from different types of business organisation, will give learners a different perspective on accounting issues that may be faced in practice. Group tasks involving research, including use of the internet, should motivate the learners, and group presentations of accounting information using multi-media will encourage learners to share and discuss their learning.

For learning outcome 1, learners should be introduced to the unit by considering, in groups, potential sources of income and the nature of likely expenditure. Case studies or simulations based on business start-up can be discussed and used to consider the requirement to make a profit and how profit can be generated. Scenarios could also be used to illustrate particular aspects of business such as the differences between trading and service organisations or the effect of delays in customers settling their bill. Guest speakers may be used to explain the importance of the various aspects of income and revenue, their impact on a business and how problems might be dealt with.

The initial concepts of cash flow in learning outcome 2 could be introduced by considering personal finance. Learners could produce a personal cash flow forecast in which they consider how they might deal with having insufficient funds to meet their expenditure. The concepts of business cash flow must be introduced by using the format of a cash flow forecast and demonstrating the way in which the figures will be added. Banks and business advisory organisations, such as Business Link, produce preset formats for business start-ups that can be used. The management of cash flow can be taught through case studies, group work and business games. Learners will use computerised spreadsheets to prepare cash flow forecasts, and suitable templates may be available online. Spreadsheets will be adjusted to show the effects of various events, such as reduced sales revenue, debtors taking longer to pay, or a delay in major expenditure.

Learning outcome 3 can be delivered using a combination of simulation, learner research, discussion and practical exercises. Learners must discuss what is meant by the term 'profit' and how it is calculated. They will investigate real profit and loss accounts and balance sheets to ascertain their format, content and the rationale behind them. These might be obtained from the internet or intranet. Published accounts may be too technical and complex for learners to understand fully and tutors may want to adjust their content or produce accounts for a fictitious business. Through discussion, group tasks and individual practical exercises, learners must be encouraged to use their understanding of the nature of income and expenditure to appreciate the accounting treatment of each of the components. Tutors must be able to direct learners investigations in order to highlight different styles of balance sheet presentation, such as for a bank and for an engineering company, to enable comparisons to be made.

Simple calculations and exercises, using appropriate performance ratios and based on simulations, must be used to help build up learners' analytical skills. They will use profitability ratios to analyse the profit and loss account, and liquidity and efficiency ratios to analyse the balance sheet. The subsequent review of business performance will be based on case studies of real businesses, although simulation could be used where this is not possible. Analysis and evaluation of the results must be carried out through group work, which will be used to produce a multi-media presentation.

Learners should understand the new requirements under IAS and be aware that although at the time of accreditation of this specification only public companies have to comply with IAS.

## Outline learning plan

The outline learning plan has been included in this unit as guidance and can be used in conjunction with the programme of suggested assignments.

The outline learning plan demonstrates one way in planning the delivery and assessment of this unit.

Topic and suggested assignments/activities and/assessment
Introduction and outline scheme of work/programme of assignments
Visits/speakers
Formal theory input on income and expenditure
Practical class exercises/scenarios
Formal theory input on cash flow
Practical class exercises/scenarios
Research
<b>Assignment 1: Cash Flow</b>
Formal theory input on profit loss and balance sheets
Practical class exercises/scenarios
Research
<b>Assignment 2: Profit and Loss and Balance Sheets</b>
Formal theory input on ratios
Practical class exercises/scenarios
<b>Assignment 3: Using Ratios</b>
Research
Tutorial support and feedback
Supervised assignment work
Non-supervised study time and completion of assignments

## Assessment

To achieve P1, learners will describe clearly the main purpose of accounting for an organisation. The description may be brief but should be accurate and incorporate historical data in order to be able to check on current financial performance and position, as well as the planning aspect of management accounting.

For P2, learners will be expected to explain the different categories of capital income, capital expenditure, revenue income and revenue expenditure as listed in the unit content. This may be achieved in a number of ways. For example, learners could examine a specific type of organisation, identifying the likely income and revenue and indicating in each case whether it is of a capital or revenue nature. They should also describe clearly what each category means. At this stage, learners are not expected to calculate profit or to know the impact of income and expenditure items on profit.

For P3, learners should construct a 12-month cash flow forecast from the information given in a scenario, accurately calculating each month's receipts, payments, opening and closing balances. For M1, learners should comment on the cash flow, highlighting any problems that are evident, such as a shortage of cash resulting from costly capital expenditure in one month. For D1, learners will make appropriate recommendations to solve the cash flow problems, such as re-timing large payments or arranging an overdraft. Learners should show awareness of the dangers and costs of poor financial planning.

For P4, learners will prepare a profit and loss account and balance sheet for an organisation. They will also show how gross profit and net profit are calculated by indicating the kinds of income and expenditure that are included. Learners will be presented with a trading and profit and loss account and a balance sheet for a business organisation, which should be set out using the vertical style. Learners will label the 'cost of goods sold' section and the 'overheads' section of the profit and loss account.

For P5, learners will use ratio analysis to measure profitability, liquidity and efficiency of a given organisation, outlining clearly what is meant by these terms including the meaning and relevance of each ratio. For M2, learners will identify the accounting ratios they will use to analyse profitability, liquidity and efficiency and calculate these accurately, based on the trading and profit and loss account and balance sheet. The relevant accounting ratios from the previous year, or from another similar type of business organisation, will be given to learners. For D2, learners will demonstrate a good understanding of the meaning of the accounting ratios used by comparing the figures calculated with those given. Learners will work in groups to evaluate the performance and position of the business organisation, based on the ratio analysis, giving appropriate supporting evidence for any conclusions. Learners could present their evidence and findings as part of a group using a PowerPoint presentation or OHTs.

## Programme of suggested assignments

The table below shows a programme of suggested assignments that cover the pass, merit and distinction criteria in the assessment and grading grid. This is for guidance and it is recommended that centres either write their own assignments or adapt any Edexcel assignments to meet local needs and resources.

Criteria covered	Assignment title	Scenario	Assessment method
PI, P2, P3, MI, DI	Cash Flow.	Case study on a new business. Financial information either provided/or to be collected.	Controlled assignment in class. Individual assignment covering costs and expenses, completing a cash flow, then something happens to cause cash flow problems, actions recommended.
P4	Profit and Loss and Balance Sheets.	Case study/real info and figures provided.	Controlled class assignment.
P5, M2, D2	Using Ratios.	Case study/real info and figures provided.	Controlled class assignment.

## Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications

This unit forms part of the BTEC Business sector suite. This unit has particular links with the following unit titles in the Business suite:

Level 2	Level 3
Financial Forecasting for Business	Business Resources
Bookkeeping for Business	Financial Accounting
	Management Accounting
	Accounting Systems
	Computer Applications for Financial Management.

This unit should be delivered before any other specialist finance units.

This unit also links to the following draft National Occupational Standards for Accounting, particularly FA1, FA2, FA3, FA4, FA5, MA4.

## Essential resources

Learners can find information using company annual reports, journals, magazines, company websites and newspapers.

Access to a range of information resources to complete investigative assignments and case studies will be essential, including relevant CD ROMs and the internet, as will be access to computers for research and preparing cash flows (using a spreadsheet package) This will enhance the delivery of this unit. Learners will also need access to relevant paper-based research material including published financial reports and books.

## Employer engagement and vocational contexts

Visits to companies and from employees are useful for the delivery of this unit. The use of vocational contexts is essential in delivery and assessment.

Sources of support to enable centres to initiate and establish links with industry, and to networks arranging visits to industry are given below:

Work Experience/Workplace learning frameworks – Centre for Education and Industry (CEI - University of Warwick): [www.warwick.ac.uk/wie/cei](http://www.warwick.ac.uk/wie/cei)

Learning and Skills Network: [www.vocationallearning.org.uk](http://www.vocationallearning.org.uk)

## Indicative reading for learners

### Textbooks

Brammer J, Cox D, Fardon M and Penning A – *Active Accounting* (Osborne Books, 2002) ISBN 1872962378

Cox D – *Business Accounts* (Osborne Books, 2004) ISBN 1872962634

Cox and Fardon M – *Management of Finance* (Osborne Books, 1997) ISBN 1872962238

Dyson J R – *Accounting for Non-Accounting Students* (FT Prentice Hall, 2007) ISBN 0273709224

### Journals

*Accounting Technician* (Centurion Publishing Group)

*PQ Magazine* (PQ Publishing)

### Websites

<a href="http://www.accountingtechnician.co.uk">www.accountingtechnician.co.uk</a>	Association of Accounting Technicians Online
<a href="http://www.accountingweb.co.uk">www.accountingweb.co.uk</a>	Accounting Web – for news and analysis
<a href="http://news.bbc.co.uk/1/hi/business">news.bbc.co.uk/1/hi/business</a>	The business pages of the BBC website
<a href="http://www.bized.co.uk">www.bized.co.uk</a>	A business education resource site
<a href="http://www.canterbury.gov.uk">www.canterbury.gov.uk</a>	An example of a specific local business support website
<a href="http://www.thetimes100.co.uk">www.thetimes100.co.uk</a>	The Times 100 case studies
<a href="http://www.tutor2u.net/business/accounts">www.tutor2u.net/business/accounts</a>	Support for teachers and learners

### Broadcasts

The following programmes often feature business items:

*The Money Programme*, BBC2 (weekly)

*Working Lunch*, BBC2 (daily)

## Delivery of personal, learning and thinking skills

The table below identifies the opportunities for personal, learning and thinking skills (PLTS) that have been included within the pass assessment criteria of this unit.

Skill	When learners are ...
<b>Independent enquirers</b>	investigating business finances
<b>Creative thinkers</b>	generating ideas about cash flow, accounts and ratios
<b>Reflective learners</b>	reflecting on situations which result in changes in finances
<b>Team workers</b>	working in a group to discuss ideas about finance taking responsibility for their own role managing activities to reach agreements and achieve results
<b>Self-managers</b>	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed.

Although PLTS are identified within this unit as an inherent part of the assessment criteria, there are further opportunities to develop a range of PLTS through various approaches to teaching and learning.

Skill	When learners are ...
<b>Independent enquirers</b>	planning and carrying out research into the different types of business finances
<b>Creative thinkers</b>	looking at how different business costs/expenses are classified examining reasons/solutions to business change adapting their skills as circumstances change
<b>Reflective learners</b>	setting goals, with success criteria, for researching business finances inviting feedback on their own work and dealing positively with praise, setbacks and criticism evaluating their experiences and learning to inform future progress
<b>Team workers</b>	working in a group to discuss ideas about finance taking responsibility for their own role managing activities to reach agreements and achieve results
<b>Self-managers</b>	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed
<b>Effective participators</b>	planning and carrying out research into accounts.

## ● Functional Skills – Level 2

Skill	When learners are ...
<b>ICT – Use ICT systems</b>	
Select, interact with and use ICT systems independently for a complex task to meet a variety of needs	researching business organisations preparing accounts
Use ICT to effectively plan work and evaluate the effectiveness of the ICT system they have used	tabulating information
<b>ICT – Find and select information</b>	
Select and use a variety of sources of information independently for a complex task	finding illustrative materials for presentations and tabulations about business accounting creating diagrams, presentations and tabulations
Access, search for, select and use ICT-based information and evaluate its fitness for purpose	exploring, extracting and assessing the relevance of information from websites about business accounting
<b>ICT – Develop, present and communicate information</b>	
Enter, develop and format information independently to suit its meaning and purpose including: <ul style="list-style-type: none"> <li>• text and tables</li> <li>• images</li> <li>• numbers</li> <li>• records</li> </ul>	bringing together a variety of materials gathered through research preparing information to present to others
Bring together information to suit content and purpose	
Present information in ways that are fit for purpose and audience	
Evaluate the selection and use of ICT tools and facilities used to present information	
Select and use ICT to communicate and exchange information safely, responsibly and effectively including storage of messages and contact lists	communicating with other members of a group

Skill	When learners are ...
<b>Mathematics</b>	
Understand routine and non-routine problems in a wide range of familiar and unfamiliar contexts and situations	using numerical data in relation to business finances
Identify the situation or problem and the mathematical methods needed to tackle it	
Select and apply a range of skills to find solutions	
Use appropriate checking procedures and evaluate their effectiveness at each stage	
Interpret and communicate solutions to practical problems in familiar and unfamiliar routine contexts and situations	
Draw conclusions and provide mathematical justifications	
<b>English</b>	
Speaking and listening – make a range of contributions to discussions and make effective presentations in a wide range of contexts	<p>carrying out group work investigating business</p> <p>attending team meetings</p> <p>making presentations about business</p>
Reading – compare, select, read and understand texts and use them to gather information, ideas, arguments and opinions	reading about business change to obtain data to compare businesses and to examine business trends
Writing – write documents, including extended writing pieces, communicating information, ideas and opinions, effectively and persuasively.	<p>writing materials to provide information about business change</p> <p>producing accounts and diagrams showing business.</p>