



Unit 12: Financial Statements for Specific Businesses

Delivery guidance

Approaching the unit

This unit is about the financial statements required for partnerships, non-profit organisations and manufacturing businesses. They are different in structure, format and layout from the more common and conventional layouts for sole trader and limited company accounts. In this way, learners who may find themselves working for these specific businesses might benefit from greater insight and knowledge on the financial requirements.

Learners will need to be able to produce concise, accurate financial statements, which comply with the established and recognised format for these particular structures. They will need access to a wide range of typical accounting exercises and case studies for each type of specific business.

You can use a range of delivery methods for this unit, for example:

- discussion – class and small group discussions on the finances for business
- individual and/or paired completion of the practical accounting exercises
- case studies and scenarios for the practical accounting exercises for example, a sole trader moving to a partnership.

Group work is an acceptable form of delivery for aspects of the unit, but you must ensure that learners individually produce evidence that is sufficient for assessment.

You can involve local employers in the delivery of this unit by inviting them as:

- guest speakers
- providers of work experience for learners, and of business materials as basis for case studies and exemplars
- mentors for learners.

Delivering the learning aims

For learning aim A, introduce the topic by having a class discussion about what they already know about partnerships and the non-profit sector. Some learners may know someone who works in these types of business or they may have done voluntary work themselves.

Alternatively, you could give learners a short case study involving these kinds of business. In small groups learners could carry out further research into the features and aims of these businesses together with suitable trading activities for each. The relative merits and drawbacks could then be identified and discussed.

It might be worthwhile inviting guest speakers from local businesses who operate as a partnership as well as from a local charity or non-profit organisation who could discuss the main features of their business activity. Learners could then develop this initial work by independently conducting primary and secondary research to complete the criteria for learning aim A.

Learners need to focus their findings on the implications of regulations, ownership and capital to accounting information. For example, how unlimited liability affects access to the type and amount of capital, the importance of a partnership agreement and what would happen if one did not exist, the importance of registering accounts with the Charity Commission and so on.

It would be useful to start learning aim B by going over some of the content from *Unit 3: Personal and Business Finance*, in terms of the accounting adjustments made to financial statements – for example, accruals and prepayments, depreciation and loan interest. This could be a starter to a lesson in the format of a 'quick quiz' to see if learners can remember the adjustments and how they were dealt with.

Next, plenty of practical accounting exercises should be used to complete the end-of-year financial statements for partnerships. Learners should already be familiar with the layout of the statement of comprehensive income (trading and profit and loss account) and statement of financial position (balance sheet) from their work on *Unit 3: Personal and Business Finance*. It might be useful therefore to introduce the appropriation account first and foremost since this is not something they have come across so far. In any case, it might be beneficial to build up the exercises in terms of adjustments and complexity. For example, start with relatively straightforward adjustments and introduce more in successive exercises. Encourage learners to consider the accounting concepts they have applied in their exercises, and why, which will help them when they complete their final assessment.

The most significant element of this learning aim is the treatment of goodwill in the ledger accounts and financial statements. A class discussion about how and why goodwill exists at all is a good starting point, then from there, an explanation of why the inclusion of goodwill is important when a partnership changes. Although there are various examples in the teaching content, perhaps the most straightforward one of all is when a new partner joins. Learners may appreciate that goodwill has been earned by the existing partners more easily if you start with that scenario. Then build up exercises which involve such a change to a partnership and therefore the inclusion of goodwill in the ledger accounts. Again, encourage learners to identify the accounting concepts applied and why in their exercises.

Exercises can then be used which incorporate end-of-year statements and changes to partnerships. For example, the end-of-year statements could be completed for a partnership of two, then a new partner joins and the ledger accounts and changes to the statement of financial position could be incorporated. Finally, bullet points about the various concepts used can be identified, explained and applied to the exercise completed.

The key to learning aim C is that the terminology used is different to that of the profit-making sector, but the financial statements are really very similar. It might be useful to start with a table to explain the terminology and how it links to the accounts prepared for businesses.

For example:

Profit making	Non-profit
Cash book	Receipts and payments account
Statement of Comprehensive Income	Income and expenditure account
Net profit/loss	Surplus/Deficit

Plenty of practical exercises should be used to complete the end-of-year financial statements, ensuring that the correct layouts and terms are used for non-profit organisations. Learners are likely to be more confident now about adjustments, since many will be very similar to those used in the partnership exercises. The key difference will be layouts and terminology. The use of trading activities such as a bar or cafe should be incorporated because many non-profit organisations earn regular income from these activities. Once again return to the concepts used and why.

A class discussion could then be used to return to the kinds of organisations which operate in the non-profit sector. This links back to work introduced in learning aim A. Perhaps a visit to a local non-profit organisation could be arranged. The Citizens Advice Bureau is often a good example because they tend to have offices in most large towns and cities. The range of services they offer often generates discussion on the importance of other non-profit activities.

A simple but effective starting point might be a map of a local town; use this in a lesson to identify all the non-profit offices and shops there are. Learners are often surprised about just how much non-profit activity there is in their local area – and that's just what they can see. Learners could then be asked to conduct their own research into what these organisations do and why their work is so important. Finally, if time allows, some secondary research into the growth of the non-profit and voluntary sector nationally could be explored, and the impact and importance of their work can be analysed.

Introduce learning aim D with a class discussion about the difference between a trading or service business and a manufacturing business. You could use practical activities such as making products or a cookery class to demonstrate the different stages and types of costs which go into a manufacturing business.

Learners must be able to appreciate the distinction between direct and indirect costs with lots of examples as well as the different types of stock: raw materials, work in progress (WIP) and finished goods. Learners could then conduct their own research into global, national and local manufacturing businesses to identify what they do and their main aims.

Since learners have already completed financial statements in Unit 3: Personal and Business Finance and may have done so in *Unit 11: Final Accounts for Public Limited Companies*, they are not required to do so all over again in this learning aim. Exercises using manufacturing accounts which incorporate accounting adjustments and manufacturing profit are sufficient.

However, if you feel that including the end-of-year financial statements, or sections of them, would be beneficial to learners' understanding then there is no reason why they cannot be added as an extension activity. For example, you could ask learners to complete the current assets section of the statement of financial position so that they understand the entries for different types of stock. Alternatively, completing the cost of sales section of the statement of comprehensive income would show where the balance from the manufacturing account goes to.

Finally, learners need to consider the reasons for and treatment of manufacturing profit. Although they do not need to complete a full set of end-of-year financial statements, explaining where manufacturing profit appears in these statements and why it might help their evaluation.

A good starting point is the simple question 'if a firm had to buy the finished goods in from a different manufacturer, would they pay the same as their own production cost'? Clearly not, since a different manufacturing firm would incur much the same amount of production costs, but would need to add on a markup for their own profit. Hence, profit is clearly earned (but not realised) at the



manufacturing stage and so on. Learners must apply the relevant concepts to the need for and treatment of manufacturing profit.

Learners would also benefit from understanding about the need for and use of a provision for unrealised profit on the closing stock of finished goods. This would enable them to apply and evaluate concepts in more detail.

Learning aim	Key content areas	Recommended assessment approach
A Understand different types of businesses and their capital structure	A1 Ownership and purpose A2 Capital structure A3 Legal requirements A4 Features and aims of partnerships and non-profit making businesses	<p>A report to explain the features and ownership of partnership and non-profit making businesses.</p> <p>The report will also include a description of suitable trading activities for the different businesses, an assessment of their relative merits and drawbacks and a full evaluation as to the suitability of given trading activities to each type of business.</p>
B Examine the end-of-year financial statements for partnerships	B1 Accounting adjustments B2 End-of-year financial statements B3 Changes to partnerships	<p>A calculation and completion of accounting adjustments and end-of-year financial statements for a partnership business.</p> <p>A report to assess the relevance, importance and accounting treatment of goodwill in partnership accounts.</p>
C Explore the end-of-year financial statements for non-profit organisations	C1 Nature of non-profit organisations C2 Accounting adjustments C3 End-of-year financial statements	<p>A calculation and completion of accounting adjustments and end-of-year financial statements for a non-profit organisation.</p> <p>A report to analyse the importance of non-profit organisations.</p>
D Explore manufacturing accounts	D1 Features and aims D2 Manufacturing costs and profit D3 Accounting adjustments D4 Manufacturing accounts	<p>A report to explain the main features and aims of manufacturing businesses together with a full description of manufacturing profit and the costs of a manufacturer. The report will also include an evaluation of the importance and treatment of manufacturing profit.</p>

Learning aim	Key content areas	Recommended assessment approach
		A calculation and completion of accounting adjustments and a manufacturing account, including manufacturing profit.

Assessment guidance

This unit is internally assessed through two assignments. The first covers learning aims A, B and C, the second covers learning aim D.

All learners must independently generate individual evidence that can be authenticated. The main sources of evidence are likely to be written reports or calculations. Learners could also produce a leaflet about financial statements for new businesses or make a short video about financial considerations for people starting new businesses. Written planning notes for the video should be kept as evidence. Learners should incorporate in-depth research, supported by a fully referenced bibliography.

Learners could also produce presentations. Suitable forms of evidence for a presentation are slides, preparation notes, scripts, cue cards, peer assessment records and an observation record. BTEC assessors could complete observation records, while learners' colleagues in placements or part-time work could complete witness statements. However, observation records alone are not sufficient sources of learner evidence: they must also be supported by the original learner-generated evidence. Assessors should remember that they are assessing the content of the presentation against the learning aim and not the skill with which the presentation was delivered.



Getting started

This gives you a starting place for one way of delivering the unit, based around the specification.

Unit 12: Financial Statements for Specific Businesses

Introduction

Begin this unit by discussing the different types of businesses that exist and the different activities that they do. Identifying these will help generate a discussion about the need for different types of financial statements and what they should include.

Learning aim A – Understand different types of business and their capital structure

- Start with a discussion relating back to the work on business structures from *Unit 1: Exploring Business*. Learners could work in groups to conduct more detailed research into partnerships and non-profit organisations. It would be interesting for learners to visit local businesses or invite them in to discuss their business activities and ownership.
- Further primary and secondary research needs to be conducted so that learners can identify and explain the differing sources of capital and legal requirements from a financial perspective. Learners could perhaps design a suitable guide or leaflet designed to help those who are thinking of becoming a partnership or running a non-profit organisation.

Learning aim B – Examine the end-of-year financial statements for partnerships

- Start with a recap about the end-of-year financial statements for a sole trader from *Unit 3: Personal and Business Finance*. A final accounts exercise could be used for this so that learners familiarise themselves with the layout, adjustments and calculations required.
- Use a matching card activity to remind learners about the underpinning concepts with the concept on one card and the definitions on another. Learners could then match these up individually or in pairs. Learners could then be asked to explain how they have applied a concept in their final accounts exercise.
- Next move on to practical end-of-year accounting exercises for partnerships. Start with an appropriation account since this is the 'new' element, which they have to learn. Introduce the inclusions to the appropriation account in steps: interest on drawings, interest on capital and salaries. Although the completion of the partner's current account is not required for the pass criteria learners may benefit from doing it since it fulfils the double entry requirement. Apply concepts as you go along so that learners can easily identify them when they do the final assessment.
- Then use longer end-of-year exercises to incorporate all the usual adjustments (listed in the specification) as well as those just learnt affecting the appropriation account. Bring them together in exercises to incorporate all the end-of-year financial statements. Again, ensure that learners can identify and explain the concepts used in the production of their financial statements.

Learning aim C – Explore the end-of-year financial statements for non-profit-making organisations

- Use a class discussion and completion of a table or chart to identify and explain the different terms and accounting statements used in non-profit organisations and how they are the same or similar as those used in profit-making businesses.
- Next, use practical accounting exercises to complete the end-of-year financial statements for non-profit organisations. It might be best to start with a receipts-and-payments account so that it can be used to help prepare the financial statements. Complete them in the order of: Bar (or similar) trading account, Income and expenditure account, Statement of financial position.
- Incorporate or set one or two exercises, which require learners to complete a subscriptions ledger account. This is a useful way to calculate the adjustments to subscriptions such as prepaid and accrued at the end and/or start of the year. This account however, is not compulsory.
- Divide learners into small groups and ask them to research the importance of a particular non-profit organisation. They could then present their findings to the rest of the group.

Learning aim D – Explore manufacturing accounts

- Split the class into small groups and then give each group a short manufacturing business scenario. Ask them to discuss all the different types of costs, which would be incurred by this manufacturer. They can then feed back to the rest of group. Then ask them to try to categorise or group them together in some way. Finally use whole class discussion to identify the different stock categories of raw materials, work in progress (WIP) and finished goods.
- The same case or scenario could be used to explain the main features and aims of each group's manufacturing company. This time, ask them to complete an eye-catching poster or wall display to summarise their findings.
- Next move on to the completion of manufacturing accounts. Start with relatively straightforward exercises and build up the adjustments gradually. Since end-of-year financial statements for limited companies are included in other units, there is no need to do them here, unless you want to make the link into these.
- Incorporate manufacturing profit and its treatment as a final step in class exercises.



Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

Pearson BTEC Level 3 Nationals in Business (NQF):

- Unit 3: Personal and Business Finance.
- Unit 7: Business Decision Making.
- Unit 10: Recording Financial Transactions.
- Unit 11: Final Accounts for Public Limited Companies.
- Unit 13: Cost and Management Accounting.

Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC Nationals in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

Textbooks

- Jones R – *Business accounting* (Causeway Press, 2004) ISBN 9781902796413. An accounting text that covers the main book keeping and accounting topics.
- Wood, F. and Robinson, S. *Book keeping and accounts*, eighth edition, (Pearson, 2013) ISBN 9780273773061. An accounting text that covers the main accounting topics with many book keeping and accounting practise exercises.

Journals

- *Business Review* (Philip Allan Magazines). A journal designed for Business Studies learners that include relevant and topical business articles and case studies.

Websites

- www.bized.co.uk – A website containing a range of business education resources.
- www.gov.uk/government/organisations/charity-commission – The Charity Commission website contains information about the accounts and regulations of governing charities and voluntary groups.
- businesscasestudies.co.uk – *The Times* provides up-to-date information and case studies about a whole range of different businesses and organisations.
- www.tutor2u.com – A website containing resources, case studies, articles and revision materials. There are also links to other sources of information.