



Unit 3: Business Finance

Delivery guidance

Business finance helps businesses to operate on a daily basis and to grow and adapt over time. Finance is often required by start-ups to transform a business idea into a reality. It is required by companies to grow, to develop new products and services and to access new markets. It is also sometimes required to bail businesses out if things go wrong.

This unit introduces learners to the types of business finance available in different contexts. It introduces accounting terminology, the purpose and importance of keeping accurate business accounts, and how to measure the financial performance of a company.

The unit also requires learners to prepare financial statements for sole traders – statement of comprehensive income and statement of financial position – as well as a cash flow forecast. The presentation of the financial statements should be in line with the requirements of *IAS1 – Presentation of Financial Statements* and be presented in the following format:

1. Statement of comprehensive income
 - Revenue
 - (Cost of sales)
 - **GROSS PROFIT**
 - (Business expenses)
 - **PROFIT FOR THE YEAR**
2. Statement of financial position
 - ASSETS**
 - Non-current assets
 - Current assets
 - Total assets
 - EQUITY/CAPITAL**
 - Owner's equity (capital) contribution
 - Profit for the year
 - (Drawings)
 - Total equity
 - LIABILITIES**
 - Non-current liabilities
 - Current liabilities
 - Total liabilities
 - TOTAL LIABILITIES AND EQUITY**

Approaching the unit

Learners will need to develop a good understanding of the different sources of finance available to a business, and the advantages and disadvantages of each method of raising funds. Emphasis should be placed on the factors which affect the choice of finance and the consequent development of analytical and evaluative skills to measure the subsequent financial performance of the company. The unique circumstances of individual businesses need to be considered when answering contextually based questions. Learners need to be taught how to analyse the suitability of different sources of finance for a business, critically evaluating the

sources in order to make recommendations. Learners need to be able to differentiate between the short-term financial needs of a business and the longer-term needs of the business in respect of capital projects and business growth.

Learners need to understand the importance of keeping accurate financial accounts that show a true and fair representation of a business's operations. There is a particular focus in the unit on sole traders and the need for learners to be able to interpret financial data. For example, learners need to be able to extract relevant data from financial statements to undertake ratio analysis to assess the performance of a business against its own financial targets and the performance of their business rivals. They should be able to use this analysis to identify strategies to improve the performance of the business or to assess the requirements for additional business finance. If every business presented financial information in the way it felt best then the results would likely be of limited value and possibly even misleading. In order for valid comparisons to be made – year on year and from one business to another – various accounting concepts and conventions have been developed. Learners need to understand the importance of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), and the benefit of these to stakeholders. A detailed knowledge of the standards is *not* required but learners should understand the importance of presenting the financial statements in a common format.

Learners will examine how each business sets itself a set of financial objectives that are individual and distinct for that business. These financial objectives will relate to measures of profitability, liquidity and efficiency. Learners need to be able to use relevant financial ratios to calculate these performance measures and to evaluate the usefulness of setting specific financial objectives, making recommendations on how such important objectives can be achieved.

Learners need to be confident and competent in performing business calculations, and they should be given practice exercises to enable them to extract financial data and perform calculations. Lead-in activities at the start of a lesson, or short tests and quizzes, are good ways of reinforcing numerical skills.

Delivering the unit aims

Learning aim A focuses on the types of business finance available at different stages in the growth of a business. It is worth putting into context why a company might need finance – is it for short-term cash flow or long-term growth?



Learners need to be taught how to assess the suitability of different sources of finance for a business, critically evaluating the sources in order to make recommendations.

Learners should become familiar with the accounting terminology introduced in learning aim A, including terms such as capital, equity, profits (retained and distributed), current and non-current assets and net current assets (working capital). An understanding of these terms will be useful when the learners are introduced to the main financial statements in learning aim C.

Learning aim B covers financial planning tools and how they are used to analyse financial data and assess business risks. Learners will need to develop the skills required to complete break-even and cash flow forecasts. They will need to distinguish between cash and credit, and should gain an understanding of the implications to a business of cash flow problems. Learners should practise using a range of cash flow forecasts and be able to draw up a forecast. It is worth using some videos at this point to show real-life examples of businesses. TV programmes such as *The Fixer* and *Dragons' Den* on the BBC use key financial terms all the time and these can help learners understand them and put them into context.

Learners should be able to distinguish between different types of costs (e.g. fixed, variable or semi-variable) in order to prepare a break-even chart from a given set of data. They should also be able to calculate the break-even point using the break-even formula. Learners should be able to interpret a break-even chart and its implications for business planning and decision making. For example, they should be able to analyse the impact of changes in fixed and variable costs on the break-even point and the margin of safety.

Learning aim C requires learners to develop a detailed understanding of how financial statements for a sole trader are prepared and used to analyse and evaluate business performance. A good way for learners to fully understand the statement of comprehensive income and statement of financial position is to give them a template and encourage them to go through lots of practice questions. It is useful to get learners to fill in the two statements together. Although this method seems repetitive, you will be surprised how quickly learners take to it, particularly when they get the statement of financial position to balance. Once learners become proficient at preparing financial statements, you can start to add adjustments. Start with simple calculations using both methods of depreciation, accruals and prepayments, and then put them into the full accounts. You may want to put learners into groups so they can help each other. The calculation of depreciation should be applied with reference to a business's long-term plans, and the implications of both methods of depreciation on the financial statements should be clearly understood by learners.

Once learners have a good understanding of financial statements, you should introduce financial ratios. You could ask learners to calculate financial ratios from a given set of financial statements of a sole trader, and to compare these financial ratios to the business's financial performance targets. The learners could then analyse the reasons for any under-performance and suggest actions that could be taken to improve performance.

To complete this unit, your learners will need access to a range of research materials, which could include sources of information and tools on the internet, journals, magazines, and books.

You can use a range of delivery methods in this unit, such as:

- discussions, e.g. class and small group discussions on business finance
- individual or group presentations
- case studies illustrating finance for both well-known and lesser-known businesses
- videos, e.g. TED talks.

Group work is an acceptable form of delivery, but you must ensure that each learner produces sufficient evidence on their own for assessment.



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

- guest speakers
- members of the audience for learner presentations
- contributors to case study material
- providers of work experience for learners, and of business materials as exemplars
- mentors for learners.

Assessment model

Learning aim	Key content areas	Recommended assessment approach
A Explore types of business finance available at different stages in the growth of a business	A1 Sources of income A2 Sources of revenue A3 Business finance and types of business	A report identifying the sources of finance applicable in different business scenarios.
B Understand how financial planning tools can be used to analyse financial data and assess business risks	B1 Cash flow forecasts and statements B2 Break-even analysis B3 Business risks	Present financial information on behalf of a sole trader which analyses the performance of the business, identifies current business risks and suggests ways in which business performance could be improved.
C Understand how financial statements for a sole trader are prepared and used to analyse and evaluate business performance	C1 Statement of comprehensive income C2 Statement of financial position C3 Measuring performance using financial ratios C4 Preparation of financial performance reports	

Assessment guidance

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

The first assignment requires learners to produce a report identifying appropriate sources of finance in different business contexts. Learners are required to consider both internal and external sources of finance, differentiating between the short-term operational needs of the business and its longer-term growth. The risks associated with different types of business finance should be considered in terms of factors such as cash flow and liquidity.

The second assignment requires the centre to produce sets of financial data which can be used by the learners to calculate break-even point, and prepare cash flow forecasts and financial statements. Learners are required to analyse the financial data using financial ratios, identifying any issues relating to under-performance and suggesting appropriate business strategies to address current issues.

Learners could be asked to write a report and prepare a presentation for both assignments, with teaching staff asking questions based on the issues raised in the individual presentations.



Getting started

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

Unit 3: Business Finance

Introduction

This unit gives learners the opportunity to explore the types of business finance available at different stages in the growth of a business. It shows how financial planning tools are used to analyse financial data and assess business risks, and develops learners' knowledge of the accounting process.

Learners need more than a theoretical knowledge and understanding of business finance – they need to be able to apply their knowledge to a range of real business scenarios. Where possible, theoretical teaching should be minimised and preference given to visits to businesses, guest speakers, case studies, problem-solving and practical or interactive activities. Such approaches reinforce the importance of applying the underpinning concepts to real-life situations.

Learning aim A – Explore types of business finance available at different stages in the growth of a business

- For learning aim A, the teaching focuses on the main sources of finance and revenue for a business, and on how to evaluate which source of finance is the most appropriate in a variety of situations.
- For content area A1, learners need to develop an understanding of the main sources of finance available to companies. Government websites may be able to give guidance and advice about the loans and grants available to new businesses.
- Learners need to be able to distinguish between internal and external sources of finance. They could complete a card-sorting activity where each card displays a different source of finance and learners have to decide whether they are internal or external sources.
- Learners could be divided into small groups and given a number of business scenarios to determine the appropriateness of different sources of finance (short- and long-term). They could present their recommendations to the rest of the class, who would be required to ask questions so that learners in each group have to justify their recommendations.
- Content area A2 looks at sources of revenue. Learners need to understand the difference between revenue and finance. They could research some well-known brands and consider the main sources of revenue for each. They should be able to differentiate between sources of revenue from selling activities and revenue received from supplementary activities (e.g. rental activities, interest payments).
- Content area A3 requires learners to develop an understanding of when and where different sources of finance are appropriate. For example, a business start-up with a new product idea may require a different source of finance from an established company with a cash flow problem. You could give learners some suitable case studies and ask them to identify which sources of finance would best suit particular situations. This could lead to a discussion on advantages and disadvantages of different sources of finance.

- Short tests or quizzes could be used to test understanding of financial terminology.

Learning aim B – Understand how financial planning tools can be used to analyse financial data and assess business risks

- Learning aim B focuses on financial planning tools and how they can be used to analyse financial data and assess business risks.
- Content area B1 covers cash flow forecasts and statements. Learners should understand the importance of cash flow to a business. This could be taught using a case study approach. Learners should look at the influence that poor cash flow forecasting could have on a business and the actions that can be taken to address cash flow problems.
- Learners should practise completing as many cash flow forecasts as possible. Learners could be asked to create a cash flow forecast from given figures from a business case study, and to analyse how the business could improve its cash flow position.
- There are many useful videos that can help learners gain an understanding of why cash flow matters from the perspective of businesses. Learners must have knowledge of the causes of cash flow problems and possible solutions. The Learn Loads website is a useful tool which can be found by searching online for 'Learn Loads why cash flow matters'.
- Content area B2 looks at break-even analysis. Learners should research the different types of costs that affect a business and apply the formula for break-even analysis. A case study approach is useful, as it will allow learners to identify the key figures needed to calculate break-even point or to draw the break-even chart. Working in small groups or pairs is particularly useful as it helps learners gain confidence.
- Ask learners to work through several case studies until they are confident with drawing break-even analysis charts and calculating break-even point. You could then introduce the concepts of margin of safety and contribution. The case studies should give learners the opportunity to understand the implications of increases in costs on the break-even point and the margin of safety, and how break-even analysis can be used in the planning process.
- Content area B3 considers business risks. Learners must be able to assess financial risks using cash flow and break-even analysis. They must have an appreciation of the difference between risks related to costs and risks related to cash inflows and revenue streams.

Learning aim C – Understand how financial statements for a sole trader are prepared and used to analyse and evaluate business performance

- Learning aim C requires learners to understand how financial statements for a sole trader are prepared and used to analyse and evaluate business performance. Learners must be taught how to prepare a statement of comprehensive income and a statement of financial position, and how to measure performance using financial ratios.
- Content area C1 covers the statement of comprehensive income. Give learners a template of the statement of comprehensive income and explain each section. You could complete a statement with the group and then give learners some figures so that they can practise completing them on their own.
- Content area C2 looks at the statement of financial position. Give learners a template of the statement of financial position and explain each section. You could complete a statement with the group and then give learners some figures so that they can practise them on their



own.

- Learners need plenty of practice completing the statements of comprehensive income and the statements of financial position. Exercises can be found in accounting books or on the internet.
- Content area C3 focuses on how to measure a company's performance using financial ratios. Learners could produce a 60-second sound byte/MP3 podcast for News in Brief on the financial performance of a company of their choice. Business articles in the tabloid press can be used as a basis for research. This activity can be useful as a consolidation exercise after studying income statements and statements of financial position.
- Learners need to be introduced to the concepts of accrual and prepayments, as well as shown where depreciation affects the accounts. Allow learners to develop their knowledge of these concepts using a range of case studies. Getting learners to work in pairs or small groups is a good way to develop their understanding.
- Learners need to learn how to extract data from financial statements in order to calculate financial performance ratios relating to profitability, liquidity and efficiency. To help them, you could assign weekly ten-minute tests. Alternatively, you could use a bingo card method, where learners write the names of the ratios down and are then shown pictures of the ratios on PowerPoint slides for them to tick off.
- Learners should use their work on the financial statements as a basis for calculating ratios. Financial ratios of two different sole traders working in the same sector could be compared and analysed in respect of their comparative business performance. Industry benchmarks could also be used for analysing the performance of an individual sole trader.
- Content area C4 focuses on the preparation of financial performance reports. Learners must develop a thorough knowledge of how to produce an accurate, correctly structured and professional report. Learners could be asked to produce a written commentary of a set of financial statements. They could then evaluate the usefulness of the commentary from the perspective of different stakeholder groups. To gain maximum benefit from the activity, a wide range of different stakeholder groups need to be allocated, with each stakeholder group feeding back its findings.

Details of links to other relevant units/qualifications

This unit links to:

- Unit 1: Exploring Business

Resources

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

Textbooks

Sangster, A and Wood, F – *Business Accounting Volume 1*, 14th edition (Pearson, 2018)
ISBN 9781292208626.

This 'classic' Business Accounting textbook, covering all the basics of business finance that are included in this unit. It goes beyond the scope of this unit but is a useful reference text.

Harrison, I – *Introducing Accounting for AS*, 2nd edition (Hodder, 2008)
ISBN 9780340959404.

This learner-friendly text introduces accounting principles.

Journals

Business Review (Philip Allan Magazines)

A journal designed for Business Studies students. It includes relevant theoretical articles, as well as information on companies and markets.

The Economist

A weekly economics and business journal that has regular articles and features about issues related to public sector businesses and the economy. It also has an extensive archive of relevant materials.

Videos

Ted Talks has a range of online videos featuring short talks (18 minutes or less) covering a wide range of topics including business and global issues. It can be found by searching online for 'Ted Talks'.

A range of educational videos on business finance can be found on the Learn Loads website. It can be found by searching online for 'Learn Loads'.

Websites

The websites of the major commercial banks will give information on the types of business finance available to businesses.



There are helpful websites which can be found by searching online for 'business case studies'.

The 's-cool' site contains business education resources for assessment preparation, with case studies, simulations and worksheets. It can be found by searching online for 's-cool'.

The Tutor2U site has a range of resources and assessment preparation materials. There are also links to other sources of information. It can be found by searching online for 'Tutor2U'.

Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling students to access them through the school/college intranet.