



# OCR LEVEL 2 CAMBRIDGE TECHNICALS IN BUSINESS

## LEVEL 2 UNIT 3 FINANCIAL FORECASTING FOR BUSINESS **DELIVERY GUIDE**

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# INTRODUCTION

This Delivery Guide has been developed to provide practitioners with a variety of creative and practical ideas to support the delivery of this qualification. The Guide is a collection of lesson ideas with associated activities, which you may find helpful as you plan your lessons.

OCR has collaborated with current practitioners to ensure that the ideas put forward in this Delivery Guide are practical, realistic and dynamic. The Guide is structured by learning outcome so you can see how each activity helps you cover the specification.

We appreciate that practitioners are knowledgeable in relation to what works for them and their learners. Therefore, the resources we have produced should not restrict or impact on practitioners' creativity to deliver excellent learning opportunities.

Whether you are an experienced practitioner or new to the sector, we hope you find something in this guide which will help you to deliver excellent learning opportunities.

If you have any feedback on this Delivery Guide or suggestions for other resources you would like OCR to develop, please email [resourcesfeedback@ocr.org.uk](mailto:resourcesfeedback@ocr.org.uk).

## PLEASE NOTE

The activities suggested in this Delivery Guide **MUST NOT** be used for assessment purposes. (This includes the Consolidation suggested activities).

The timings for the suggested activities in this Delivery Guide **DO NOT** relate to the Guided Learning Hours (GLHs) for each unit.

Assessment guidance can be found within the Unit document available from [www.ocr.org.uk](http://www.ocr.org.uk).

## OPPORTUNITIES FOR ENGLISH AND MATHS SKILLS DEVELOPMENT

The Wolf Review of Vocational Education recommended that all learners studying post-16 qualifications have the opportunity to further develop their English and maths skills, with the aims of:

- achieving a GCSE in English and/or maths at grade A\*-C if they have not already done so or
- making significant progress towards GCSE entry and success if this is some way off for the individual.

We believe that being able to make good progress in English and maths is essential to learners in both of these contexts and on a range of learning programmes. To help you enable your learners to progress in these subjects, we have signposted opportunities for English and maths skills practice within this resource. These suggestions are for guidance only. They are not designed to replace your own subject knowledge and expertise in deciding what is most appropriate for your learners.

## OPPORTUNITIES FOR WORK EXPERIENCE

The Wolf Report also recommended that learners have the opportunity to apply their skills and extend their learning outside the classroom through work experience, part time jobs, work shadowing and work placements. There are lots of opportunities within these qualifications to take some of the teaching and learning outside of the classroom and into a work environment. We are working to provide you with resources to support you in achieving this, please visit [www.ocr.org.uk](http://www.ocr.org.uk) shortly for more information.

## KEY



English



Maths



Work experience

# UNIT 3 - FINANCIAL FORECASTING FOR BUSINESS ACCOUNTING

Guided learning hours : 30

Credit value: 5

## PURPOSE OF THE UNIT

Business is about making money. In simple terms this means getting more money in than the business spends. This unit will give learners the tools they need to be able to classify costs, revenues and profit for a business and, more importantly, to be able to predict what these figures might be.

This unit gives learners the basic financial knowledge needed for all aspect of business and specifically enables learners to use two of the most popular forecasting techniques; break even analysis and cash flow forecasting.

Beyond the simple ability to use these techniques, learners are given the opportunity to analyse the factors which make the techniques more or less useful in the real world and then come to reasoned judgements about how useful the techniques might be for a selected business.




Learning Outcome (LO)	Pass	Merit	Distinction
The learner will:	The assessment criteria are the pass requirements for this unit.  The learner can:	To achieve a merit the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
1 Know about costs, revenue and profit in a business organisation.	P1 Identify the difference between start up and operating costs, variable and fixed costs		
	P2 Identify the different types of revenue		
	P3 Outline the differences between gross and net profit		
2 Be able to prepare a break even analysis	P4 Calculate break even using given data to show the level at which income equals expenditure	M1 Analyse the factors which may affect the break even level of output for a selected business	
	P5 Present the breakeven as an annotated graph showing break even		
3 Be able to create a cash flow forecast	P6 Prepare an annual cash flow forecast using monthly data	M2 Analyse the factors which may affect the cash-flow forecast for a selected business	D1 Evaluate the usefulness of cash-flow forecasting for a selected business





*P = Pass, M = Merit, D = Distinction*





## LEARNING OUTCOME 1 - UNDERSTAND THE PURPOSE OF ACCOUNTING AND THE CATEGORISATION OF BUSINESS INCOME AND EXPENDITURE


Learning Outcome - The learner will:	Assessment Criteria - The learner can:	Merit	Distinction
1 Know about costs, revenue and profit in a business organisation.	P1 Identify the difference between start up and operating costs, variable and fixed costs		
	P2 Identify the different types of revenue		
	P3 Outline the differences between gross and net profit		

*P = Pass, M = Merit, D = Distinction*

Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
1 Start-up costs 	The teacher could give the learners the Lesson Element (Costs, costs, costs - Task 1); read it through as a class and then ask the learners to answer the questions. After the learners have answered the questions, discuss their answers as a class. Working in small groups or individually, ask the learners to then plan their own business venture. The learners could make a list of costs and research how much their business venture would cost to set up.	90 minutes	P1 Identify the difference between start up and operating costs, variable and fixed costs
2 Operating costs 	The teacher could introduce the basic concepts of operating costs by showing the Different Types of Business Costs presentation slide. Ask the learners to say whether they are one off costs or re-occurring costs. Then read through the (Lesson Element Costs, costs, costs - Task 2) with the learners allowing time for questioning and explanation; the learners then answer the questions. Ask the learners to carry on with their business venture stating what their operating costs would be.	1 hour	P1 Identify the difference between start up and operating costs, variable and fixed costs
3 Indirect vs direct costs 	The teacher could give the learners the worksheet 'Direct or Indirect costs' which shows pictures of raw materials, advertising, administration, factory workers (wages), office workers (salaries), office supplies, market research, electricity bill and packaging. Ask the learners to cut out the pictures and then decide whether they can be directly linked to the production of goods or not. Once discussed with the class, ask the learners to place their pictures under the heading Direct and Indirect Costs (identify a desk or area on the wall where they can place their pictures).	30 minutes	P1 Identify the difference between start up and operating costs, variable and fixed costs

Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
4 Fixed and variable costs 	<p>This is a practical activity to demonstrate fixed and variable costs. You will need six polystyrene cups, a large bowl and sufficient water to fill the cups. Label the cups; raw materials, wages, packaging, rent, salaries and insurance. Label the bowl Total Costs. The purpose of the activity is show how many different costs contribute to Total Costs.</p> <p>Gather the learners around one desk and place the large bowl in the middle of the desk. Fill the cups with water and place them on the desk. Ask the learners to indicate which costs are fixed and which are variable by moving the cups to either side of the table. Ask the learners to say how they could determine a total cost. Pour the water from all the cups one by one into a large bowl. To reaffirm the points ask, the learners to create a poster showing what Total Costs are made up of all fixed and variable costs. Raw materials - variable, wages - variable, packaging - variable, rent - fixed, salaries - fixed, insurance - fixed.</p>	40 minutes	P1 Identify the difference between start up and operating costs, variable and fixed costs
5 Consolidation 	Ask the learners to design and create a costs themed board game. Each square could be titled direct cost, indirect cost, variable cost or fixed cost. Learners could take it in turns to roll a dice and move their counter around the board. When they land on a square, they are required to either give an example or definition of the type of cost they have landed on.	45 minutes	
6 Sales revenue 	As an introductory task split learners into four groups and allocate the each group several different Monopoly properties (the identified property sets within Monopoly) until all are allocated, for example the three green property set. Allocate the four groups £1500 each and play four rounds of Monopoly illustrating to the group every time money passes hands what Sales Revenue is. Get the learners to separate any money coming in from their initial funds. Add houses and hotels to some teams to spice up the game. At the end of the four rounds get the learners to count how much money they had in Sales Revenue and then how much money they had left over from their £1500.	45 minutes	P2 Identify the different types of revenue
7 Total sales revenue 	To demonstrate total sales revenue, show a presentation slide or worksheet showing images of different sweets/ chocolate bars. Working in pairs, one of the learners (the shopper) could say how many of each item they would like to buy. For example 10 chocolate bars, 12 packages of mints. The other member of the pair (the shop-keeper) could take the order and say how much their purchase would cost, therefore representing Total Sales Revenue (for the shop-keeper). Could be kept simple to start off with just one product and progress onto several products to show the learners what happens if more than one product is sold. The shop keeper should keep a record of his/her sales to provide notes for later reflection.	20 minutes	P2 Identify the different types of revenue

Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
8 Revenue from other sources - Investments  	Learners could be shown an excerpt from Dragon's Den where a potential entrepreneur secures investment. Learners could be asked to write down how much equity the potential entrepreneur initially offers and how much money he/she is asking in return for it from the Dragons. Then after the potential entrepreneur completes the deal, ask the learners to write down how much equity he/she gave away and how much money he/she got in return for it. Then ask the learners to work out the difference if £100,000 profit had to be shared between the potential entrepreneur and the Dragon investor using the original figures offered, compared to the final agreement.	40 minutes	P2 Identify the different types of revenue
9 Other sales revenue - Interest from loans  	Learners could be shown an advert from a pay-day loans business. Ask the learners to consider and discuss as a group how these businesses make money. Then ask the learners to research the interest rates pay-day loans businesses charge. Give the learners some simple calculations to show how the percentages are applied to the amount borrowed and how much an individual has to pay back.	30minutes	P2 Identify the different types of revenue
10 Consolidation  	Learners could be split into eight groups and each group given a topic from: <ul style="list-style-type: none"> <li>• start-up costs</li> <li>• direct costs</li> <li>• indirect costs</li> <li>• variable costs</li> <li>• fixed costs</li> <li>• sales revenue from goods</li> <li>• sales revenue from investment</li> <li>• sales revenue made from interest</li> </ul> The learners could then create a presentation which must include definitions and examples of their given topic. The learners could take notes while their colleagues are presenting and then discuss each presentation to confirm their understanding.	45 minutes	
11 Gross profit  	Learners could be given an outline scenario of running a shoe company. Working individually or in pairs the learners could design a shoe to sell. Advise the learners that each pair of shoes will cost them £4 to purchase/produce and then ask them to set a sale price for their shoes. The teacher could give the learners different levels of sales so that they could work out a Total Sales Revenue figure. Then ask the learners to work out their Gross Profit figure by taking away their direct costs. Remind the learners their Gross Profit does not include the rent for their shop.	50 minutes	P3 Outline the differences between gross and net profit





Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
12 Net profit 	<p>Following from the previous Gross Profit activity, learners could then research local shop rental costs and take an appropriate amount off their Gross Profit amount for a shop rental to get a Net Profit figure.</p> <p>Alternatively, show the learners a 2 litre bottle of water labelled Sales Revenue. Label three polystyrene cups; one Direct Costs, another Indirect Costs and another Net Profit. Pour some of the water into the Direct Costs cup and explain that this represents the money which is going to cover Direct Costs; ask/discuss with the learners what are Direct Costs. Try to get the learners to say that the water you have left in the bottle represents Gross Profit; ask/discuss what this is. Next, pour more of the Sales Revenue water from the bottle into the cup labelled Indirect Costs; ask/discuss what these could be. Finally pour all the remaining Sales Revenue water into the Net Profit cup. Encourage the learners to say what the demonstration has explained.</p>	45 minutes	P3 Outline the differences between gross and net profit






## LEARNING OUTCOME 2 - BE ABLE TO PREPARE A CASH FLOW FORECAST

Learning Outcome - The learner will:	Assessment Criteria - The learner can:	Merit	Distinction
2 Be able to prepare a break even analysis	P4 Calculate break even using given data to show the level at which income equals expenditure	M1 Analyse the factors which may affect the break even level of output for a selected business	
	P5 Present the breakeven as an annotated graph showing break even		

*P = Pass, M = Merit, D = Distinction*



Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
1 Introduction into breakeven analysis 	Learners could complete the Lesson Element 'Sound as a Pound' which gives a definition of the break-even point and a number of tasks to develop the learners knowledge. The teacher could then quiz the learners to make sure they understand the term break-even point. To stretch stronger learners a discussion could be created on why a business would want to know their break-even point. Introduce the idea to the learners that they are running their own small enterprise selling small chocolate bars (Dinos). The learners could complete the questions on the Lesson Element 'Break-even point'.	45 minutes	P4 Calculate break even using given data to show the level at which income equals expenditure
2 Recap on breakeven calculations 	The teacher could follow on from the previous activity and write different prices for the chocolate bars on a board. The learners could then have to work out how many chocolate bars they have to sell to breakeven when the bars are different prices.	10 minutes	P4 Calculate break even using given data to show the level at which income equals expenditure
3 Breakeven calculations and how breakeven aids businesses  	The teacher could give the learners the Lesson Element Breakeven Formula/Margin of Safety which includes a case study about VNECK LTD. Learners could be asked to highlight any key parts of the case study and then go through what the formula means (explain to the learners that contribution will be discussed again later in the course). Discuss what the margin of safety is and then ask the learners to answer the questions in the Breakeven Formula/Margin of Safety lesson element. At the end of the Breakeven Formula/Margin of Safety lesson element go through the answers and allow the learners to peer-assess their neighbour's work to build understanding and bridge any problems they may have experienced themselves. To stretch learners create a discussion on why a firm would want to know their breakeven point and what advantages it brings to a business in using this technique.	60 minutes	M1 Analyse the factors which may affect the break even level of output for a selected business



Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
4 Contribution  	<p>The teacher could gather all learners around a single desk to provide a practical demonstration about contribution and breakeven. Have a large bowl labelled 'Profit'. In the middle of the bowl place a paper cup labelled 'Fixed costs'. Have two further cups (outside the bowl) one labelled 'Selling Price' and the other 'Variable Costs'. Fill the 'Selling Price' cup with water. The teacher could then pour some of the 'Selling Price' water into the 'Variable Costs' cup, explaining to the learners that this represents money from selling the goods, which goes to cover the variable or direct costs. Pour the rest of the 'Selling Price' water into the 'Fixed Costs' cup in the middle of the mixing bowl, showing how the water (money) is contributing to the fixed cost. Do this process again until the 'Fixed Costs' cup is full and explain to the learners that this represents the breakeven point. Then carry on with the process so that the water starts to spill over from the 'Fixed costs' cup into the bowl therefore representing the contribution to profit once the 'Fixed Costs' cup is full. Allow the learners to write up the demonstration, drawing what happened and how is represented contribution and breakeven.</p>	60 minutes	P4 Calculate break even using given data to show the level at which income equals expenditure
5 Breakeven graphs  	<p>Learners could be given the Lesson Element Breakeven Graph element which contains break-even data. Following the instructions in this lesson element and using graph paper (supplied by the teacher) learners could produce the graph based on the data provided. Learners could then answer the questions by annotating the graph and completing the tables. As a plenary the learners could show their graphs to the group and explain their annotation with the teacher questioning the learners on where profit, loss is marked on as well as the breakeven point.</p>	60 minutes	P5 Present the breakeven as an annotated graph showing break even
6 Breakeven and decision  	<p>The teacher could split the class into groups and ask each group to list as many advantages as possible of working out the break-even point. The teacher could introduce a competition to the activity with the groups competing against each other to come up with as many advantages as possible. Allow the groups to have 15 minutes to come up with as many points as possible. The teacher could assist by introducing ideas and hints on the advantages of break-even analysis. Specifically, the teacher could introduce the concept of a break-even analysis being an aid to decision making within a business. Learners could be asked to either create a poster or a presentation on why a business should work out their breakeven points and how it aids decision making. The learners could then present their ideas and their colleagues could take notes.</p>	45 minutes	

## LEARNING OUTCOME 3 - BE ABLE TO CREATE A CASH FLOW FORECAST

Learning Outcome - The learner will:	Assessment Criteria - The learner can:	Merit	Distinction
3 Be able to create a cash flow forecast	P6 Prepare an annual cash flow forecast using monthly data	M2 Analyse the factors which may affect the cash-flow forecast for a selected business	D1 Evaluate the usefulness of cash-flow forecasting for a selected business

*P = Pass, M = Merit, D = Distinction*

Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
1 Introduction into cash flows  	The teacher could introduce this activity by suggesting to the learners that each week they receive a specified (specified by the teacher) amount of money every week and ask the learners to say where the money might come from. The teacher could then ask the learners to say what they would spend their money on. Ask the learners to create a table with the top half listing their cash inflows and then the bottom half of the table listing their cash outflows. To challenge the learners, they could create their own cash flow forecast for one or two months. The teacher could then ask the learners to adapt their cash flows to incorporate Christmas or birthday money or presents, income from working part-time which could increase or reduce, the cost of buying lunches or bus journeys. The teacher could use the Lesson Element 'My Cash Flow' to support this learning.	45 minutes	
2 Cash Inflows  	The teacher could show some pictures on a presentation slide which represent where a business could achieve cash inflows from. For example, a picture of a person paying for an item in a shop, a picture of a bank or someone applying for a loan, a percentage sign representing money earned from interest payments on savings. The learners could then describe the pictures and discuss in groups where a business could acquire cash inflows from. The teacher could write the learners' feedback on a board to allow all learners to see the ideas of the other groups. As an extension to this task, ask the learners to create a presentation or poster showing sources of cash inflows. Learners could be stretched by asking them to say what could influence the cash inflow to a business. For example, sales revenue could be influenced by the business cycle or an economic downturn with increasing unemployment rates. Bank loans could be achieved by having a strong and well presented business plan and interest payments could be affected by the Bank of England's base rate or the current level of borrowing within an economy.	50 minutes	M2 Analyse the factors which may affect the cash-flow forecast for a selected business

Suggested content	Suggested Activities	Suggested timings	Links to Assessment Criteria
3 Cash outflows  	<p>The teacher could split the learners into four groups and each give them a type of business, for example, a local hair dressers or barbers, newsagents, butchers, petrol station, football club or shoe shop (to increase engagement the teacher could pick local businesses). Then for their allocated business the learners could write down as many possible costs they can think of and what they think would influence that outflow of cash. The learners could feedback to the other groups. The activity could be extended by the learners writing a short report into what they found, explaining the cash outflows and what could influence that particular outflow.</p>	60 minutes	M2 Analyse the factors which may affect the cash-flow forecast for a selected business
4 Cash flow forecasting  	<p>The teacher could explain the definition of cash flow forecasting (a prediction of cash inflows and cash outflows for a business) and then ask the learners to complete the Lesson Element Cash Flow Forecasting. January's data has been completed for the learners but the teacher could work through February on the board so that the learners could complete the other months. Ask the learners to come up with some ideas on why a business would need to create a cash flow forecast, this could be in the form of a report, poster or presentation.</p>	45 minutes	P6 Prepare an annual cash flow forecast using monthly data D1 Evaluate the usefulness of cash flow forecasting for a selected business









## CONTACT US

Staff at the OCR Customer Contact Centre are available to take your call between 8am and 5.30pm, Monday to Friday.

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