

**GCSE (9–1)**

*Delivery Guide*

# ***BUSINESS***

**J204**

For first teaching in 2017

**Component 2**

**Section 5**

***Finance***

Version 1

# GCSE (9-1) BUSINESS

This guide outlines approaches and ideas, including learner activities for Section 5 of the specification, Finance.

Delivery guides are designed to represent a body of knowledge about teaching a particular topic and contain:

- **Content:** A clear outline of the content covered by the delivery guide;
- **Thinking Conceptually:** Expert guidance on the key concepts involved, common difficulties students may have, approaches to teaching that can help students understand these concepts and how this topic links conceptually to other areas of the subject;
- **Thinking Contextually:** A range of suggested teaching activities using a variety of themes so that different activities can be selected which best suit particular classes, learning styles or teaching approaches.

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**SUB TOPIC 1****5.1 THE ROLE OF THE FINANCE FUNCTION****Curriculum content**

- The purpose of the finance function.
- The influence of the finance function on business activity.



# Approaches to teaching the content

## General approaches

This is the introduction to the finance section and as such the wider links need to be made to the other parts of the business. The main purposes of the finance function are to support business planning and decision making and to provide financial information to the other functions so they can operate. Links to the synoptic part could also be taught here to show how interdependence between functions works.

## Common misconceptions or difficulties learners may have

The main misconception here will be that learners think the finance function stands alone – it does not. It helps the business by planning in the cash flow forecast and monitoring through the break-even and costs/revenue calculations. The key to success here will be making those links to the wider organisation.

'Finance' is a term that is often used loosely in business. Students should be clear when reading or answering questions whether they are discussing the **finance function** or **sources** of finance.

## Conceptual links to other areas of the specification – useful ways to approach this topic to set learners up for topics later in the course

This section will be key to section 7 of the specification and discussions about interdependence.

Finance will often act as the constraint on a number of the other functions so links to affordability of market research and promotional activity in section 2, the affordability of motivation methods and training in section 3, business location in section 5 and the need for finance when starting a business in section 1 can all provide links to the finance function.

# Approaches to teaching the content

The finance function should be discussed in the context of the size and type of organisation. This will influence the factors that change access to financial information and its effective management. Linking to smaller sole traders and their lack of skills while larger companies may have accounting specialists, will provide the contrast you need to show how finance can be managed effectively.





# Learner Resources – Activities

**Activity: Functions**

See [Learner resource 1](#) in the Learner activities zip folder.

Ask learners to create three spider diagrams on A3 paper – one for marketing, one for human resources and one for operations. They should indicate what each function spends money on and where it may come from. As an extension, learners could consider how the business needs to prioritise its spending to be successful.

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**SUB TOPIC 2****5.2 SOURCES OF FINANCE****Curriculum content**

- The reasons businesses need finance.
- Ways of raising finance.
- How and why different sources of finance are suitable for new and established businesses.



# Approaches to teaching the content

## General approaches

Essentially we are looking at the sources and uses of funds for a business. Taking time to identify the key reasons why finance is needed will then aid the understanding of some of the more specialised sources of funds. Once this has been established then the discussions can widen to include the differences between new and established firms.

## Common misconceptions or difficulties learners may have

There is a danger learners could learn all types of finance and then assume that they are all available for all types of firms. Learners will also often forget the costs of finance – interest for any credit and opportunity cost for any liquid funds. Finally, it is important that learners realise that retained profits are not a store of cash that it is a calculated figure and the cash itself has probably been used for the day to day running of the firm. Only if money has been transferred out of the profits will the business have a lump sum to invest anywhere else.

## Conceptual links to other areas of the specification – useful ways to approach this topic to set learners up for topics later in the course

Links within section 4 (Operations) can be made as money is needed for the costs of the business but also where ever that source is needed. For example section 4 might have a discussion about how to fund new production machinery or in section 3 (People) how the training and motivation techniques are going to be funded. Links to the size and type of firm can be made in section 1 (Business activity) too.



## Approaches to teaching the content

The number of items that a business needs to purchase provides numerous contexts in which to tackle this topic. The key thing to remember is what is it for? How much will it cost the business? And how long do they need it for? The long and short term is one context in which to evaluate a source of funds. The cost in terms of interest or opportunity costs is also a valid way to assess the finance. Clearly the specification indicates that the type of business needs to be considered – think about the 4 legal structures but also in terms of if the business is new or established to the type of expenditure and types of finance needed.



## Suggested activities

**Activity: New vs established**

See [Learner resource 2](#) in the Learner activities zip folder.

This class activity gets learners to work together to choose the right type of finance for the business and its situation.

Split the class into two teams – team new and team established.

Read out the different sources of funds (to include loan, overdraft, trade credit, retained profit, sale of assets, owners' capital, new partner, share issue, crowdfunding – see page 16 of the specification).

After they confer, ask them to stand up and justify whether they can use the source and if so, what for.

**Activity: Sources of finance mingle**

See [Learner resource 3](#) in the Learner activities zip folder.

Create a sources and definitions sheet of 'cards', then cut it up and distribute copies of these 18 cards to the class. Ask them to find the definition or source that goes with their card – then ask them to continue mingling until they have completed their worksheet.

**SUB TOPIC 3****5.3 REVENUE, COSTS, PROFIT AND LOSS****Curriculum content**

- The concept of revenue, costs and profit and loss in business and their importance in business decision making.
- The different costs in operating a business.
- Calculation of costs and revenue.
- Calculation of profit/loss.
- Calculation and interpretation of profitability ratios.
- Calculation and interpretation of average rate of return.



# Approaches to teaching the content

## General approaches

This section of the specification looks like it should be very detailed but part of it is just instruction on knowing the calculations needed for understanding how successful the business has been financially. Most of this can be taught by reinforcing the calculations with practice and putting the interpretation in context. It should be remembered that that is no expectation that the formulae will be in the exam paper so learners do need to learn the calculations.

## Common misconceptions or difficulties learners may have

Learners may struggle simply with the mathematics but if you get past this then there is often difficulties when interpreting in context. Look for the relationship between the profitability ratios, look at the type of business and market that it is operating in. It should also be noted that not all big firms are financially successful and all small firms are struggling to get by, get learners to look at firms who are successful for their given size to reinforce that.

## Conceptual links to other areas of the specification – useful ways to approach this topic to set learners up for topics later in the course

Any part of the specification that references the cost of something provides a link e.g. training costs in section 3 (People), machinery costs in section 4 (Operations). There are direct links with cash flow forecasting and this could easily lead off from teaching that – this would also provide a good way to distinguish between cash and profit too. Stakeholders are also a good link to the data provided in this section as they will want to gauge the performance of the firm for their own needs.



## Approaches to teaching the content

It is probably a good idea to approach the calculations from the point of view of a small firm and use what learners know about cash flow to feed into this teaching. This way you can keep calculations simple and then work up to bigger firms when learners are comfortable with the mechanics of it and need to concentrate on the interpretations. The average rate of return could be put in the context of a larger firm when looking to invest in growth or assets which is more likely to happen in the real world.





## Suggested activities

**Activity: Costs**

Think of two costs and write them on post it notes. Then place them on the board under either a fixed or variable heading.

**Activity: Gross profit and margin**

Use the figures provided on [Learner resource 4](#) to calculate the profit and margins. There is a separate teacher version with possible answers in the zip folder.

**Activity: Net profit and margins**

Use the figures provided on [Learner resource 5](#) to calculate the net profit margins and comment on the performance of the business. There is a separate teacher version with possible answers in the zip folder.

**Activity: Cost and revenue calculations – Steve's pottery case study**

Use the figures provided for Steve's pottery case study on [Learner resource 6](#) to identify and calculate costs and revenues. There is a separate teacher version with possible answers in the zip folder.

**Activity: Calculate the average rate of return – Ransomes Jacobson case study**

Use the figures provided on [Learner resource 7](#) to help Ransomes Jacobson make an investment decision. There is a separate teacher version with possible answers in the zip folder.

**SUB TOPIC 4****5.4 BREAK-EVEN****Curriculum content**

- The concept of break-even.
- Simple calculation of break-even quantity.
- The usefulness of break-even in business decision making.



# Approaches to teaching the content

## General approaches

The key teaching point is that break-even occurs where there is no profit or loss. The rest of the teaching should focus on how useful this tool is to help with decision-making. The specification is clear that the calculation is what is needed. The graphical method can also be useful to aid learners understanding of the concept and allow learners to interpret graphs to support, inform and justify business decisions.

## Common misconceptions or difficulties learners may have

The key misconception is that break-even is used by all firms all the time; it is important to remember that given the nature of the calculations, this technique really only works for a simple product firm. The reasons for this are out of the scope of this course but it can be used as a starting point of evaluating the concept. Also if calculations are generating decimals for the break-even point it is important that learners round up all the time as you cannot break-even if you round down – you do not have enough output!

## Conceptual links to other areas of the specification – useful ways to approach this topic to set learners up for topics later in the course

Links to the previous section (5.3 Revenue, costs and profit and loss) and the costs generated there would be a good start. Also links to section 1 (Business activity) when discussing a new business starting and possibly needing the break-even figures to support a bank application could be made. Other links with stakeholders could be made here too. When changing the size of the business or the factors used in production the need to recalculate the point would need to happen to ensure the business remains successful.

## Approaches to teaching the content

Because calculations are involved again, taking this slowly and allowing for application to a small business may help learners secure their understanding. If it was part of a bigger project to do with start-ups then a more practical application of the concept could be made as it could be included in a wider business plan being prepared.



## Suggested activities

**Activity: Messy contribution**

What is contribution and how does it link to break-even? Using this method will illustrate the point.

Use two containers – one smaller than the other. Get one learner to hold the smaller container over the larger one while another learner slowly starts to fill the small container with water. Explain this is the fixed costs being covered, then stop pouring when it is level with the top. Point out that all costs are covered and that this is breakeven, then start pouring and allow the water to spill into the larger container and point out this is the profit being made by the firm.

**Activity: Cup-cake break-even**

This activity applies the concept of break-even to a bakery. Ask how quickly learners can break-even and much they need to sell to breakeven.

Either produce a 10 x 10 grid on the computer or get learners to draw one out. Inside this grid draw a box 5 x 4. This small grid represents the fixed costs for the bakery, the rest of the grid is potential profit.

Learners will have 7 days (rounds) to sell cupcakes. On the sound of a bell, in groups of 3/4, learners roll two dice. This represents their daily sales total. They then shade in the corresponding number of boxes – first in the fixed cost box and then, if it exceeds this box, in the profit area. Keep going for 7 rounds. Then ask the learners who broke even, who is still in loss, who has made a profit?

*Extension*

Get learners to think about why their sales levels were different – marketing? competition? quality? training? And write down what they could do better in the future.

**Activity: Break-even contributions**

Using [Learner resource 8](#), take each situation and use with mini whiteboards so learners get practice with the calculations.



**SUB TOPIC 5****5.5 CASH AND CASH FLOW****Curriculum content**

- The importance of cash to a business.
- The difference between cash and profit.
- The usefulness of cash flow forecasting to a business.
- Completion of cash flow forecasts.



# Approaches to teaching the content

## General approaches

The need for cash in a business is essential. The understanding of the difference between cash and profit is key and can be reinforced here through cash flow. Starting with a familiar situation e.g. a pocket money cash flow, may help learners grasp the basics before scaling this up. Remember that they need to be able to complete a cash flow not draw it up from scratch and this should enable some differentiation to take place.

## Common misconceptions or difficulties learners may have

Learners will struggle to distinguish between cash, a figure of money they actually have, and profit, a calculated figure in summary at the end of the year. This is key to understanding how the performance of the company is measured and what they can do today with the cash they have.

## Conceptual links to other areas of the specification – useful ways to approach this topic to set learners up for topics later in the course

As with previous finance topics, there are links within this section – to 5.2 (sources of finance), 5.3 (Revenue, costs, profit and loss) and 5.4 (Break-even). Wider links to business start-up and entrepreneurship and business planning would also work well as would any plans for growth or change in situation that needs careful planning.

## Approaches to teaching the content

A good context to use is a pocket money cash flow to secure the understanding of the calculations needed and management of funds. This can then be scaled up to allow for perhaps a business start-up and how the cash flow is important to them. The links to business planning could allow for a wider project that incorporates the two concepts.



## Suggested activities

### Activity 9: Cash and Profit

This activity is to help learners understand the difference between cash and profit and how a business manages these figures.

Prepare these materials:

- Envelope A – fill with slips of paper, enough for 4 per learner, that state sales figures between £200 - £350
- Envelope B – fill with slips of paper, enough for 4 per learner, that state figures between £250-£500
- Weekly Bills sheet – Wages £120, utilities £20, Insurance £10, Rates £10, Stock £75 (weeks 1-3)
- Week 4 – Wages £150, utilities £20, Insurance £10, Rates £10, Stock £90, Rent £500.

[Learner resource 9](#) in the zip folder contains learner instructions for this activity.

Get each learner to collect a slip of paper from envelope A and one from envelope B and then collect a weekly bills sheet. The figure from envelope A represents their cash sales for a week, envelope B is their credit sales (they will not get cash for these sales until next month).

They will need to pay bills on the Weekly bills sheet out of their cash sales figures and if they don't have enough, they are to assume they have an overdraft. At the end of one week, ask learners to state their cash position and profit position.

Ask learners to repeat this three more times and at the end of the month get them to state the cash and profit position for their business.

Questions on Learner resource 9 with answers:

Why is there a difference? (credit sales boost profit)

What might the business need to help it operate? (overdraft)

### Activity 10: Diamonds Restaurant cash flow

Using [Learner resource 10](#), ask learners to complete a cash flow forecast for a restaurant. There is also a teacher version in the zip folder containing answers.

### Activity 11: Slog and Hustle Barbers case study

Outlined on [Learner resource 11](#), this case study with questions for learners is about uses of a cash flow forecast for a business.



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