Cambridge TECHNICALS

Accredited

OCR LEVEL 3 CAMBRIDGE TECHNICAL

CERTIFICATE/DIPLOMA IN

BUSINESS

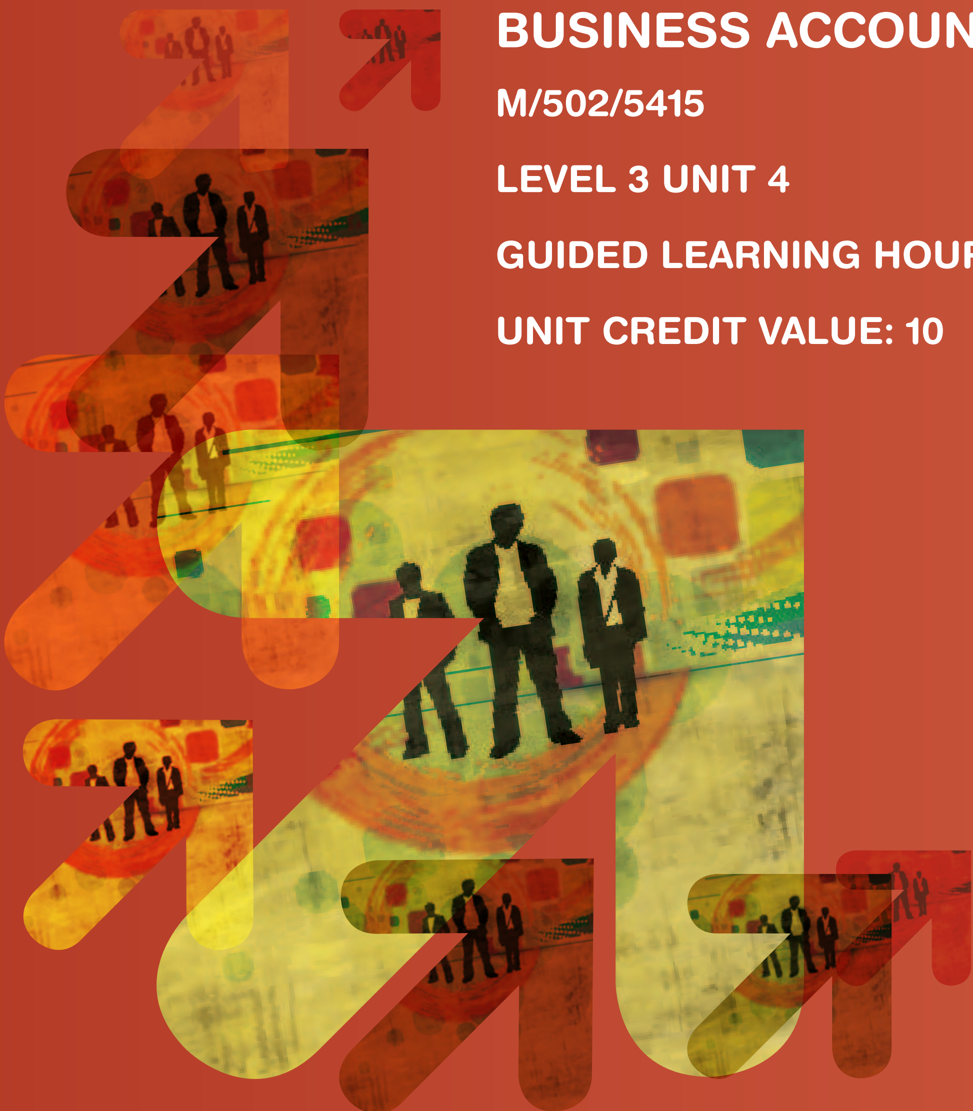
BUSINESS ACCOUNTING

M/502/5415

LEVEL 3 UNIT 4

GUIDED LEARNING HOURS: 60

UNIT CREDIT VALUE: 10



OCR

BUSINESS ACCOUNTING

M/502/5415

LEVEL 3 UNIT 5

PURPOSE OF THE UNIT

Accounting records are frequently used in business decision making; understanding their purpose and uses is a useful skill in business management. This unit will enable learners to identify the need for accounting and be able to create and use some of the most common financial accounts and their related documents. Learners will also be able to review business performance through the use of simple ratio analysis.

ASSESSMENT AND GRADING CRITERIA

Learning Outcome (LO) The learner will:	**Pass** The assessment criteria are the pass requirements for this unit. The learner can:	**Merit** To achieve a merit the evidence must show that, in addition to the pass criteria, the learner is able to:	**Distinction** To achieve a distinction the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
1 Understand the purpose of accounting and the categorisation of business income and expenditure	P1 describe the purpose of accounting for an organisation		
	P2 explain the difference between capital and revenue items of expenditure and income		
2 Be able to prepare a cash flow forecast	P3 prepare a 12-month cash flow forecast to enable an organisation to manage its cash	M1 explain the factors which may affect the cash-flow forecast for a selected business	D1 recommend ways in which a selected business can improve cash-flow forecasting
3 Be able to prepare profit and loss accounts and balance sheets	P4 prepare a profit and loss account and balance sheet for a given organisation		
4 Be able to review business performance using simple ratio analysis.	P5 perform ratio analysis to measure the profitability, liquidity and efficiency of a given organisation	M2 analyse the profitability, liquidity and efficiency of a selected business using ratio analysis	D2 recommend ways in which a selected business can improve its profitability, liquidity and efficiency

TEACHING CONTENT

The unit content describes what has to be taught to ensure that learners are able to access the highest grade.

Anything which follows an i.e. details what must be taught as part of that area of content.

Anything which follows an e.g. is illustrative, it should be noted that where e.g. is used, learners must know and be able to apply relevant examples to their work though these do not need to be the same ones specified in the unit content.

Learning Outcome 1 Understand the purpose of accounting and the categorisation of business income and expenditure

Purpose of accounting

To record	Recording transactions including double entry, ledgers, debit and credit entries.
To monitor	Monitoring activity within the business against forecast figures, *for example a cash flow forecast and budgets.*
To manage	To provide information to managers to allow effective decision making in all areas of the business.
To measure	To use financial data as a measurement of the business for use internally and externally, *for example in terms of liquidity, profitability and efficiency.*
To communicate	To give financial information to stakeholders internal and external to the business.

Business Income

Capital income	The money used to set up a business and any subsequent investment in the business *for example owners capital from a sole trader or partnership, share capital in a company, venture capital, loan capital etc.*
Revenue income	Money gained from normal business activities, *for example sales revenue, rental income, commission income etc.*

Business expenditure

Capital expenditure	The purchase, creation or enhancements of fixed assets for a business, *for example the purchase of a new building, the creation of goodwill, the creation of a new patented product, the upgrading of a computer network.*
Revenue expenditure	Money spent on normal day to day business activities, *for example stock purchase, wages and salaries, administration costs etc.*

Learning Outcome 2 Be able to prepare a cash flow forecast

Cash inflows	Cash that enters the business, *for example sales revenue, loans, interest etc.*
Total cash inflow	The sum of all the cash inflows during a period of time (usually one month).
Cash outflows	Cash that leaves the business, *for example raw materials, utility payments, salaries etc.*

Total cash outflows	The sum of all the cash outflows during a period of time (usually one month).
Opening balance	The cash that business has at the start of the period (usually one month).
Closing balance	The cash that the business has at the end of the period (usually one month). This becomes the opening balance for the next period.
Cash flow	The difference between the total cash inflows and the total cash outflows during a period of time (usually one month).
Cash flow forecast	A prediction of cash inflows and cash outflows for a business, including all of the above elements.

Learning Outcome 3 Be able to prepare profit and loss accounts and balance sheets

Trading, profit and loss account (also called income statement)

Trading, profit and loss account (or income statement)	A financial statement that shows whether the business has made a net profit or loss over a period of time, including; total sales revenue, cost of sales, gross profit, expenses and net profit. Also called income statement.
Total sales revenue	All the revenue of a business gained from sales. Price x number sold = Total sales revenue
Cost of goods sold	The stock of raw materials that a business has sold during a given period of time. Opening stock – purchases + closing stock = cost of goods sold
Gross profit	The money made after the cost of goods sold has been taken off. Total sales revenue – cost of goods sold = gross profit
Operating expenses	Costs that the business has incurred through trading which are not part of the cost of goods sold, *for example sales, administration, marketing.*
Net profit	The money made after cost of goods sold and operating expenses have been taken off. Total sales revenue – cost of goods sold – operating expenses = net profit OR Gross profit – operating expenses = net profit

Balance sheet

Balance sheet	A financial statement that shows a business's assets, liabilities and shareholders equity.
Assets	What a business owns.
Fixed assets	An asset which is likely to be owned for more than 12 months, *for example vehicles and property.*
Current assets	An asset which is likely to be owned for less than 12 months, *for example cash and debtors.*

Liabilities	What a business owes.
Long term liability	A liability which is likely to be owed for more than 12 months, *for example a mortgage and a loan.*
Current liability	A liability which is likely to be owed for less than 12 months, *for example an overdraft and creditors.*
Shareholders equity	The amount of money invested in a company through shares. This money is a liability because it is owed to the shareholders.

Learning Outcome 4 Be able to review business performance using simple ratio analysis

Profitability ratios	Comparisons of financial figures to give an indication of the profitability of an organisation. To include; gross profit margin, net profit margin, return on capital employed (ROCE).
Liquidity ratios	Comparisons of financial figures to give an indication of the liquidity of an organisation. To include; current ratio and acid test.
Efficiency ratios	Comparisons of financial figures to give an indication of how efficient a business is in managing its assets and liabilities. To include; debtor collection period (debtor days), creditors payment period (creditor days), stock turnover.

It is important to maintain focus on the current law and practice in this area. The list given above is neither prescriptive nor exhaustive. Where legislation has been revised learners will consider the most up to date version as that will reflect current industry practice.

DELIVERY GUIDANCE

This unit is about the basic accounts that internal and external stakeholders will use to make decisions. As such, the documents used in delivering the unit should be put into the context of being a tool for decision making, rather than just an exercise in mathematics.

Learning Outcome 1

This learning outcome sets the scene in terms of why we create accounts and the language of accounting. This is an opportunity to bring the topic of accounting to life by visiting an accountant, or having a visiting speaker come into the classroom. A contextual description of why a particular business requires/uses accounting, and how they categorise business income and expenditure would improve learner motivation and is more likely to make the following learning objectives easier to deliver.

Learning Outcome 2

A good place to start is for learners to produce a cash flow of their own inflows and outflows over the past month. Learners could use their past months figures to start making predictions about their future cash inflows and outflows, and build up a cash flow forecast.

Learners could be given a basic template for building up a cash flow. They could then complete 3, 6 and 9 month cash flow forecasts to build up to one for a 12 month period.

Learners will benefit from a context to base their cash flow forecasts within, for example a local business they may be familiar with. This will allow learners to see the logic behind large changes to the cash flow that might occur (e.g. an ice cream retailer having a large cash inflow during August).

For merit criteria, learners should be encouraged to go beyond the technique as a tool and look at what might affect the cash flow of a business in a positive way and a negative way. This could be done either in the context of a case study or in the context of a real business. A good explanation will show the relevant importance of the factors affecting the cash flow of a business in context.

For distinction criteria, learners should utilise their knowledge and understanding gained and make recommendations on how a selected business could improve its cash-flow. Learners should make valid judgements that are in context, hence the need for a case study or real business scenario.

Learning Outcome 3

This learning outcome involves the two most common accounts that learners will encounter. An approach could be to pose the question: "What information would someone outside of a business want to know?" Answers might be along the lines of "How much is the business worth?", "Does it make a profit?", "How much does it owe? From here it becomes easier to understand the logic of the two accounts and why they are produced.
This could be continued buy looking at published company accounts (readily available on the internet) or local company accounts (if available) to allow learners to experience this topic in a more real and tangible manner.

To be able to create a trading and profit and loss account and a balance sheet, learners will require figures which build in complexity. This will allow the more advanced learners to move forward at a quicker pace; whilst others are given more time to understand the basics.

Learning Outcome 4

This learning outcome requires learners to understand and use simple ratio analysis. At their heart, ratios are the comparison of two figures, so the mathematics should be reduced as much as possible. Giving learners a basic set of accounts will allow them to identify what figures it might be useful to compare together (e.g. sales and profit) and what it might show them. This can often be a better approach than merely having learners learn the ratios. It also will allow learners to progress with their analysis and evaluation based on the ratio calculations that they have completed.

If possible, a local business person could be invited to talk through their businesses performance in recent years, with graphs and figures to back up their conclusions. By bringing this topic to life learners are more likely to engage with the more complex mathematics of this area.

To allow learners to practise this it is worth giving them sets of accounts where there are some obvious differences to spot (for example where a firm is profitable but not very efficient, compared to a firm that is efficient but not very profitable), so that learners have plenty to analyse.

For distinction criteria, learners must evaluate how useful ratio analysis is in judging the financial performance of the selected business. A good approach to this would be to use a case study of a business that on paper looks to be a poor investment, but in the wider context might have potential. Examples could include the early days of internet-based businesses such as Amazon, Google and Facebook. To fully evaluate learners must make justified and reasoned judgements over the usefulness of the ratios, compared to other data that is available. Ratios analysis might be a good way of judging the financial performance of an established supermarket (eg. steady market share) but a poor way of judging the financial performance of a new internet based business (e.g. few past figures, few fixed assets).

GUIDANCE ON ASSESSMENT

P1, P2

Scenario and task: As a member of staff at a local accountancy firm you have been asked to facilitate a visit for a group of Year 11 students. As part of the visit you will have to describe the purpose of accounting for an organisation, and the difference between business expenditure and income, including capital revenue.

Guidance:
Learners could prepare the materials that they will need to facilitate the visit, for example they might want to create some notes to help them explain the topic to the students. They may want to provide some handouts for the students to take away, or a wall chart to make their description more visual.

The learners' description should show they have an understanding of the purpose of accounts, and include topics such as recording, managing, monitoring, measuring and communicating. They should also explain the differences between capital and revenue expenditure and income.

P3

Scenario and task: You have been asked to produce a 12 month cash flow forecast for a local organisation. Your cash-flow forecast must enable the organisation to manage its cash.

Guidance:
Learners must provide a cash flow forecast that is fit for purpose. To underpin their knowledge, learners may also give an explanation of their understanding of the terms used.

M1

Scenario and task: As a member of staff at a local accountancy firm you have been asked to explain to a local business the factors that may affect their cash flow. Your explanation should include details on what the factor is and how it would affect the businesses cash flow.

Guidance:
Learners should identify more than one factor that will affect the cash flow forecast of the local business, and for each factor identified they should explain the impact that the factor will have on the cash flow of the business. .

D1

Scenario and task: As a member of staff at a local accountancy firm you have been asked to provide recommendations on how the local business could improve its cash-flow forecasting.

Guidance:
Learners should select a business that gives them the scope to complete the task. For example, a business where cash flow is affected by an external factor, such as seasonality. Learners could evaluate an existing cash flow forecast, and then use this evaluation to justify their recommendations for improvement.

P4

You have been given the end of year financial details for an organisation. You should use these to prepare a profit and loss account and balance sheet.

P5

You have been given the financial accounts of an organisation. You should perform a ratio analysis to measure the profitability, liquidity and efficiency.

Guidance:
For P4 learners must provide a profit and loss account and balance sheet that is fit for purpose. For P5 learners must provide a ratio analysis. To underpin their knowledge, learners may also give an explanation of their understanding of the terms used.

M2

Using the accounts from the previous activity analyse the profitability, liquidity and efficiency of the business using ratio analysis.

Guidance:
Learners could comment upon the ratio analysis that they have performed as part of P5, by referring to the context within which the organisation operates. For example, a business that handles large amounts of cash (e.g. a supermarket) might not be concerned if their liquidity ratios are low.

D2

Using your findings from the previous activity recommend ways the business can improve its profitability, liquidity and efficiency.

Guidance:
Learners could evaluate the businesses ratio analysis, and then use this evaluation to justify their recommendations for improvement.

LINKS TO NOS

CfA BAD322 Analyse and report data (Partial)

CfA BAA521 Account for income and expenditure (Partial)

CfA BAA522 Draft financial statements (Partial)

CONTACT US

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

We're always delighted to answer questions and give advice.

Telephone 02476 851509
Email cambridgetechnicals@ocr.org.uk
www.ocr.org.uk