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| **Teacher\Department** |  | **Content area** | 6: Sources of enterprise funding and business finance |
| **Guided Learning Hours (GLH)** | 21 GLH | **Lessons** | 21 x 1 hour lesson |

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| **Teaching content** |

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| 1. **Sources of enterprise funding and business finance**   6.1 Business and enterprise funding.   * + 1. Funding types.   1. Financial terms, documents, and tools.      1. Financial terms and calculations.      2. Costs, liabilities, and assets.      3. Financial documents.      4. Ratio analysis.      5. Cash flow management. |

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| **Opportunities to embed English and maths** |
| English is embedded throughout the resources, utilising literacy skills appropriate to the learner. Vocabulary development is included in lessons such as lesson 20 when new vocabulary such as “solvency” is introduced. Learners have to write an argumentative paragraph in lesson 2  Math is embedded in lessons 17, 18, 19, 20 when learners calculate ratio analysis results. |
| **Opportunities to embed equality and diversity** |
| Equality and diversity are embedded in the case studies that use names of different backgrounds. Stereotypes are challenged in all lessons, and all groups are offered an even playing field and opportunities throughout the resources. |
| **Opportunities to embed Prevent duty and British values** |
| Values of tolerance and respect are all times promoted during lessons, listening to others and their opinions.  Democracy is endorsed during each lesson where findings and opinions are consistently presented to the class. A democratic conversation is consistently promoted, mutually respecting, and tolerating others from different backgrounds and their opinions. |

| **Lesson** | **Learning activities**  Implementation | **Resources**  Support | **Assessment method**  Impact | **Mapping**  Teaching content |
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| 1 | **Business and enterprise funding types**  **Starter Activity - Sources of funding**  Mind map activity in groups detailing where a business might get finance.  Answers include credit cards, bank loans, overdrafts, and grants.    **Introduce the learning outcomes of the lesson**:    Learners must be able to:   * **Describe** short-term and long-term funding for business and enterprise. * **Identify** which funding is appropriate for businesses of different legal structures.     Learners might also be able to:   * **Choose** appropriate sources of finance for businesses. * **Evaluate** the advantages and disadvantages of different sources of short and long-term sources of finance.   **Teacher-led discussion on funding a business, short-term and long-term funding.**  **Activity 1 - Short term vs long term**  In pairs, learners to research long-term and short-term sources of finance, providing a description, advantages, and disadvantages for each one.  Answers include for short-term sources of funding:   * Trade credit - Receiving goods now and then paying later, good so you can trade and make sales before paying, but you need good credit to receive trade credit and may fall into debt with the company. * Factoring - Selling your invoice to another company so you receive the money faster, although fees will be payable, so you lose money overall. * Overdraft - Attached to your bank account so you can use more money than you have, good as it can be there in your bank account permanently and used as a safety net, although charges will be payable. * Credit card - Borrowing money through a credit card can be good as you can keep the credit card when you need to use it and limits can increase, although very high interest fees are usually payable.   Answers include for long-term sources of funding:   * Personal savings – Using your own the money as you wish, but risking losing it and not everyone has enough personal savings to cover the cost of starting a business. * Bank loan - Applying for a large sum of cash from your bank is good for big sums of money, although only some people will be accepted, and interest is charged. * Leasing – Giving an opportunity to hire equipment or assets while paying the leasing company a specified sum (often on a monthly) schedule, which helps with budgeting and the leasing company retains legal ownership and is responsible for repairs but can be expensive overtime and you never own the equipment or assets. * Loan from friends or family - borrowing money off someone, a good method as they may not charge you interest and may wait to be paid back for a while yet can cause friction between friends and family if you do not pay it back. * Grant (government/non-government)- grants may be available for several thousands of pounds that do not need to be paid back and so no interest is payable, such as from the Prince’s Trust, although you must meet a strict criterion and not everyone will be successful. * Business angel - an experienced investor invests in your business, no interest will be charged, and large sums can be sought, using their experience, although you may lose some of your business. * Crowdfunding - raising money from the public, good because you do not need to pay it back, but it relies on generosity of others, your page gaining popularity. * Retained profits - Using profits from the business and investing them back into the business, good for successful businesses, although you are risking losing your hard-earned money. * Share capital - Shareholders investing into your business, raising cash through selling shares, although this is just for big companies, and you may lose control of your business over time.   **Stretch and Challenge -** Select which sources of finance are appropriate for each type of legal structure.  For example, share capital is appropriate for a PLC, borrowing from friends and family and using personal savings is suited for a sole trader, and a bank loan is suited to a partnership.  **Activity 2 - Cassie’s sources of funding**  Working individually, learners to advise Cassie about the different sources of funding that are available to her, considering which sources of funding are appropriate for Cassie’s type of business.  An answer is Cassie needs £1,000 to start a new business so the most appropriate sources for her to use are credit cards, personal savings, an overdraft, or a loan from friends and family. She could try a grant depending on whether she meets the criteria.  **Stretch and Challenge** - Evaluate the advantages and disadvantages of short-term and long-term funding, choosing examples of short-term and long-term sources of funding.  Learners to apply the answers to Activity 1 in which advantages and disadvantages are provided to the case study.  **Progress check - Teacher to reinforce learning and check progression.**  1. What is a source of funding?  Answers can include credit card or bank loan.  2. Which of the following are examples of short-term sources of funding?   1. Bank loan. 2. Factoring. 3. Business angel.   Answer is b.  3. Which of the following are examples of long-term sources of funding?   1. Credit card. 2. Trade credit. 3. Grant.   Answer is c.  4. True or false? You will need to pay back more money than you originally borrowed when using a bank loan.  Answer is true.  5. Complete the statement: Trade credit is when you (receive) goods and then pay for them.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Legal structure**  Learners should research the legal structures of a business.  Answers include:   * A sole trader is one person starting and running a business, in full control, with unlimited liability. * A partnership is at least two people beginning a business, such as solicitors or accountants, sharing control and profits, limited liability. * Limited company is a Ltd with limited liability and is a private limited company. * A PLC is a public limited company with shareholders and limited liability. * A not-for-profit is a charity, receiving tax exemptions and limited liability. |  | Group work  Questions and answers | 6.1.1 |
| 2 | **Financing a business**  **Starter Activity - Legal structures**  As a group, learners to match the legal structure to their definition.  The answers are:   |  |  | | --- | --- | | Not for profit | A tax-exempt organisation, with all money going towards their objectives. | | Public limited company (PLC) | A business with its own identity that you can buy shares in on the stock exchange. | | Sole trader | One person owns and runs the business, keeping all profits but being liable for any losses and debt. | | Limited company (Ltd) | A business has a separate identity to the owners and is owned privately. | | Partnership | Two or more people agree to combine all resources yet share all profits and losses. |   **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** different legal structures in business * **Describe** appropriate sources of funding for businesses of different legal structures.     Learners might also be able to:   * **Choose** appropriate sources of funding for businesses of different legal structures. * **Evaluate** the appropriate sources of funding for businesses of different legal structures.   **Teacher-led discussion on** **the different legal structures available to businesses**.  **Activity 1 - Sources of funding thought shower**  In pairs, learners should choose appropriate sources of finance for each of the legal structures they researched/ revisited in the home study. Some groups should focus on short-term sources, whilst the others work on long-term sources.  Answers may vary when justified.   |  |  | | --- | --- | | Sole trader | Trade credit, factoring, overdrafts, credit cards, loans from friends or family, grant, bank loan. | | Partnership | Overdrafts, bank loan, leasing, personal savings, business angel funding. | | Ltd | Bank loan, retained profits. | | PLC | Share capital, bank loan. | | Not-for-profit | Crowdfunding, grants. |   **Stretch and Challenge** - Bobbi wants to start working for themselves as a nail technician. Describe what legal structure Bobbi should choose for their business and the most appropriate sources of funding.  An answer could be Bobbi should start their business as a sole trader so they can have full control of the business, seeking funding from personal savings, overdrafts, credit cards, trade credit for materials, and loans from friends and family.  **Activity 2 - Evaluating sources of funding**  Working individually, learners to write a short report that evaluates the appropriate sources of finance for businesses of different legal structures (up to 400 words).  Learners must tie together everything they have learned regarding funding and legal structures and create a short report.  **Stretch and Challenge -** Learners to choose one source of finance that they would use if they had a business. What are the benefits and limitations of that source of finance? What legal structure is this source of finance the most appropriate for?  Answers will vary but should offer a detailed argument regarding one source of funding, referring to unlimited or limited liability and what this means**.**  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. In business, what is a legal structure?   Legal structures influence how a business is ran daily.   1. Which of the following are appropriate sources of funding for a public limited company? 2. Bank loan. 3. Factoring. 4. Trade credit.   Answer is a.   1. Which of the following are appropriate sources of funding for a sole trader? 2. Credit card. 3. Loan from friends or family. 4. Trade credit.   Answer is all of them.   1. True or false? Crowdfunding is an appropriate source of finance for a not-for-profit organisation.   Answer is true.   1. Complete the statement: A business angel invests (money) into your business in return for a (share).   **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Sales revenue**  Learners should research sales revenue (money made from sales of goods or services in a business). |  | Group work  Questions and answers | 6.1.1 |
| 3 | **Financial terms and calculations**  **Starter Activity -** **Sales revenue**  Learners to work individually to find the correct calculation for sales revenue.  Answer is 2. Sales revenue = number of units sold x sales price.    **Introduce the learning outcomes of the lesson**:  Learners must be able to:   * **Identify** the financial terms sales revenue, gross profit, and net profit. * **Choose** formulae for sales revenue, gross profit, and net profit.     Learners might also be able to:   * **Calculate** sales revenue, gross profit, and net profit. * **Evaluate** the results of the calculations for sales revenue, gross profit, and net profit.   **Teacher-led discussion** **on financial terms.**    **Activity 1 - Ja’queel’s financial calculations**  Using a case study, learners to work in pairs to work out Ja’queel’s sales revenue, gross profit, and net profit.  Answers:   * Sales revenue = number of units sold x sales price.   = 250 x £500.  = £125,000.  Cost to make the 250 sofas is 250 x £150 = £37,500.  Expenses are £45,000.   * Gross profit = sales revenue — cost of sales.   = £125,000 — £37,500.  = £87,500.   * Net profit = gross profit — expenses.   = £87,500 — £45,000.  = £42,500.  **Stretch and Challenge -** Should Ja’queel lower the price of the sofa?  Learners should explain answers using calculations for sales revenue, gross profit, and net profit.  Answer: Ja’queel should not lower the price as he has rising cost of sales and rising expenses and will make a loss if he reduces the selling price.   * Sales revenue = number of units sold x sales price.   = 250 x £400.  = £100,000.  Cost to make the 250 sofas is 250 x £200 = £50,000.  Expenses are £55,000.   * Gross profit = sales revenue — cost of sales.   = £100,000 — £50,000.  = £50,000.   * Net profit = gross profit — expenses.   = £50,000 — £55,000.  = Loss of £5000.  **Activity 2 – Research task**  Learners to work individually and research a company’s sales revenue, gross profit, and net profit figures. What does this information tell you about this company?  Answers will vary but learners should be able to access such data for companies like Coca Cola and McDonalds, working out the sales revenue, gross profit, and net profit using the calculations**.**  **Stretch and Challenge -** Evaluate the results of the calculations for sales revenue, gross profit, and net profit for their chosen company. Do you think the company is successful or unsuccessful? What decisions should the company make next?  Evaluations will vary according to the data chosen but learners should identify where a profit or loss is made and the reasoning behind this.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.  1. What is the alternative name for sales revenue?   1. Turnover. 2. Selling point. 3. Gross received.   Answer is a.  2. Complete the calculation: (Gross profit) = sales revenue – cost of sales.  3. Complete the calculation: Net profit = (gross profit) - expenses.  4. Describe what is meant by “cost of sales”.  How much it costs you to make the product you are selling.  5. True or false? Employee wages are deducted from gross profit to total net profit.  Answer is true.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Breakeven**  Learners should research ‘break-even level of output” and find a break-even chart.  Break-even is the point where you have made enough money from sales to cover costs. | Internet access  Calculator (optional) | Group work  Research  Questions and answers | 6.2.1 |
| 4 | **Break-even, profit and loss, margin of safety**  **Starter Activity** – **Break-even**  In groups, learners to decide which of the three equations is the correct one for calculating break-even level of output.  The answer is c. Break-even output = fixed costs  contribution per unit  **Introduce the learning outcomes of the lesson**:  Learners must be able to:   * **Identify** the financial terms break-even level of output, profit and loss, margin of safety. * **Choose** the correct formula for break-even level of output, profit and loss, margin of safety.     Learners might also be able to:   * **Calculate** break-even level of output, profit and loss, margin of safety. * **Evaluate** the results of the calculations for break-even level of output, profit and loss, margin of safety.   **Teacher-led discussion on financial terms**.  **Activity 1 - Tony’s all-day breakfast**  Using the case study of Tony, learners need to work out the break-even level of output and the margin of safety  Answers:  Contribution per unit is variable cost per unit deducted from the selling cost per unit. Here, it is £8 - £3 = £5   * Break-even output = fixed costs   contribution per unit  = £14,000 / £5  = £2,800  Sales:  1,000 items x £8 each = £8,000   * Margin of safety = sales — break-even level of output   = £8,000 — £2,800  = £5,200  **Stretch and Challenge** *-* What is Tony’s margin of safety? What does this mean? What happens if Tony does not sell enough items to reach his break-even level of output?  Answers include:   * Margin of safety = £5,200. * Tony’s sales can fall £5,200 before hitting the break-even level of output and then making a loss. * If Tony does not sell enough items to meet his break-even level of output, he will make a loss.   **Activity 2 - Break-even and margin of safety**  Working in pairs, learners should evaluate the break-even level of output and margin of safety further, considering what would happen if Tony raised or lowered his prices, for example, and the impact of the calculations.  **Stretch and Challenge** - What do you think is more important, knowing your break-even level of output, or knowing your margin of safety?  Answers will vary, but varying sales can change the margin of safety whereas the break-even level of output will remain constant until costs change.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. What does the break-even level of output show you?   Answer: Cover all costs and begin to make a profit.   1. What happens once the break-even point has been passed?   Answer: The business will start to make a profit for every item sold.   1. Complete the calculation: Breakeven output = \_\_\_\_\_\_\_\_\_\_\_\_\_   contribution per unit.  Answer is fixed costs.   1. Complete the calculation: \_\_\_\_\_\_\_\_\_\_ = sales – breakeven level of output.   Answer is margin of safety.   1. True or false? The bigger the margin of safety, the more danger a business has of making a loss.   Answer is false.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Start-up costs**  Learners should research the financial term “start-up costs.”  Answers include costs that are required to start a new business, such as initial advertising costs, any permits or licensing costs, insurances, and supplies. | Calculator (optional) | Group work  Questions and answers | 6.2.1 |
| 5 | **Costs**  **Starter Activity - Start-up costs**  In groups, learners to discuss what money they would need to start their own business. They should create a mind map.  Relevant start-up costs may include initial advertising costs, any permits or licensing costs, insurances, and supplies.    **Introduce the learning outcomes of the lesson**.    Learners must be able to:   * **Describe** start-up costs, fixed costs, and variable costs. * **Identify** start-up costs, fixed costs, and variable costs.     Learners might also be able to:   * **Choose** appropriate start-up costs, fixed costs, and variable costs for a business. * **Evaluate** the advantages and disadvantages of start-up costs, fixed costs, and variable costs.     **Teacher-led discussion on costs**.  **Activity 1 - Jeff’s start-up costs**  In pairs, learners should consider Jeff’s case study and decide what start-up costs, variable costs, and fixed costs Jeff needs for their used car sales business.   * Start-up costs include (but are not exclusive to) initial advertising costs, any permits or licensing costs, insurance, and supplies. * Fixed costs include rent paid each month and repayments on loans. * Variable costs include raw materials, and labour.   **Stretch and Challenge** *-* Explain to Jeff what start-up costs, fixed costs, and variable costs are and why they are important.  The answers should refer to the definitions given earlier in the lesson, expanding on the importance of each cost in a business.  **Activity 2 - Planning costs**  Working individually, learners to think of a new business of their choosing, and to consider appropriate costs, providing realistic estimations**.** They can use the internet for their research.  Answers will depend on the learners.  **Stretch and Challenge -** Evaluate the start-up costs, fixed costs, and variable costs you have chosen in Activity 2 with a partner. Is each cost you have chosen necessary? What are the advantages and disadvantages of using each cost in your business?  Answers will vary.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.  1. Why should you know the costs that are relevant to your business?  A possible answer is knowing your costs ensures that you can budget appropriately and plan your finances, reducing the chance that you will not have enough money to pay your bills.  2. Which of the following are examples of fixed costs?   1. Rent. 2. Wages. 3. Raw materials. 4. Loan repayments.   Answers are a and d. They do not change regardless of the number of items you make or sell.  3. Fill in the blank: A variable cost changes (according to the number of items you make)  4. True or false? Fixed costs change depending on how many units you make.  Answer is false.  5. What is a start-up cost? Give an example.  An answer is costs to start a new business such as new insurance policies.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Assets and liabilities**  Learners should research the terms: assets and liabilities.  Answer is understanding that a business owns assets (such as cash and stock), and a business owes liabilities such as loan repayments and overdrafts. | Internet access | Group work  Research  Questions and answers | 6.2.2 |
| 6 | **Features of assets and liabilities**  **Starter Activity - Assets and liabilities**  Learners to complete the sentences in groups.   * A liability is (something that the business owes.) * In business, a liability may be split into a (current liability) or (a non-current liability or long-term liability). * Examples of liabilities include (overdrafts, credit card payments, mortgages.) * In business, an asset may be split into (a current asset or a non-current asset or long-term asset). * Examples of assets include (cash, stock, buildings, land, vehicles.)     **Introduce the learning outcomes of the lesson**:    Learners must be able to:   * **Describe** assets and liabilities. * **Identify** current and non-current liabilities, and current and non-current assets.     Learners might also be able to:   * **Choose** examples of different types of assets and liabilities in business. * **Evaluate** the advantages and disadvantages of different types of assets and liabilities.     **Teacher-led discussion** **on assets and liabilities.**  **Activity 1 - Assets and liabilities research**  Learners to conduct research in groups and find examples of current and non-current assets, and current and non-current liabilities.  Answers include:   * Current assets include stock, cash in the bank, cash in a cash box, debtors. * Non-current assets include buildings, equipment, vehicles, land. * Current liabilities include overdrafts, credit cards. * Non-current liabilities include mortgage and a loan.   **Stretch and Challenge** *-* What are the advantages and disadvantages of owning current and non-current assets and of owning current and non-current liabilities?   * Advantages of current assets include having assets ready to turn into cash within one year, although stock may become obsolete if you do not sell it quickenough, with non-current assets helping the business grow over the long-term although vehicles will depreciate. * Current liabilities need to be paid back quickly but can be used again if you maintain a good credit and relationship with credits, whilst non-current liabilities give you more time to pay back and usually offer larger amounts of money.   **Activity 2 - Amina’s assets and liabilities**  Using the case study of Amina’s ladies’ clothing store, learners work individually to place each example under the correct heading (current asset, non-current asset, current liability, non-current liability)*.*  Answers include:   |  |  |  |  | | --- | --- | --- | --- | | Current asset | Non-current asset | Current liability | Non-current liability | | Stock  Cash in bank  Cash box  Debtors | Buildings  Equipment  Vehicles  Land | Overdrafts  Credit card | Mortgage  Loan |   **Stretch and Challenge** – Choose one asset or liability and evaluate the advantages and disadvantages of having that asset or liability in the business. Answers will vary.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Assets can be split into (current) assets and (non-current) assets. 2. Which of the following are examples of current assets? 3. Cash in bank. 4. Debtors. 5. Stock.   Answer is all of them.  3. Which of the following are examples of non-current liabilities?   1. Mortgage. 2. Equipment. 3. Loans.   Answers are a and c.   1. True or false? Non-current assets are assets that can be turned into cash within one year.   Answer is false.   1. True or false? Current liabilities must be paid back within one year.   Answer is true.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Break-even chart**  Learners should research what a break-even chart looks like and what it means. | Internet access | Group work  Research  Questions and answers | 6.2.2 |
| 7 | **Constructing a break-even chart**  **Starter Activity - Break-even chart**  In groups, learners to write down the calculation for break-even output and margin of safety.  Answers are:   * Break-even output = fixed costs.   contribution per unit.   * Margin of safety =sales — break-even level of output.   **Introduce the learning outcomes of the lesson**:    Learners must be able to:   * **Identify** a break-even chart. * **Explain** how a break-even chart is constructed. * **Describe** the different elements of a break-even chart.   Learners might also be able to:   * **Construct** a break-even chart. * **Evaluate** extracted information on costs, revenues, profit, loss, and margin of safety.     **Teacher-led discussion** on **what a break-even chart and output are**.  **Activity 1 -** **Break-even chart**  Learners to find an example of a break-even chart, look at the positioning of the plotted lines and axis, extract information and consider what it means**.**  Answers include a chart shows the fixed costs that do not change in green, the sales revenue in purple, total costs in red, and variable costs in blue. The break-even point is where total costs (red) and sales revenue (purple) meet.  500 1000 1500 2000  Units  0  Costs and Revenues    50 100 150 200 250  **Stretch and Challenge** - What is the break-even point in your chosen example? Do you think a break-even chart is valuable? Why?  Answers will vary when reading break-even chart examples. A break-even chart is valuable as you can determine how many sales need to be sold to cover costs and to begin to make a profit.  **Activity 2 -** **Creating a break-even chart**  Learners to follow the layout given in Activity 1 and adapt the layout to include the axis and plots included in the question and create a new break-even chart and extract relevant information**.**  **Stretch and Challenge** - Extract information from the chart: cost, revenues, profit, loss, margin of safety.  **Teacher-led discussion** – Discuss answers to Activity 2 and the different answers.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. What does a break-even chart show?   Answer is how many sales need to be made to cover costs and begin to make a profit.   1. Which of the following are featured on a break-even chart? 2. Variable costs. 3. Sales revenue. 4. Fixed costs.   Answers: all of them.   1. What is the margin of safety   Answers include the safety net before break-even point is reached.   1. True or false? The break-even point on a break-even chart is where total costs and revenue meet.   Answer is true.   1. True or false? A break-even chart is important so that you can understand how much debt you owe.   Answer is false.  **Lesson Recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Break-even chart**  Learners should practice drawing break-even charts. | Printed copies of break-even charts in the workbook (optional)  Pens (optional)  Ruler (optional)  Internet access | Group work  Research  Questions and answers | 6.2.3 |
| 8 | **Extracting Information from a break-even chart**  **Starter Activity** **– Break-even chart**  Learners should draw a break-even chart and label the axis and the plot lines.    **Introduce the learning outcomes of the lesson**.    Learners must be able to:   * **Describe** how a break-even chart is constructed. * **Extract** information from a break-even chart.     Learners might also be able to:   * **Create** a break-even chart. * **Evaluate** extracted information on costs, revenues, profit, loss, and margin of safety.   **Activity 1 - Extracting from a break-even chart**  Learners to study the break-even chart in the workbook and extract information about costs, revenues, profit, loss, and margin of safety. They can work in pairs or small groups.  **Stretch and Challenge** - Where is the break-even point? What does this tell you?  The chart shows that the business must sell 1,000 units to break-even and after this amount the business will begin to make a profit.  **Activity 2 - Creating a break-even chart**  Learners to create their own data like Activity 1 and create their own break-even chart. They should work individually.  **Stretch and Challenge** - Learners to extract information from their own break-even chart on cost, revenues, profit, loss, and margin of safety.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. When a business sells enough items to cover their costs, this is called:   Breaking even.   1. True or false? Variable costs and fixed costs feature on a break-even chart.   Answer is true.   1. True or false? A break-even chart shows the margin of safety and where the business will make a loss.   Answer is true.   1. Do you think a break-even chart is useful? Explain your answer.   A possible answer is break-even charts help to visualise the break-even calculation. It is useful, although the calculation may be just as useful to businesses.   1. What could happen if a business did not know its break   even level of output or margin of safety?  Not knowing may lead to a less strict budget and management of money and the business could eventually make a loss.  **Lesson Recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Cash flow**  Learners should research “cash flow,” which is the flow of money into and out of the business. | Pens and paper (optional) | Group work  Questions and answers | 6.2.3 |
| 9 | **Cash flow**  **Starter Activity** – **Cash flow**  In groups, learners to fill in the gaps about cash flow**.**  Answers:   * Cash flow is the money that moves (into) and (out) of your business. * Cash flow concerns the management of money to prevent a business from (making a loss).   **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** what is meant by cash flow. * **Describe** cash inflow and cash outflow in business.   Learners might also be able to:   * **Explain** the term net cash flow and its relevance in business. * **Assess** the importance of knowing your net cash flow.   **Teacher-led discussion on** **cash flow, cash inflow, and cash outflow.**  **Activity 1 -** **Cash flow**  In pairs, learners to research as many different examples of cash inflow and cash outflow as they can think of.   * Cash inflows include money received, investments. * Cash outflows include payments made, buying stock, paying for wages.   **Stretch and Challenge** *-* How can you manage cash flow in a business successfully?  A possible answer is you could manage cash flow successfully by creating a cash flow forecast which plans the money that comes into and out of your business.  **Teacher-led discussion** **on** **net cash flow.**  **Activity 2 - Julia’s net cash flow**  Learners should work individually and work out Julia’s net flow for each month.  Answers   |  |  |  |  | | --- | --- | --- | --- | |  | October | November | December | | Cash Inflow | £8,68 | £8,901 | £9,374 | | Cash Outflow | £3,653 | £5,712 | £5,915 | | Net Cash Flow | £5,025 | £3,189 | £3,459 |   **Stretch and Challenge** - Work out Julia’s net cash flow for the three months.  Answer is adding all net cash produces a total of £11,673.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.  1. Give a definition of cash flow.  A possible answer is cash flow is the money that flows into your business and that flows out of the business.  2. True or false? Cash outflow is money that comes into your business.  Answer is false.  3. Complete the calculation: net cash flow = \_\_\_\_\_\_\_ - \_\_\_\_\_\_  Answer is net cash flow = cash inflow — cash outflow.  4. Which of the following are examples of cash inflow?   1. Sales. 2. Wages. 3. Rent received.   Answer is a.  5. Which of the following are examples of cash outflow?   1. Raw materials. 2. Wages. 3. Loan repayment.   Answer is all of them**.**    **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Cash flow forecast**  Learners should research cash flow forecast. | Internet access  Calculator (optional) | Group work  Research  Questions and answers | 6.2.3 |
| 10 | **Cash flow forecast**  **Starter Activity -** **Cash flow forecast**  In pairs, learners to answer questions about the purpose of cash flow forecasting and how it can benefit a business**.**  Answers include the purpose of a cash flow forecast is to plan the money that is expected to come into the business and plan the money that is expected to be paid. A forecast benefits your business as you can plan, making changes where necessary if your cash inflow seems less or your cash outflow seems high.    **Introduce the learning outcomes of the lesson**.    Learners must be able to:   * **Explain** the importance of a cash flow forecast. * **Describe** the purpose of a cash flow forecast. * **Identify** opening and closing balances in a cash flow forecast.     Learners might also be able to:   * **Create** a cash flow forecast, correctly labelling opening and closing balances and cash inflows and outflows. * **Evaluate** extracted information from a cash flow forecast.   **Teacher-led discussion on** **cash flow forecasting.**    **Activity 1 -** **Cash flow forecast**  In pairs, learners should answer three questions**.**   1. An important calculation used in a cash flow forecast totals the net cash flow. What is the formula for net cash flow?   Answer: net cash flow = cash inflow — cash outflow.   1. What do you think the terms opening balance and closing balance mean?   A possible answer is opening balance is the money you expect to have at the start of the month. Closing balance is the money you expect to have at the end of the month.   1. Do you think a cash flow forecast will be presented in a chart, a table, or an essay? Why?   Answer is a cash flow forecast is presented in a table/spreadsheet.  **Stretch and Challenge -** Find a diagram of a cash flow forecast. Draw a rough plan of a cash flow forecast.  An example of a cash flow forecast is:   |  |  |  |  | | --- | --- | --- | --- | |  | January | February | March | | Cash inflows |  |  |  | | Sales |  |  |  | | Rent received |  |  |  | | Total inflows |  |  |  | | Cash outflows |  |  |  | | Staff Wages |  |  |  | | Rent Paid |  |  |  | | Raw Materials |  |  |  | | Loan Repayments |  |  |  | | Total outflows |  |  |  | | Opening balance |  |  |  | | Closing balance |  |  |  |   Usually, a cash flow forecast would span 12 months.  **Activity 2 -** **Creating a cash flow forecast**  Working in pairs, learners should use the information in the workbook to populate a cash flow forecast sheet.  Answers:   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | January | February | March | April | May | June | | Cash inflows |  |  |  |  |  |  | | Sales | 3,010 | 5,234 | 3,480 | 6,256 | 3,278 | 3,421 | | Rent received | 500 | 500 | 500 | 500 | 500 | 500 | | Total inflows | 3,510 | 5,734 | 3,980 | 6,756 | 3,778 | 3,921 | | Cash outflows |  |  |  |  |  |  | | Staff Wages | 750 | 1,098 | 820 | 1,276 | 810 | 864 | | Rent Paid | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 | | Raw Materials | 990 | 1,478 | 890 | 1,654 | 820 | 910 | | Loan Repayments | 200 | 200 | 200 | 200 | 200 | 200 | | Total outflows | 3,040 | 3,876 | 3,010 | 4,230 | 2,930 | 2,084 | | Net cash flow | 470 | 1,858 | 970 | 2,526 | 848 | 3,074 | | Opening balance | 7,890 | 8,360 | 10,218 | 11,188 | 13,714 | 14,562 | | Closing balance | 8,360 | 10,218 | 11,188 | 13,714 | 14,562 | 17,636 |   **Stretch and Challenge** - Extract information from your cash flow forecast. Do you think the business is predicting a healthy cash flow for these six months? Explain your answer.  Answers will depend on learners’ opinion*.*  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. What is the calculation for net cash flow?   Net cash flow = cash inflow — cash outflow.   1. True or false? Cash inflow includes your staff wages.   Answer is false.   1. True or false? Cash outflow includes the rent that you pay.   Answer is true.   1. Complete this extract from a cash flow forecast:   Answers:   |  |  |  | | --- | --- | --- | | Net cash flow | £2,421 | £3,120 | | Opening Balance | £4,790 | £7,211 | | Closing Balance | £7,211 | £10,331 |   **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Profit and loss account**  Learners should find an example of a profit and loss account and state what the purpose of the document is. | Pens/pencils (optional)  Calculator (optional)  Ability to research  (Internet and tablet/mobile phone/computer or relevant study books). | Group presentation (Starter Activity)  Group work (Activity 1)  Individual activity (Activity 2)  Questions and answers | 6.2.3 |
| 11 | **Income statement (profit and loss account)**  **Starter Activity - Profit and loss account**  In pairs, learners to consider the purpose of the profit and loss account and how to use a profit and loss account to benefit a business.  Answers include accounting for all money made and spent during a given period**.** A profit and loss account benefits the business to see where money is going and where savings can be made. You can also use the profit and loss account data inside of ratio analysis to interpret the results.  **Introduce the learning outcomes of the lesson**.    Learners must be able to:   * **Describe** an income statement (profit and loss account). * **Identify** sales revenue, cost of sales, and gross profit. * **Construct** an income statement (profit and loss account).     Learners might also be able to:   * **Calculate** gross profit. * **Evaluate** calculation results related to sales revenue, cost of sales, and gross profit.   **Teacher-led discussion** **on profit and loss account, sales revenue, cost of sales, and gross profit.**    **Activity 1 - Calculating gross profit**  In pairs or small groups, learners to answer the following questions:  1.What is the calculation for gross profit?  Answer is gross profit = sales revenue — cost of sales.  2. A business’s sales revenue totals £34,670 and the cost of sales is £18,935. Calculate this business’s gross profit  Answer is gross profit = £34,670 — £18,935.  = £15,735.  **Stretch and Challenge** - Why is the cost of sales relevant?  Answers include seeing how much you are spending on the products that are being made and how to save money.  **Activity 2 - Saffia’s cake shop**  Working individually, learners to answer the questions about Saffia’s gross profit:  1. Which of these are not involved in calculating gross profit: sales revenue, net profit, or cost of sales?  Answer is net profit.  2. Saffia’s cake shop makes £7,354 per week in sales revenue. Her gross profit totals £4,560. Work out Saffia’s cost of sales.  Answers Gross profit = sales revenue — cost of sales  = £7,354 — £4,560  = £2,794  3.In a different period, Saffia’s gross profit was £4,012 and her cost of sales totalled £3,180. Work out Saffia’s sales revenue.  Answer: Gross profit = sales revenue — cost of sales  £4,012 = sales revenue — £3,180  £4,012 = £7,192 — £3,180  Sales revenue is £7,192  **Stretch and Challenge** – Learners to explain their answers for Activity 2. Are Saffia’s calculations healthy for her business?  Answers will vary according to learners’ opinions.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Give a definition of sales revenue   Sales revenue is the total (amount of money made from the sale of goods or services.)   1. Give a definition of cost of sales.   Cost of sales is (the amount of money spent on the goods or services that you have sold).   1. What is the calculation for gross profit?   Gross profit = sales revenue — cost of sales.   1. True or false? Gross profit is the final profit figure for a business.   Answer is false   1. True or false? A profit and loss account can help you assess whether a business has made a profit or a loss.   Answer is true  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study -** **Profit and loss account**  Learners should think about the rest of the profit and loss account and what features after gross profit.  Examples are expenses and net profit. | Calculator (optional) | Group work  Questions and answers | 6.2.3 |
| 12 | **Expenses, net profit, and gross profit**  **Starter Activity - Define key terms**  Learners to work in pairs to write down definitions of gross profit, net profit, and expenses.  Answers: Gross profit is the total sales revenue minus the cost of sales.  Net profit is the gross profit minus costs such as expenses.  Expenses are costs incurred by the business such as advertising costs and heating and lighting costs.    **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** expenses, net profit, and gross profit. * **Describe** expenses, net profit, and gross profit.   Learners might also be able to:   * **Calculate** net profit. * **Evaluate** calculation results related to expenses, net profit, and gross profit.   **Activity 1 - Calculating profit and loss account**  In pairs, learners to research how to calculate gross profit and net profit.   * Gross profit = sales revenue — cost of sales * Net profit = gross profit — expenses   **Stretch and Challenge** - Do you remember what a profit and loss account is used for?  A possible answer is showing whether a business has made a profit or a loss, showing the money the business has spent and the money the business has made.  **Activity 2 - Ciara’s gross profit & net profit**  Working individually, learners to use the case study of Ciara to practise calculating gross profit and net profit.  Answers:  Ciara’s cost of sales needs to be worked out first. £2 per unit x 10,000 units = £20,000.  Gross profit = sales revenue — cost of sales.  = £54,670 — £20,000.  = £34,670.  Net profit = gross profit — expenses.  = £34,670 — £9,875.  = £24,795.  **Stretch and Challenge -** If Ciara’s cost of sales rose from £2 per unit to £3 per unit, what would her gross profit and net profit totals be?  What do both calculations tell you about Ciara’s business?  A possible answer is that Ciara’s cost of sales: £3 per unit x 10,000 units = £30,000.  Gross profit = sales revenue — cost of sales.  = £54,670 — £30,000.  = £24,670.  Net profit = gross profit — expenses.  = £24,670 — £9,875.  = £14,795.  Keeping the cost of sales as low as possible, results in higher gross profit figures and therefore net profit figures.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Complete the sentence: A profit and loss account shows the   (revenue) and (cost) of the business during the financial year.   1. True or false? Net profit is a final profit figure after all deductions.   Answer is false as taxes still need to be deducted.   1. True or false? Expenses include the costs of directly making the items that are sold.   Answer is false.   1. Complete the sentence: Gross profit is calculated by deducting (cost of sales) from sales revenue. 2. If your gross profit is £98,000 and your expenses totals £32,000, what is your net profit?   Net profit = gross profit — expenses.  = £98,000 — £32,000.  = £66,000.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Profit and loss account**  Is this sentence correct? A profit and loss account helps a business to see what assets are available in their business.  Answer: this sentence is incorrect, as a balance sheet shows the assets available in the business, not the profit and loss account. | Calculator (optional)  Internet access | Group work  Research  Questions and answers | 6.2.3 |
| 13 | **Creating a profit and loss account**  **Starter Activity** - **Profit and loss account**  In small groups, learners to write the terms they associate with a profit and loss account**.**  Answers include profit account includes terms such as sales revenue, cost of sales, gross profit, expenses, and net profit.    **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Create** a profit and loss account. * **Describe** the purpose of a profit and loss account.     Learners might also be able to:   * **Review** key terms for loss and profit accounts. * **Evaluate** extracted information from a profit and loss account.   **Teacher-led discussion on** **profit and loss account, using an example.**  **Activity 1 - Developing a profit and loss account**  In pairs, learners to create their own profit and loss account, using the information provided in the workbook.  Answer:   |  |  | | --- | --- | |  | 2022 (£000s) | | Sales revenue | 514 | | Cost of sales | 210 | | Gross profit | 304 | | Less expenses |  | | Wages | 80 | | Advertising | 4 | | Insurance | 10 | | Heating and lighting | 10 | | Total expenses | 104 | | Net profit | 200 | | Less tax | 50 | | Profit after tax | 160 |   **Stretch and Challenge** *-* Identify what each term in the profit and loss account means.​: gross profit, net profit, profit after tax.  Answers: Gross profit = £304,000, so the business made this amount from all sales minus the cost of making those sales.  Net profit = £200,000, so after expenses were deducted from gross profit, £200,000 remained.  Profit after tax = £160,000, which is the real profit of the business.  **Activity 2 - Further practice**  Individually, learners to create their own profit and loss account, using the information provided in the workbook.   |  |  | | --- | --- | |  | 2022 (£000s) | | Sales revenue | 340 | | Cost of Sales | 270 | | Gross profit | 70 | | Less expenses |  | | Wages | 70 | | Advertising | 20 | | Insurance | 15 | | Heating and Lighting | 15 | | Total expenses | 120 | | Net profit | 50 (Loss) | | Less tax | 40 | | Profit after tax | 90 (Loss) |     **Stretch and Challenge** - Extract information from your profit and loss account. What can you see? Explain your answer.  Answer is the business has made a loss of £900,000. The main reason for this is the very high cost of sales and low sales revenue which resulted in a low gross profit amount.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. What does a profit and loss account show?   Answer is the revenue and costs made by the business are shown in the profit and loss account.   1. True or false? A profit and loss account is also called a balance sheet.   Answer is false, it is also called income statement.   1. True or false? Tax is deducted from the profit and loss account.   Answer is true.   1. Complete the sentence: A profit and loss account is usually completed by a business (once) per year. 2. Complete this extract from a profit and loss account:  |  |  | | --- | --- | | Sales Revenue | £62,980 | | Cost of Sales | £20,630 | | Gross profit | £42, 350 |   **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Liabilities**  What is a balance sheet (which is sometimes called a statement of financial position)?  A balance sheet shows the assets that a business owns and the liabilities that a business owes | Calculator (optional) | Group work  Questions and answers | 6.2.3 |
| 14 | **Balance sheets and assets**  **Starter Activity** – **Balance sheet**  In pairs, learners to discuss what a balance sheet is and for what it is used.  Answers include a balance sheet shows the assets that a business owns and the liabilities that a business owes. It is used to assess the financial position of the business, providing a snapshot in time.    **Introduce the learning outcomes of the lesson**.    Learners must be able to:   * **Identify** the purpose of balance sheets. * **Describe** what current and non-current assets are.     Learners might also be able to:   * **Explain** the difference between current and non-current assets. * **Evaluate** the value of current and non-current assets.   **Teacher-led discussion on** **what a balance sheet is, the information it contains and the difference between current and non-current assets**.  **Activity 1 - Assets sorting task**  In pairs, learners to categorise the assets into either current or non-current.  Answers:   |  |  | | --- | --- | | Current assets:  Stock.  Debtors.  Cash in cash box.  Cash in bank. | Non-current assets:  Buildings.  Machinery.  Land.  IT equipment.  Vehicles. |   **Stretch and Challenge** *-* What is the difference between current assets and non-current assets?  Answers include current assets can be turned to cash within one year whereas non-current assets take longer than one year to be turned to cash.  **Teacher-led discussion** **on what a balance sheet tells us about assets**.  **Activity 2 - Calculate your assets**  Working individually, learners use the information in the workbook to add up their current assets and non-current assets.  Answers: Total current assets = £138,000.  Total non-current assets = £340,000.  **Stretch and Challenge** - Do you think the current assets and non-current assets in Activity 2 shows a healthy position for a business? Evaluate the value of the current and non-current assets in the business.  Answers will vary but both figures are healthy. However, a true comparison of the value of the current and non-current assets will only be provided in relation to the value of the current and non-current liabilities in the business.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. True or false? A current asset can be turned into cash within one year.   Answer is true.   1. True or false? An example of a non-current asset is debtors.   Answer is false.   1. Complete the sentence: A (balance sheet) is a snapshot in time of the position of a business. 2. My total assets are £354,000. My current assets total £128,000. How much are my non-current assets?   Answer is Total assets = current assets + non-current assets.  £354,000 = 128,000 + non-current assets.  Non-current assets = £354,000 — £128,000.  = £226,000.   1. Are the following current assets or non-current assets?  * Buildings. * Land. * Vehicles.   Answer is non-current assets.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Liabilities**  What are liabilities? How are liabilities split in the balance sheet?  Liabilities are debts that the business owes and are split into current liabilities and non-current liabilities. | Calculator (optional) | Group work  Questions and answers | 6.2.3 |
| 15 | **Balance sheets and liabilities**  **Starter Activity -** **Balance sheet**  In pairs, learners to fill in the gaps of the sentences in their workbooks.  Answers:  1. Liabilities are monies (owed) by the business.  2. Current liabilities need to be paid by the business (within) one year.  3. Non-current liabilities (long-term liabilities) need to be paid by the business (after) one year.  **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** current and non-current liabilities. * **Describe** what current and non-current liabilities are.     Learners might also be able to:   * **Explain** the difference between current and non-current liabilities. * **Evaluate** the value of current and non-current liabilities.   **Teacher-led discussion on** **balance sheets and liabilities**.  **Activity 1 - Sorting liabilities**  In pairs, learners to separate the current liabilities from non-current liabilities.  Answers:   |  |  | | --- | --- | | Current liabilities  Bank overdraft  Creditors | Non-current liabilities  Bank loan  Mortgage |   **Stretch and Challenge** - What is the difference between current liabilities and non-current liabilities?  Answers include current liabilities must be paid back within one year (creditors) whereas non-current liabilities are paid back over a longer period (mortgage).  **Teacher-led discussion** **on what a balance sheet tells us about liabilities**.  **Activity 2 -** **Calculating liabilities**  Working individually, learners to add up their current liabilities and non-current liabilities using the information in the workbook**.**  Answers: Total current liabilities = £14,000  Total non-current liabilities = £ 355,000  **Stretch and Challenge** - Do you think the current liabilities and non-current liabilities in Activity 2 show a healthy position for a business? Evaluate the value of the current and non-current liabilities in the business.  Answers include the liabilities in Activity 2 are standard units but can only be compared fully against assets.  **Progress check** - Teacher to lead quiz to reinforce learning and check progression.   1. True or false? Current liabilities can be paid back after more than one year.   Answer is false, they must be paid back within a year.   1. True or false? An example of a non-current liability is creditors.   Answer is false.   1. Complete the sentence: A (creditor) is someone that you owe money to. You have received (goods) and need to pay your invoice soon. 2. My total liabilities are £212,000. My current liabilities total £45,000. How much are my non-current liabilities?   Answers are Total liabilities = current liabilities + non-current liabilities.  £212,000 = £45,000 + non-current liabilities.  Non-current liabilities = £212,000 — £45,000.  = £167,000.   1. Are the following current liabilities or non-current liabilities?  * Bank loan. * Mortgage.   Answer is non-current.    **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Capital**  What is capital, and how is capital relevant to the balance sheet?  Capital is money invested and must be presented in the balance sheet. | Calculator (optional) | Group work  Questions and answers | 6.2.3 |
| 16 | **Balance sheets and capital**  **Starter Activity -** **Capital**  In pairs, learners to find the definitions for:   * Share capital is money invested by shareholder. * Working capital is the total assets minus the total liabilities. * Capital employed shows how a business is financed by investment.     **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** share capital, working capital and capital employed. * **Create** a balance sheet.     Learners might also be able to:   * **Explain** the relevance of share capital, working capital and capital employed in a balance sheet. * **Extract** information from the balance sheet.   **Teacher-led discussion on share capital. working capital, and capital employed.**  **Activity 1 - Capital**  In pairs, learners work to calculate capital, according to the questions in the workbook**.**  Answers:   1. Current assets = £139,000.   Current liabilities = £43,000.  Working capital = current assets — current liabilities.  = £139,000 — £43,000.  = £96,000.   1. 1,000 shares at £200 each equal £200,000.   **Stretch and Challenge** *-* Explain the relevance of share capital, working capital and capital employed in the balance sheet**.**  Answers include working capital and capital employed in the balance sheet must balance.Working capital shows current assets minus current liabilities. Share capital shows shareholder investment. Capital employed represents the whole “financed by” section of the balance sheet.  **Teacher-led discussion** **on creating a balance sheet and use an example.**  **Activity 2 - Creating a balance sheet**  Working individually, learners to create a balance sheet in their workbooks, using the template and the information provided in the workbook.  Answers:   |  |  |  | | --- | --- | --- | |  | **(£)** | **Total (£)** | | **Fixed/non-current assets** |  |  | | **Buildings** | 400,000 |  | | **Land** | 140,000 |  | | **Vehicles** | 60,000 |  | | **Equipment** | 40,000 |  | |  |  | 640,000 | | **Current assets** |  |  | | **Cash in bank** | 130,000 |  | | **Cash in cash box** | 2,000 |  | | **Stock** | 58,000 |  | | **Debtors** | 10,000 |  | |  |  | 200,000 | | **Current liabilities** |  |  | | **Creditors** | 80,000 |  | | **Bank overdraft** | 20,000 |  | | **Working capital** |  | 100,000 | | **Net assets** |  | 740,000 | | **Financed by** |  |  | | **Capital** |  |  | | **Share capital** | 300,000 |  | | **Long term liabilities** |  |  | | **Mortgage** | 340,000 |  | | **Bank loan** | 100,000 |  | | **Capital employed** |  | 740,000 |   **Stretch and Challenge** – Extract information from the balance sheet, answering these questions.   1. What is your working capital?   Answer is £100,000   1. What is your capital employed?   Answer is £740,000.   1. Does your balance sheet balance?   Answer is yes.   1. Which areas of the balance sheet show that the business is performing successfully?   Answers include the business holds a lot of assets and is financed substantially.   1. Which areas of the balance sheet show that the business is performing poorly?   Answers are high number of creditors, and high stock level that could eventually go to waste.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Write down the formula for working capital.   Answer is working capital = current assets — current liabilities.   1. True or false? Share capital includes shareholder funds.   Answer is true.   1. Complete the sentence: (Retained profit) is money from profit that is invested back into the business. 2. If your share capital is £254,000 and your long-term liabilities total £121,000, what is your capital employed?   Add share capital and long-term liabilities to total capital employed.  £254,000 + £121,000 = £375,000   1. If your working capital is £540,000 and your current assets are £380,000, what are your current liabilities?   Answer is minus current assets from working capital to give current liabilities £540,000 - £380,000 = £160,000.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.  **Home study - Ratios**  Ratios can be used to analyse the information included in financial documents. Find out the names of financial ratios and what they can show  Examples include return on capital employed ratio (ROCE) to measure profitability, current ratio to measure liquidity. | Calculator (optional)  Internet access | Group work  Research  Questions and answers | 6.2.3 |
| 17 | **Ratio analysis and profitability ratios**  **Starter Activity - Ratio analysis**  In pairs, learners to name as many ratios as they can.  Answers include net profit margin, acid test, gearing, current ratio, ROCE.  **Introduce the learning outcomes of the lesson.**  Learners must be able to:   * **Describe** ratio analysis**.** * **Identify** the net profit margin ratio. * **Calculate** the net profit margin with the given data.     Learners might also be able to:   * **Explain** the results of the net profit margin ratio calculation. * **Assess** the importance of the net profit margin ratio and the decision it can inform.   **Teacher-led discussion on** **ratio analysis and profitability ratios.**  **Activity 1 - Net profit margin**  In pairs, learners to research net profit margin ration (what it is and what it shows)Answers include the net profit margin ratio is a profitability ratio to assess how good the business is at making a net profit from the sales made. To calculate, take the net profit and divide by the sales revenue. Then, multiply by 100 to provide a percentage figure. The higher the percentage, the better.  **Stretch and Challenge -** Why is the net profit margin ratio important and how can it inform decision making in business?  Answers include the net profit margin ratio is important as it show how much net profit is made from the sales. A poor result can show a business where improvements need to be made, such as cutting back on expenses as one example.  **Teacher-led discussion** **on net profit margin.**  **Activity 2 - Calculating the net profit margin**  Working individually, learners to use the profit and loss account data in the workbook to calculate the net profit margin.  Answers: Net profit margin= net profit /sales revenue x 100.  £200,000 / £600,000 = 0.333333333.  x100 = 33%.  **Stretch and Challenge** - Assess the net profit margin result for Activity 2. Why is the net profit margin result important, what does it tell you about the business, and how can it help you inform future decision-making?  Answers include anet profit margin of 33% is good as a typical benchmark is 20%. Higher than this standard is considered good, showing that the business is good at turning sales to net profit. It is an important measurement because a business can spot where there are any issues and what steps they need to take to address this.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Write the formula for net profit margin.   Answer is net profit margin = net profit / sales revenue x 100.   1. True or false? Net profit margin ratio shows you how good the business is at turning gross profit into net profit.   Answer is false.   1. True or false? Net profit margin ratio shows you how good the business is at turning sales revenue into net profit.   Answer is true.   1. If your net profit is £30,000 and your sales turnover is £180,000, what is your net profit margin?   Answer is net profit margin = net profit / sales revenue x 100.  = 30,0000 / 180,000 x 100.  = 16.7%.   1. What does the result for question 4 mean? What decisions could be made based on this result, and why?   Answers include the net profit margin from Q4 is not particularly good and the business should look to improve as they are selling lots yet not making much net profit. They need to look at the cost of sales and the expenses and see where too much money is being spent.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Ratios**  What is the ROCE ratio?  ROCE is the return on capital employed ratio and assesses how efficiently a business is being managed. | Calculator (optional)  Ability to research  (Internet and tablet/mobile phone/computer or relevant study books) | Group work  Research  Questions and answers | 6.2.4 |
| 18 | **Ratio analysis and ROCE**  **Starter Activity** – **ROCE**  As a group, learners to recall what ROCE stands for.  Answer is Return on Capital Employed*.*    **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** the return on capital employed ratio. * **Calculate** the return on capital employed ratio with the given data.     Learners might also be able to:   * **Explain** the results of the return on capital employed ratio calculation. * **Assess** the importance of the return on capital employed ratio and the decisions it can inform.   **Teacher-led** **discussion on profitability ratios**.    **Activity 1 - Return on capital employed**  In pairs, learners to research what the capital employed ration and what it shows.  Answer is the ROCE ratio is a profitability ratio that shows you how efficiently a business is being managed, taking the net profit, and dividing by the capital employed amount, before multiplying by 100 to provide a percentage result.  **Stretch and Challenge** - Why is the return on capital employed ratio important and how can it inform decision-making in business?  Answers include ROCE can help shareholders assess the success of their investment, and potential shareholders may look to ROCE to assess whether they should make an investment.  **Teacher-led discussion** **on ROCE ratio.**  **Activity 2 -** **Calculating ROCE**  Working individually, learners to calculate ROCE using the profit and loss account and balance sheet data in the workbook.  Answers:  ROCE = net profit / capital employed x 100.  = £200,000 / £660,000 x 100.  = 30%.  **Stretch and Challenge** - Assess the ROCE result for Activity 2. Why is the ROCE result important, what does it tell you about the business, and how can it help you inform future decision-making?  Answers include 30% is a good result for ROCE and should provide shareholders with the confidence to invest/continue to invest in the business. However, a true comparison with previous financial years and other similar businesses will provide a full assessment.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Write the formula for return on capital employed.   Answer is ROCE = net profit / capital employed x 100.   1. True or false? The return on capital employed ratio shows you how efficient the business is being managed.   Answer is true.   1. True or false? The ROCE ratio is a liquidity ratio.   Answer is false, it is a profitability ratio.   1. If your net profit is £60,000 and your capital employed is £240,000, what is your ROCE?   Answeris ROCE = net profit / capital employed x 100.  = £60,000 / £240,000 x 100.  = 25%.   1. What does the result for question 4 mean? What decisions could be made based on this result, and why?   Answer is the ROCE result in is ok and may satisfy some investors although the business should look to make improvements before falling any lower.    **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study – Ratios**  What are the names of the liquidity ratios?  Liquidity ratios include the acid test ratio and current ratio. | Calculator (optional)  Internet access | Group work  Research  Questions and answers | 6.2.4 |
| 19 | **Ratio analysis and liquidity**    **Starter Activity - Ratio analysis**  As a group, learners to identify the three types of liquidity ratio, from the first letter clues provided.  Answers are 1. Acid Test Ratio 2. Current Ratio 3. Gearing Ratio.  **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** the current ratio. * **Calculate** the current ratio with the given data.     Learners might also be able to:   * **Explain** the results of the current ratio calculation. * **Assess** the importance of the current ratio and the decision it can inform.   **Teacher-led discussion on liquidity ratio.**  **Activity 1 -** **Current ratio**  In pairs, learners to research what a current ratio is, and what current shows us  Answers include the current ratio is current assets divided by current liabilities. It is a liquidity ratio and shows you how good a business is at paying its current liabilities with its current assets.  **Stretch and Challenge** - Why is the current ratio important and how can it inform decision-making in business?  Answers include it is important to assess how liquid a business is, therefore, how money can go in and out the business smoothly without any problems arising.  **Teacher-led discussion** **on current ratio and use an example.**  **Activity 2: Calculating current ratio**  Working individually, learners to calculate the current ratio using the information in the workbook.  Answers:  Current ratio = current assets / current liabilities.  = £220,000 / £110,000.  = 2.  **Stretch and Challenge** - Assess the current ratio result for Activity 2. Why is the current ratio result important, what does it tell you about the business, and how can it help you inform future decision-making?  Answers include the current ratio in Activity 2 is good and sows that the business can pay their debts with their current assets. However, once a current ratio tips over a result of two, you need to ask whether the working capital in the business is too high.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Write the formula for the current ratio.   Answer is current ratio = current assets / current liabilities.   1. True or false? The current ratio shows you how good the business is at paying its debts.   Answer is true.   1. True or false? To calculate the current ratio, you deduct the current assets from the current liabilities.   Answer is false.   1. If your current assets are £50,000 and your current liabilities are £30,000, what is your current ratio?   Answer is: Current ratio = current assets / current liabilities.  = £50,000 / £30,000.  = 1.7.   1. What does the result for question 4 mean? What decisions could be made based on this result, and why?   Answer is a current ratio of 1.7 is good and falls in between the ideal ratio of 1.5 to 2.0. This shows that the business pays its debts well yet the working capital in the business is not too high.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Ratios**  What is the acid test ratio?  The acid test ratio is another liquidity ratio that takes stock out of the calculation to decide how well a business can pay its current liabilities with its current assets. | Calculator (optional)  Internet access | Group work  Research  Questions and answers | 6.2.4 |
| 20 | **Ratio analysis and acid-test ratio**  **Starter Activity: Ratio analysis**  As a group, learners to fill in the gaps in their workbook.  Answers:  1. The acid-test ration is also called the (Quick Ratio).  2**.** The acid-test ratio does not consider (Stock) in the calculation, to give a more relevant result.    **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Identify** the acid test ratio. * **Calculate** the acid test ratio with the given data.     Learners might also be able to:   * **Explain** the results of the acid test ratio calculation. * **Assess** the importance of the acid test ratio and the decisions it can inform.   **Teacher-led discussion on** **liquidity ratios.**  **Activity 1 – Acid-test ratio**  In pairs, learners to research what an acid test ratio is and what it shows.  Answers include Acid test = Current assets — stock.  Current liabilities.  The acid-test ratio also shows you how good a business is at paying its current liabilities with its current assets. It shows how liquid a business is. However, it does not include stock in the calculation.  **Stretch and Challenge** - Why is the acid-test ratio important and how can it inform decision-making in business?  Answers include the acid-test does not include stock in the calculation. This is because many businesses may have a lot of stock and so the acid test offers a more realistic calculation than the current ratio.  **Teacher-led discussion acid-test ratio and use an example**.  **Activity 2 - Calculating the acid test ratio**  Working individually, learners to calculate the acid test ratio using the balance sheet extract provided in the workbook.  Answer:  Acid test = current assets — stock.  current liabilities.  = £244,000 — £63,000.  £90,000.  = £181,000 / £90,000.  = 2.0.  **Stretch and Challenge** - Assess the acid test ratio result for Activity 2. Why is the acid test ratio result important, what does it tell you about the business, and how can it help you inform future decision-making?  Answers include the result for Activity 2 is good and shows that without stock included the business is good at paying its debts. The business is liquid and money flows smoothly without delay. If the ratio result were to get above 2.0, however, the business may ask whether something needs addressing, such as working capital being too high.  **Progress check -** Teacher to lead quiz to reinforce learning and check progression.   1. Write the formula for the acid-test ratio.   Acid test = current assets — stock  current liabilities   1. True or false? The acid-test does not consider stock.   Answer is true.   1. True or false? The acid-test ratio takes the net profit and multiples it by the stock.   Answer is false.   1. If your current assets are £70,000, your stock is £20,000 and your current liabilities are £30,000, what is your acid-test ratio result?   Acid test = current assets — stock  current liabilities  = £70,000 — £20,000  £30,000  = 1.67   1. What does the result for question 4 mean? What decisions could be made based on this result, and why?   Answer is 1.67 is a good result for the business, falling in the good range, showing that they can easily pay their debts.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study - Ratios**  Which financial ratio do you think is more important: the net profit margin, ROCE, the current ratio, or the acid test ratio? Why?  Answers will vary. | Calculator (optional)  Internet access | Group work  Research  Questions and answers | 6.2.4 |
| 21 | **Cash flow management**    **Starter Activity - Ratio analysis**  In pairs, learners to create their own definition for cash flow management  An example could be managing cash flow in the business.    **Introduce the learning outcomes of the lesson.**    Learners must be able to:   * **Describe** the importance of cash to business and enterprise. * **Explain** the usefulness of cash flow forecasting to business and enterprise. * **Assess** cash flow management solutions to cash flow problems     Learners might also be able to:   * **Discuss** what happens if there is not enough cash in a business**.** * **Assess** solutions to cash flow problems.   **Teacher-led discussion on** **cash flow management.**  **Activity 1 - Cash flow management**  In pairs, learners to draw a diagram showing the cash flow of a business and explain why cash is useful in business and enterprise**.**  In their answers, learners should produce a diagram either digitally or on a piece of paper showing cash inflows entering the business and cash outflows going out of the business should be made, using arrows appropriately.  Cash is the blood of business and ensures that you can pay bills on time and invest appropriately and quickly.  **Stretch and Challenge** - What happens if there is not enough cash in your business?  If there is not enough cash in a business, you cannot pay your bills. Money tied-up in assets such as buildings and vehicles does not help you in the same way cash does when running a business.  **Teacher-led discussion on managing cash flow.**  **Activity 2 - Cash flow forecasting**  Working individually, learners to complete the extract from the cash flow forecast and explain how useful cash flow forecasting is to business and enterprise**.**  Answers:   |  |  |  |  | | --- | --- | --- | --- | |  | January | February | March | | Opening bank balance | £15,670 | £20,990 | £24,330 | | Money received | £8,920 | £7,345 | £8,130 | | Money spent | £3,600 | £4,005 | £3,900 | | Closing bank balance | £20,990 | £24,330 | £28,560 |   Cash flow forecasting is useful for planning ahead and assessing what money should be entering and leaving your business. You can make appropriate actions in advance if a problem is witnessed.  **Stretch and Challenge** - Assess cash flow forecasting as a solution to cash flow problems. What other cash flow management solutions can you think of?  Answers include cross-referencing your budget and spending with the cash flow forecast.  **Progress check - Teacher to lead quiz to reinforce learning and check progression.**   1. Write the definition of cash flow management.   Answer is cash flow management is the management of the money going into and out of the business.   1. True or false? Cash flow management is concerned with the cash that flows into and out of the business.   Answer is true.   1. True or false? A profit and loss account is a cash flow management solution.   Answer is false.   1. If your cash inflows for August are £2,080 and your cash outflows are £1,100, what is your net cash flow?   Net cash flow = cash inflows — cash outflows.  = £2,080 — £1,100.  = £980.   1. Name a cash flow management solution.   Answers include cash flow forecast.  **Lesson recap** - Revisit the learning outcomes from the beginning of the session, explaining how these learning outcomes have been met.    **Home study – Revision notes**  Create additional revision notes for the following topics:   * Costs, liabilities, and assets. * Break-even chart. * Cash flow forecast. * Income statement (profit and loss account). * Balance sheet (statement of financial position). * Ratio analysis. * Cash flow management. | Calculator (optional)  Pens and paper (optional) | Group work  Questions and answers | 6.2.5 |

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| **Learner Workbook: Knowledge Check Answers** |
| 1. What does a break-even chart show? 2. The amount of profit a business has made. 3. The level of stock present in the business. 4. The point where a business has sold enough to cover its costs. 5. The point where a business has reached the Fortune 500.   Answer is c.   1. Which statement is true?   a. A profit and loss account shows the financial position of the business, and a balance sheet shows the expenses and profit made by a business.  b. A profit and loss account shows the expenses and profit made by the business and a balance sheet shows the financial state of the business  Answer is b.   1. Which is the formula for the acid test ratio?   a. Acid test = Current liabilities — debtors  Current assets  b. Acid test = Current assets — stock  Current liabilities  Answer is b.   1. Select the short-term sources of funding.   Answers include:   * Trade credit. * Leasing. * Factoring. * Credit cards. * Overdrafts.  1. Which of the above are long-term sources of funding? List them below. Can you think of any others?   Answers include bank loan, grants, share capital.   1. Write a definition for each financial term.   Answers include:   * Sales revenue is the money the business makes through selling goods or services. * Gross profit is the amount left from sales revenue after the cost of sales have been determined. * Net profit deducts expenses from the gross profit. * Break-even level of output shows how many sales need to be made to break-even and cover all costs before a profit is made. * Profit and loss account determines whether a business has made a profit or made a loss. * Margin of safety is the amount that sales can fall before hitting the breakeven point.  1. What is the difference between assets and liabilities? What are the different types of assets and liabilities?   Answers include assets are things that the business owes, split into current assets that can be turned to cash within one year and non-current assets that can be turned to cash after one year. Liabilities are things that the business owes, split into current liabilities than need paying within one year and non-current liabilities that need to be paid back after one year.   1. What does a cash flow forecast show?   A cash flow forecast shows the money that should come into and go out of the business.   1. What does a profitability ratio aim to show?   Profitability ratios measure the performance of the business and shows how profitable the business has been.   1. Explain why cash flow forecasting is a useful tool for business:   Cash flow forecasting is a prediction and helps the business to plan and address any concerns that are identified. |

# Document information

Owner: Product and Content (Learning Resources)