

## AL Business Studies 9707

### 5AL: Finance and Accounting

#### Recommended Prior Knowledge

This unit builds on the AS units. It is important that 5AS is completed before this unit. There is no additional extension material for 5AL.1, 5AL.2, 5AL.3 and 5AL.5 but it is important that students' analysis and evaluation skills continue to be developed and that these topics are seen in a strategic context. This unit links with 6AL.

#### Context

This unit should build on the topics in 5AS. Finance and accounting should be seen in a practical business decision making context so it is important, wherever possible, to use 'real life' situations. Accounts should continue to be studied from the perspective of business wide decisions not just financial ones. Investment appraisal should not be seen as a stand-alone topic so it is important to link it in with other areas such as marketing and people.

#### Outline

Costs, which have been considered in some detail in 5AS, are developed to cover costing methods and how these tie in with decisions such as pricing, special orders etc. Ratio analysis is considerably extended in scope beyond AS, continuing within the business decisions framework. Investment appraisal is introduced as a new topic although students will have been exposed to some of the ideas at AS.

**References to the endorsed textbook, A level Business Studies, 2<sup>nd</sup> edition by Peter Stimpson and Al Farquharson are in RED. Although activities have been selected from this book, these are only suggestions – there are many other useful activities that can be undertaken including others in the endorsed textbook and associated CD-ROMs and in other recommended textbooks.**

AO	Learning outcomes	Suggested Teaching activities	Learning resources
5AL.1 5AL.2 5AL.3	<b>The need for business finance</b> <b>Sources of finance</b> <b>Forecasting cash flows and managing working capital</b>	<i>No topics beyond AS level. However, at A level teaching should develop the AS topics in terms of greater depth of analysis and evaluation.</i>	
5AL.4	<b>Costs</b> <ul style="list-style-type: none"> <li>• Approaches to costing               <ul style="list-style-type: none"> <li>○ Absorption</li> <li>○ Contribution</li> </ul> </li> <li>• Solutions to costing problems</li> </ul>	Introductory activity: <b>Heath Electronics Ltd. (p 517)</b>  Some costing issues will have been addressed in AS, most notably in the study of break-even and the types and uses of cost information (5AS). The aim of the A level section is to develop from the AS syllabus to study ways of managing costs and using cost information to make decisions such as pricing and production decisions (e.g. special orders, make or buy etc.). This can be tied in with other sections of the syllabus such as marketing, motivation, competitiveness. Students often confuse the slightly different use of the term contribution in break-even (where it is defined as price less variable costs) and in this context (where it is, more precisely, price less direct costs). Students may also find it difficult to understand contribution costing since instinct will tell them that all costs must be recovered even for a special order.  Useful activities include: <ul style="list-style-type: none"> <li>• <b>Bureau Office Supplies Ltd (p 521)</b></li> <li>• <b>Onyx Garages (p 522)</b></li> </ul>	<b>Chapter 28</b>  <a href="http://tutor2u.net/business/presentation/accounts/absorptioncosting/default.html">http://tutor2u.net/business/presentation/accounts/absorptioncosting/default.html</a> <a href="http://tutor2u.net/business/presentation/accounts/contribution/default.html">http://tutor2u.net/business/presentation/accounts/contribution/default.html</a>  Examination questions: <ul style="list-style-type: none"> <li>• <b>May 2007 Paper 3 Q 2(a),(b)</b></li> </ul>
	<b>REINFORCEMENT</b>	<b>Revision +</b> <ul style="list-style-type: none"> <li>• <b>Cosmic Cases (p525)</b></li> <li>• <b>Midtown Imperial Hotel (p526)</b></li> </ul>	
5AL.5	<b>Accounting fundamentals</b>	<i>No topics beyond AS level However at A level teaching should develop the AS topics in terms of greater depth of analysis and evaluation.</i>	

AO	Learning outcomes	Suggested Teaching activities	Learning resources
5AL.6	<b>Budgets</b> <ul style="list-style-type: none"><li>The purpose of budgets</li><li>Variances</li></ul>	Introductory activity: <b>Ford's budgets set back by recession (p553)</b>  Useful activities include: <ul style="list-style-type: none"><li><b>Variance analysis at Oasis Cookers Ltd.(p559)</b></li></ul>	<b>Chapter 30</b> <a href="http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1074416511">http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1074416511</a> <a href="http://tutor2u.net/business/presentations/accounts/introtovariances/default.html">http://tutor2u.net/business/presentations/accounts/introtovariances/default.html</a>
	REINFORCEMENT	<b>Revision + Karamali Carpets plc.(p 561)</b>	Examination questions: <ul style="list-style-type: none"><li>Nov 2006 Paper 3 Q 2(a),(b),(c)</li></ul>
5AL.7	<b>Contents of published accounts</b> <ul style="list-style-type: none"><li>The income statement</li><li>The balance sheet</li><li>Intangible assets</li><li>Inventory valuation</li><li>Depreciation</li></ul>	Introductory activity: <b>Takeover leads to some accounting problems.(p363)</b>  This section builds on the work at AS. The accounts of a football club might be useful for discussing intangible assets. Retail outlets, especially supermarkets, are useful for stocks.  Teaching may best be handled by studying real-life accounts of relevant businesses known to the students.  Useful activity: <b>Midas Toys Ltd.(p 572)</b>	<b>Chapter 31</b> Depreciation notes can be found at <a href="http://www.bizhelp24.com">http://www.bizhelp24.com</a> (search for 'depreciation'). A depreciation exercise is at <a href="http://www.bized.co.uk/learn/business/accounting/busaccounts/deprec.htm">http://www.bized.co.uk/learn/business/accounting/busaccounts/deprec.htm</a> Useful notes on inventory (stock) valuation can be found at <a href="http://www.thetimes100.co.uk/theory/theory--stock-valuation-depreciation--302.php">http://www.thetimes100.co.uk/theory/theory--stock-valuation-depreciation--302.php</a>
	REINFORCEMENT	<b>Revision</b>	Examination questions: <ul style="list-style-type: none"><li>May 2007 Paper 2 Q 2(c)</li><li>Nov 2007 Paper 3 Q 3</li></ul>
5AL.8	<b>Analysis of published accounts</b> <ul style="list-style-type: none"><li>Profitability ratios</li><li>Financial efficiency ratios</li><li>Gearing</li><li>Investor ratios</li><li>Practical use of ratio analysis</li></ul>	Introductory activity: <b>Comparing the accounts of the Cola giants.(p 575)</b>  This section builds on work at AS (which included profitability ratios). It is important that ratios are taught within a business decision making situation with a strategic dimension. So, for example, gearing can be closely related to a decision involving the need for a new source of finance.	<b>Chapter 32</b> <a href="http://www.heacademy.ac.uk/assets/hls/documents/case_studies/fantasy_shares_engaging_students_in_finance_and_economics.pdf">http://www.heacademy.ac.uk/assets/hls/documents/case_studies/fantasy_shares_engaging_students_in_finance_and_economics.pdf</a> provides a suitable assignment. As does

<b>AO</b>	<b>Learning outcomes</b>	<b>Suggested Teaching activities</b>  It is fun to have a simulated stock market competition with students choosing a portfolio of shares to a given value. Over a period, say a half term, the shares are monitored for progress. Although the markets often behave in strange ways, the exercise does focus attention on investor ratios. Some newspapers have such competitions.  Useful activities include: <ul style="list-style-type: none"><li>• Pakistan State Oil Co. (p 579)</li><li>• Habib Manufacturing Ltd.(p 586)</li><li>•</li></ul> Revision + Karachi Paper Products plc.(p587)	<b>Learning resources</b> <a href="http://schools.becta.org.uk/index.php?option=contentview&amp;catid=ss_cu_ac_bus_03&amp;id=8913">http://schools.becta.org.uk/index.php?option=contentview&amp;catid=ss_cu_ac_bus_03&amp;id=8913</a>  <a href="http://www.bullbearings.co.uk">http://www.bullbearings.co.uk</a> provides an example of what is available in newspapers.  Examination question: <ul style="list-style-type: none"><li>• May 2007 Paper 3 Q 4</li><li>• May 2008 Paper 3 Q 5</li></ul>
5AL.9	<b>Investment Appraisal</b> <ul style="list-style-type: none"><li>• The concept</li><li>• Forecasting cash flows</li><li>• Basic methods<ul style="list-style-type: none"><li>○ Payback</li><li>○ Average rate of return</li></ul></li><li>• Discounted cash flow methods<ul style="list-style-type: none"><li>○ Discounted payback</li><li>○ Net present value</li><li>○ Internal rate of return</li></ul></li><li>• Qualitative factors in investment appraisal</li></ul>	<b>Introductory activities:</b> <ul style="list-style-type: none"><li>• Glasgow NHS invests in RFID to reduce costs (p 590)</li><li>• Nigerian Water privatisation predicted to be a good investment (p 590)</li></ul> Some of the material on investment appraisal will need to be delivered in a formal way. It is important that, as well as developing the various investment appraisal techniques, they are evaluated in terms of their appropriateness and their strengths and weaknesses.  Useful activities include: <ul style="list-style-type: none"><li>• Textile company plans investments (p 595)</li><li>• King and Green Ltd. (p 603)</li></ul> Revision + Investing to stay competitive (p 604)	<b>Chapter 33</b>  <a href="http://www.bized.co.uk/timeweb/reference/using_experiments.htm">http://www.bized.co.uk/timeweb/reference/using_experiments.htm</a> provides background information and suitable tasks.  Examination questions: <ul style="list-style-type: none"><li>• May 2006 Paper 2 Q 2(c)</li><li>• Nov 2006 Paper 1 Q 7(b)</li><li>• May 2007 Paper 2 Q 1(d)</li><li>• Nov 2008 Paper 3 Q 5</li></ul>
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