Unit 05 Business Accounting (10 credits)

Assessment Sheet

Name………………………………………………………………………………………………………………………………………………….

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|  | Assessment Criteria | Achieved |
| Pass 1 | Describe the purpose of accounting for an organisation |  |
| Pass 2 | Explain the difference between capital and revenue items of expenditure and income |  |
| Pass 3 | Prepare a 12-month cash flow forecast to enable an organisation to manage its cash |  |
| Pass 4 | Prepare a profit and loss account and balance sheet for a given organisation |  |
| Pass 5 | Perform ratio analysis to measure the profitability, liquidity and efficiency of a given organisation |  |
| Merit 1 | Analyse the cash flow problems a business might experience |  |
| Merit 2 | Analyse the performance of a business using suitable ratios |  |
| Distinction 1 | Justify actions a business might take when experiencing cash flow problems |  |
| Distinction 2 | Evaluate the financial performance and position of a business using ratio analysis |  |

**Points awarded for Unit 05**

**Points Awarded For Unit 01:**

Overall grade: Pass Merit Distinction

In submitting your work for assessment, you are confirming that the work is your own. On completion of this unit, this document must be signed as a declaration that the work submitted is your own:

Assessor signature………………………….…………… Date……………………………………

Learner signature……………………………………….. Date……………………………………

**Assignment One: The Purpose of Accounting**

**Scenario**

Engaging Enterprise is a local organisation that promotes enterprise in young people and offers support and help to new entrepreneurs. It has recently launched a new scheme called Acorn, a 12-week programme aimed at encouraging and helping 16-25 year olds to set up in business.

Task One

You have been invited to be a guest speaker at a conference on new businesses to give a presentation on the purpose of accounting. Your presentation should address how different methods of accounting help businesses to:

* Record financial transactions
* Monitor the financial activity
* Control finances and plan for the future
* Measure the financial performance

Within your **presentation** you have also been asked to cover the following areas, with a particular focus on what the difference is between the four different categories:

* Capital income
* Capital expenditure
* Revenue income
* Revenue expenditure

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| This task provides evidence for P1 & P2 |

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| **Assignment One** |
| Date set: |
| First draft: |
| Resubmission: |

**Assignment Two: Cash Flow Forecast**

**Scenario**

Sharma and Ryan were both 21 when they attended the Acorn programme run by Engaging Enterprise. They were keen to learn and have since decided to act upon the advice given during the 12 weeks and to set up a business together. They have decided on a new business called SIGNature Ltd. The business will manufacture plastic road signs for builders, tourist attractions and local councils.

Sharma and Ryan have carried out substantial research into potential sales volumes, set-up costs and revenue expenses. They have approached you to help them set up and understand their first cash flow forecast. It is important that they get this right, as it will form part of the business plan they are preparing to take to the bank manager in order to try to secure a loan.

Task One

You must prepare a 12-month **cash flow forecast** for Sharma and Ryan based on the information in appendix one. You must also write a **covering letter** that explains what a cash flow forecast is.

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| This task provides evidence for P3 |

Task Two

Sharma and Ryan have asked for further help. They want to understand the reasons why a business might experience cash flow problems and how it can cause difficulties for a business. They also want to know of any potential dangers that are specific to SIGNature’s cash flow forecast. Furthermore, in preparation for their meeting with the bank, they have asked you to suggest actions that they could take to either avoid or help deal with cash flow problems. Write a **report** for Sharma and Ryan that contains the necessary information they require.

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| This task provides evidence for M1 & D1 |

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| **Assignment Two** |
| Date set: |
| First draft: |
| Resubmission: |

**Assignment Three: Profit and Loss Accounts**

**Scenario**

Sharma and Ryan have now been trading as SIGNature Ltd for a year and have again approached you to help them with producing their year-end accounts. You have been asked to produce a **balance sheet** and a **profit and loss account** for the company. The information you need is in appendix two.

Task One

Sharma and Ryan have also requested a **covering letter**, similar to the one you produced for the cash flow forecast, to help them to further understand the profit and loss account and balance sheet.

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| This task provides evidence for P4 |

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| **Assignment Three** |
| Date set: |
| First draft: |
| Resubmission: |

**Assignment 4: Ratio Analysis**

**Scenario**

Sharma and Ryan now want you to help them to understand their financial accounts for SIGNature Ltd.

Task One

You should prepare a **report** that contains the following ratios:

* Gross profit percentage of sales
* Net profit percentage of sales
* ROCE
* Current ratio
* Acid test ratio
* Debtors’ payment period
* Creditors’ payment period
* Rate of stock turnover

Only Sharma and Ryan will see these notes and therefore these should give a fair and frank explanation of their performance. Explain what each ratio is a measurement of, and what the result means to Sharma and Ryan. Try to explain the possible reasons for the ratio and the significance of it to the business’s overall financial performance.

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| This task provides evidence for P5 |

Task Two

Sharma and Dave are not confident in analysing what the ratios mean. Make a judgement about each ratio – does it imply a good or bad performance. Explain the reasons why you think this. You then need to write a conclusion to summarise the overall performance of Sharma and Ryan’s first year of trading. Present this information in the format of a **report.**

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| This task provides evidence for M2 & D2 |

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| **Assignment Four** |
| Date set: |
| First draft: |
| Resubmission: |

**Appendix One**

Sharma and Ryan are the only two shareholders, each investing £12,500 of their own money into the business. They also secured a bank loan for £80,000 to be paid back in monthly instalments of £1,000. All of the capital invested was to be used to buy capital equipment to the value of £105,000. This was broken down into machinery worth £85,000 and fixtures and fittings worth £20,000 – this needs to be shown separately on the cash flow forecast. Sharma and Ryan had also agreed with their bank manager an overdraft of up to £20,000 at a charge of 1.5 per cent per month whenever their account was overdrawn.

Sales and purchases for the 12 months are predicted to be as follows:

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| --- | --- | --- |
| **Month** | **Sales** | **Purchases** |
| January | £30,000 | £13,500 |
| February | £30,000 | £13,500 |
| March | £30,000 | £13,500 |
| April | £37,000 | £16,650 |
| May | £37,000 | £16,650 |
| June | £37,000 | £16,650 |
| July | £41,500 | £18,675 |
| August | £41,500 | £18,675 |
| September | £41,500 | £18,675 |
| October | £25,000 | £11,250 |
| November | £25,000 | £11,250 |
| December | £25,000 | £11,250 |

They plan to rent a small factory unit at a cost of £25,200 per year to be paid in equal monthly instalments. They estimated that monthly rates on top of this would be £1,700, which are business rates that are paid to the council.

Sharma and Ryan planned to employ themselves along with two other employees, but were aware of the fact that money might be tight, so they decided to pay themselves the same salary as other employees - £19,500 per year.

Other expenses were estimated to be as follows:

* Telephone line rental of £300 per quarter
* Postal charges of £50 a month
* Courier charges of £1,500 per month
* Advertising £160 per month, plus an additional £500 per quarter
* Heating and lighting £500 per month
* Insurance £1,000 per year, payable in January

**Appendix Two**

Actual sales and purchases for the 12 months were as follows:

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| **Month** | **Sales** | **Purchases** |
| January | £25,000 | £12,400 |
| February | £28,000 | £14,000 |
| March | £32,000 | £16,000 |
| April | £36,000 | £18,800 |
| May | £43,000 | £21,000 |
| June | £49,000 | £24,000 |
| July | £49,000 | £23,800 |
| August | £52,000 | £25,000 |
| September | £47,000 | £20,000 |
| October | £34,000 | £12,000 |
| November | £31,000 | £8,600 |
| December | £18,000 | £5,000 |

In their first year Sharma and Ryan received 2,080 orders. Their closing stock was £12,000. Rent on their factory premises was £6,500 per quarter. Non-domestic rates were ten instalments of £1,800. Sharma and Ryan employed four machine operatives who were each paid £1,400 per month. Their telephone bill was £60 per month and post was £200 per month. Distribution costs via a courier were £10 per order. They advertised in a local magazine for the year at the cost of £35 per week, and quarterly in a specialist trade magazine at £500 per advert.

Other expenses included:

* Repayment of bank loan (£1,000 per month)
* Light and heating bills (£2,000 per quarter)
* Insurance (£800 per year)

Sharma and Ryan had fixed assets to the value of £105, 000 at the start of the year, which they had decided to depreciate on a straight line method at 10% per year. The value the machinery depreciates by will be highlighted as an expense in the profit and loss account.

At the end of the year they owed £15,500 to suppliers and were owed £41,000 from customers. There was £17,160 positive balance of cash in the business.

Sharma and Ryan thought it had been a good first year and decided to reward themselves for all of their hard work by paying themselves £20,000 each in dividends.