

## UNIT 5: Business Finance

**Recommended prior knowledge:** None – but some students may have covered similar material at IGCSE.

**The unit in context:** This unit deals with the need for business finance and the main sources of it. Finance is central to business activity and the ability to raise capital from appropriate sources at different stages of a firm’s development and growth is one of the key determinants of a successful business. Although the material covered is very different from previous units there is a constant requirement to refer to the other functional areas of business and stress the role that adequate finance plays in successful marketing, operations management and so on. There are clear links between Business Finance and Unit 6, Business Accounting.

**Outline:** This is quite a short unit but the concepts it contains are very important to understanding the importance of finance and the need to raise it from appropriate sources. The significance of liquidity to a firm’s survival and growth needs to be made clear. The importance difference between profit and cash needs to be emphasized from the outset. The three parts of this unit comprise: The need for business finance, sources of finance and money and capital market institutions.

Learning Outcomes	Suggested Teaching and Student Activities	Resources	Online Resources
<b>a) The need for business finance</b>			
<p><b>Students should be able to:</b></p> <p>i.) analyse the need for finance during start up and growth stages of a business.</p> <p>ii.) understand the differences between revenue and capital expenditure – and that each require different sources of finance.</p> <p>iii.) analyse the meaning and importance of working capital and the factors that determine the amount of working capital required by a business</p>	<ul style="list-style-type: none"> <li>business finance can be effectively taught through the means of simulated businesses “created” by the students. The Young Enterprise scheme is excellent. Starting up and operating a simple trading business – even just making and selling cakes – can drive home the need for both fixed and working capital. This could then be extended into Unit 6 with the keeping of simple accounts for the business. Encourage students to “learn by doing” in this Unit and the next Unit, in particular.</li> </ul>	<ul style="list-style-type: none"> <li>Stimpson Chapter 25. Exercises such as Directphone, Domino’s and “Going exclusive with ice-cream” plus share issue exercises on Easyjet and Fibernet. Revision questions P406.</li> <li>Barratt and Mottershead : Chapter 40 (Case Studies at end of chapter useful but require accounting knowledge not yet covered).</li> </ul>	<p>The teaching of this Unit and Unit 6 will be aided greatly by referring to actual company accounts. These will be available from companies’ own sites. Investigate accounts of two businesses to identify finance sources used – particularly a high geared and a low geared company. Try <a href="http://www.carol.co.uk">www.carol.co.uk</a> and <a href="http://www.londonstockexchange.com">www.londonstockexchange.com</a>. Use your own Government sites to investigate financial support for businesses.</p>

	<ul style="list-style-type: none"> <li>revenue and capital spending – discuss by asking for as many examples as possible from students using the school/college as an example.</li> <li>small groups of students creating large posters of the working capital cycle for a business of their choice</li> </ul>	<ul style="list-style-type: none"> <li>Jewell: Chapter 29. Be selective about end of chapter questions – some require detailed accounting knowledge.</li> <li>9707/1 Nov 2001 Q 3</li> <li>9707/1 June 2003 Q4</li> </ul>	
<p>iv.) <i>understand the significance of the difference between revenue and capital expenditure</i></p> <p>v.) <i>analyse and evaluate ways of managing working capital – the control of working capital</i></p>	<ul style="list-style-type: none"> <li><i>at A level the significance of the distinction between revenue and capital spending can be made effectively after dealing with profit and loss accounts and balance sheets in Unit 6 – these two types of spending have different effects on the final accounts.</i></li> </ul>		
<b>b) Sources of capital</b>			
<p><b>Students should be able to:</b></p> <p>i.) understand the main sources / types of short and long term business finance, both internal and external</p> <p>ii.) analyse the advantages and disadvantages of these .</p>	<ul style="list-style-type: none"> <li>a well planned visit and talk from a bank manager/official can work effectively especially if linked to case studies or simulations. If “Young Enterprise” type businesses are set up then ask the bank manager to judge the business plan and decide whether to lend or not to each business</li> <li>large posters of sources of finance, short/long term and internal/external can be kept in class and act as a useful revision source.</li> </ul>	<ul style="list-style-type: none"> <li>as above plus 9707/2 June 2001 Q2c; 9707/3 Nov 2002 Qc;</li> <li>try leading banks for details of their interest rates to businesses and financial services to industry.</li> </ul>	<p>Use bank web sites to discover financial options for industry e.g. <a href="http://www.natwest.co.uk">www.natwest.co.uk</a> and <a href="http://www.barclays.co.uk">www.barclays.co.uk</a>. Use own country newspapers for articles on businesses raising finance e.g. <a href="http://www.brecorder.com">www.brecorder.com</a> (Pakistan); <a href="http://www.buenosariesherald.com">www.buenosariesherald.com</a> (Argentina); <a href="http://www.bangkokpost.com">www.bangkokpost.com</a> (Thailand); <a href="http://www.lexpress-net.com">www.lexpress-net.com</a> (Mauritius).</p>

<p>iii.) <i>evaluate these sources of finance and make recommendations of suitable finance to meet particular business requirements</i></p> <p>iv.) <i>analyse and discuss the factors that influence the finance decision</i></p>	<ul style="list-style-type: none"> <li>• <i>past paper 3 case studies can be used as business scenarios. Students can be asked to suggest the most suitable sources of finance for each business, assuming it is planning to expand</i></li> </ul>		
<b>c) Money and Capital market institutions</b>			
<p><b>Students should be able to:</b></p> <p>i.) understand the functions of banks and specialist lending institutions.</p> <p>ii.) understand the functions of the Stock Exchange</p>	<ul style="list-style-type: none"> <li>• newspapers can provide useful source material – articles on finance and institutions as well as adverts for banks and specialist lending agencies. Students need to question why there is such a range of institutions and their functions.</li> </ul>	<ul style="list-style-type: none"> <li>• as above</li> </ul>	<p>Try bank sites plus <a href="http://www.londonstockexchange.com">www.londonstockexchange.com</a> and <a href="http://www.worldbank.org">http://www.worldbank.org</a></p>
<p>iii.) <i>analyse the role of the World Bank and International Monetary Fund as sources of finance especially in developing economies</i></p>	<ul style="list-style-type: none"> <li>• <i>simple treatment only required – no need to go into great detail on structural adjustment programmes etc. Students could do own research on internet.</i></li> </ul>		