tutor2u

BTEC NATIONAL LEVEL 3 IN BUSINESS

UNIT 3 PERSONAL AND BUSINESS FINANCE

KNOWLEDGE ORGANISER

Contains:

- **Revision checklist**
- **Key terms and definitions**
- **Formula sheet**

Student Name:

REVISION CHECKLIST PERSONAL FINANCE

Topic	Notes/ covered	Happy/ done
A1 Functions and role of money		
Functions of money:		
Unit of account		
Means of exchange		
Store of value		
Legal tender		
Role of money is affected and influence by a number of factors:		
Personal attitudes towards risk, reward, borrowing, spending & saving		
Life stages (childhood, adolescence, young adult, middle age, old age), key features of each stage, financial needs and implications at each stage		
Culture, including religious and ethical beliefs		
Life events can vary the personal life cycle from individual to individual		
External influences/trends and the financial-related effects		
Interest rate, cost of borrowing versus reward of saving		
Planning expenditure, common principles to be considered in planning personal finances:		
To avoid getting into debt		
To control costs		
Avoid legal action and/or repossession		
Remain solvent		
Maintain a good credit rating		
Avoid bankruptcy		
To manage money to fund purchases		
Generate income and savings		
Set financial targets and goals		
Provide insurance against loss or illness		
Counter the effects of inflation		
A2 Different ways to pay		
The use of money as a payment method, advantages and disadvantages of:		
Cash		
Debit card		
Credit card		
Cheque		
Electronic transfer		
Direct debit		
Standing order		
Pre-paid cards		
Contactless cards		
Charge cards		
Store cards		
Mobile banking		
Banker’s Automated Clearing Services (BACS) Faster Payment Service (FPS)		
Clearing House Automated Payment System (CHAPS)		

Topic	Notes/ covered	Happy/ done
A3 Current Accounts		
Different types, features, advantages and disadvantages, different services offered:		
Standard		
Packaged, premium		
Basic		
Student		
A4 Managing Personal Finance		
Suitability of different financial products and services against individual needs.		
Different types, features, advantages and disadvantages, different services offered:		
Overdraft		
Personal loans		
Hire purchase		
Mortgages		
Credit cards		
Payday loans		
Different types of saving and investment features, advantages and disadvantages:		
Individual savings accounts (ISAs)		
Deposit and savings accounts		
Premium bonds		
Bonds and gilts		
Shares		
Pensions		
Risks and rewards of savings versus investment		
Different types of insurance products, features, advantages and disadvantages:		
Car		
Home and contents		
Life assurance and insurance		
Travel		
Pet		
Health		
B Explore the personal finance sector		
B1 Features of financial institutions		
Types of organisations and their advantages and disadvantages:		
Bank of England		
Banks		
Building societies		
Credit unions		
National savings and investments		
Insurance companies		
Pension companies		
Pawnbrokers		
Payday loans		

Topic	Notes/ covered	Happy/ done
B2 Communicating with customers		
Methods of interacting with customers, advantages and disadvantages:		
Branch		
Online banking		
Telephone banking		
Mobile banking		
Postal banking		
B3 Consumer protection in relation to personal finance		
Function, role and responsibilities of:		
Financial Conduct Authority (FCA)		
Financial Ombudsmen Service (FOS)		
Financial Services Compensation Scheme (FSCS)		
Office of Fair Trading (OFT)		
Legislation – consumer credit		
B4 Information guidance and advice		
Function, role and responsibilities, advantages and disadvantages of:		
Citizens Advice		
Independent financial advisor (IFA)		
Price comparison websites		
Money advice service		
Debt counsellors		
Individual Voluntary Arrangements (IVAs)		
Bankruptcy		

REVISION CHECKLIST BUSINESS FINANCE

C Understanding the purpose of accounting		
C1 Purpose of accounting		
Recording transactions		
Management of business (planning, monitoring and controlling)		
Compliance (preventing fraud, compliance with law and regulations)		
Measuring performance		
Control - assisting with the prevention of fraud, trade receivables and trade payables		
C2 Types of income		
Capital income:		
Loan		
Mortgages		
Shares		
Owner's capital		
Debentures		

Topic	Notes/ covered	Happy/ done
Revenue income:		
Cash sales		
Credit sales		
Rent received		
Commission received		
Interest received		
Discount received		
C3 Types of expenditure		
Capital expenditure:		
Non-current assets – tangible (land, buildings and premises, machineryand equipment, vehicles, fixtures and fittings)		
Intangible (goodwill, patents, trademarks, brand names)		
Revenue expenditure:		
Inventory		
Rent		
Rates		
Heating and lighting		
Water		
Insurance		
Administration		
Telephone		
Postage		
Stationery		
Salaries		
Wages		
Marketing		
Bank charges		
Interest paid		
Straight-line depreciation		
Reducing balance depreciation		
Discount allowed		
D Select and evaluate different sources of finance		
D1 Sources of finance		
Advantages, disadvantages, short-term and long-term:		
Internal		
Retained profit		
Net current assets		
Sale of assets		
External		
Owner's capital		
Loans		
Crowdfunding		
Mortgages		
Venture capital		
Debt factoring		
Hire purchase		

Topic	Notes/ covered	Happy/ done
Leasing		
Trade credit		
Grants		
Donations		
Peer-to-peer lending		
Invoice discounting		
E Break-even and cash flow forecasts		
E1 Cash flow forecasts		
Inflows/receipts		
Cash sales		
Credit sales		
Loans		
Capital introduced		
Sale of assets		
Bank interest received		
Outflows/payments		
Cash purchases		
Credit purchases		
Rent		
Rates		
Salaries		
Wages		
Utilities		
Purchase of assets		
Value Added Tax (VAT)		
Bank interest paid		
Prepare, complete, analyse, revise and evaluate cash flow		
Use of cash flow forecasts for planning, monitoring, control, target setting		
Benefits and limitations of cash flow forecasts		
E2 Break-even analysis		
Costs		
Variable		
Semi-variable		
Fixed		
Total		
Sales		
Total revenue		
Total sales		
Selling price per unit		
Sales in value and/or units		
Calculating using/manipulating break-even formula (units and/or sales value), completion of break-even chart, break-even point		
Identification of area of profit, area of loss		
Identify and calculate margin of safety (units and value)		
Calculation of total contribution, contribution per unit benefits and limitations		
Use of break-even for planning, monitoring, control, target setting		
Prepare, complete, analyse, revise and evaluate break-even		

Topic	Notes/ covered	Happy/ done
F Complete statements of comprehensive income and financial position and evaluate business performance (Sole Traders)		
F1 Statement of comprehensive income		
Purpose and use		
Completion, calculation and amendment to include gross profit (revenue, opening inventories, purchases, closing inventories, cost of goods sold),calculation of profit/loss for the year (expenses, other income)		
Adjustments for depreciation (straight-line and reducing balance method)		
Adjustments for prepayments, accruals		
Interpretation, analysis and evaluation of statements		
F2 Statement of financial position		
Purpose and use		
Completion, calculation and amendment of statement using vertical presentation to include:		
Non-current assets (tangible and intangible, cost, depreciation and amortisation, net book value)		
Current assets (inventories, trade receivables, prepayments, bank, cash)		
Current liabilities (bank overdraft, accruals, trade payables)		
Net current assets/liabilities		
Non-current liabilities (bank loan and mortgage)		
Net assets		
Capital (opening capital, transfer of profit or loss, drawings, closing capital)		
Adjustments for straight line (cost x%), depreciation, reducing balance (cost – depreciation to date x%)		
Adjustments for prepayments and accruals		
Interpretation, analysis and evaluation of statements		
F3 Measuring profitability		
Calculation, interpretation and analysis of:		
Gross profit margin: (gross profit/revenue) x 100		
Mark-up: (gross profit/cost of sales) x 100		
Profit margin: (profit/revenue) x 100		
Return on capital employed (ROCE): (profit/capital employed) x 100		
F4 Measuring liquidity		
Calculation, interpretation and analysis of:		
Current ratio: current assets/current liabilities		
Liquid capital ratio: (current assets – inventory)/current liabilities		
F5 Measuring efficiency		
Calculation, interpretation and analysis of:z		
Trade receivable days: (trade receivable/credit sales) x 365		
Trade payable days: (trade payables/credit purchases) x 365		
Inventory turnover: (average inventory/cost of sales) x 365		
F6 Limitations of ratios		
Limitations of ratios when assessing business performance		

KEY TERMS PERSONAL FINANCE

Key Term	Definition
Methods of Payment	
Cash	Notes and coins in a wide range of denominations.
Debit card	Issued by banks with payments for goods and services being deducted directly from a current account.
Credit card	Issued by financial institutions allowing customers to delay payments for goods and services.
Cheque	A written order to a bank to make a specific payment for a specific amount of money from one person's account to another account.
Electronic transfer	Payment is transferred directly from one bank account to another.
Direct debit	An agreement made with a bank allowing a third party to withdraw money from an account on a set day to pay for goods or services received e.g. electricity bill.
Standing order	An agreement made with a bank to transfer a fixed sum of money to a third-party account on a set date on a regular basis e.g. a fixed loan repayment.
Pre-paid card	Money is uploaded onto a card with transactions then withdrawn to reduce the balance.
Contactless card	Cards with an embedded chip and antenna that enable consumers to wave their card over a reader at the point of sale for an automatic transaction.
Charge card	Issued by financial institutions allowing customers to delay payments for goods and services for a short period of time with the balance being paid off in full at each statement date.
Store card	Issued by a retail outlet to allow customers to delay payments for goods and services – similar to a credit card but only for the store(s) specified.
Mobile banking	The ability to carry out financial transactions using mobile devices such as phones or tablets.
Bankers Automated Clearing Service (BACS) Faster Payment	A system that allows the transfer of payments directly from one bank account to another in 3 working days (unless faster payment is available).
Clearing House Automated Payment Systems (CHAPS)	A system that allows the transfer of payments directly from one bank account to another, usually on the same day.
Types of Current Accounts	
Standard	This type of account provides full day-to-day banking facilities e.g. cheque book, debit card, easy access to your money and an authorised overdraft facility.
Packaged, premium	This type of account usually has an annual fee or additional charge in return for offering extra incentives. These benefits can vary but may include offers such as discounted home insurance, no fee overdraft, and premium access to popular event tickets.
Basic	This account offers limited features and would be typically held by a person with no credit history in the UK or a poor credit history.
Student	These are designed to assist young people and students to become prudent with their personal finances. They may come with bonus features, such as interest free overdraft facilities.
Types of Borrowing	
Overdraft	Allows an individual to withdraw money from a current account that they do not actually have.
Personal loan	Allows an individual to borrow a set amount of money which is to be repaid in regular instalments, with interest.
Hire Purchase	Allows an individual to have use of an item immediately but pay for it in regular instalments. The property is only owned by the individual when the final instalment has been paid.
Mortgage	A long-term loan to fund the purchase of assets e.g. property which will be repaid over a long period e.g. 25 years.in time and receiving a wage.

Key Term	Definition
Credit cards	Allows an individual to pay for goods or services using a card with a statement issued at the end of each month. The balance can be paid in full without incurring interest, or in smaller amounts with an interest charge.
Payday loan	A short-term source of finance that can help to bridge the gap between the present moment in time and receiving a wage.

Types of Saving and Investment

Individual Savings account (ISA)	A tax-free way to save or invest.
Deposit and savings accounts	An account where interest is paid on the balance.
Premium bonds	A government scheme that allows individuals to save, up to a set amount, in bonds. No interest is earned but the bond is placed into a regular draw for cash prizes.
Bonds and gilts	These are fixed term securities where the individual lends money to companies and governments in return for interest payments.
Shares	Investments in business in return for equity. The shareholder becomes a part-owner of the business.
Pensions	Long-term savings plans where individuals make regular contributions through their working life. This is then repaid upon retirement, either as a lump sum or regular payments.

Types of Insurance

Car	To cover both theft and accidents – there is a legal requirement to insure any car that is on the road and this protects the driver, passengers and other road users.
Home and contents	**Home** – covers the physical building against events like a fire or flood damage. **Contents** – covers the physical items inside the house and when they are used away from home.
Life assurance and insurance	**Life assurance** – an ongoing policy to pay a lump sum upon death. **Life insurance** – a policy for a set period of time (e.g. mortgage term) to pay a lump sum if you die within that period.
Travel	Protects individuals or groups while abroad. Cover usually includes illness, loss or theft of property, cancellation and emergencies up to predetermined limits.
Pet	Protects the owners of pets against some or all of the expenses associated with treating an injured or sick animal e.g. vet fees.
Health	Covers individuals, families or employees against medical expenses including assessments, treatments and loss of earnings. In the UK, this can pay for private treatment or payment plans for routine visits e.g. to the dentist.

Types of Financial Institution

Bank of England	The UK's central bank with responsibility for maintaining a healthy level of financial stability for the UK as a whole.
Banks	An organisation that handles financial transactions and stores money on behalf of its customers.
Building societies	Organisations that handle financial transactions and store money on behalf of their members. Members (account holders) are part-owners of the building society and have a right to vote and receive information on the running of the society.
Credit unions	Not-for-profit organisations that handle financial transactions and store money on behalf of their members.
National Savings and Investment	A government-backed organisation that offers a secure savings option.
Insurance companies	Businesses that protect against the risk of loss in return for a premium. They are profit making organisations.
Pension companies	Businesses that sell policies to individuals, whether privately or through employers, to allow them to save now to fund retirement in the future.
Pawnbrokers	Businesses or individuals who loan money against the security of a personal asset e.g. an item of jewellery.
Payday Loans	Organisations that offer a short-term source of finance to bridge a gap between now and next receiving a wage.

Key Term	Definition

Methods of Communication with Customers

Branch	A physical place where the customer will visit to carry out transactions.
Online banking	The use of the internet to carry out banking transactions.
Telephone banking	The use of a telephone to carry out banking transactions which may use either an automated service or require a customer advisor.
Mobile banking	The use of mobile devices e.g. mobile phones and tablets, to conduct financial transactions.

Providers of Financial Information and Guidance

Citizens Advice	An organisation, run by charities, that offers advice on a wide range of issues both financial and non-financial.
Independent financial advisor (IFA)	Professionals who offer independent advice to their clients on financial matters e.g. savings, mortgages and mortgages and investments.
Price comparison sites	Websites that collate prices for similar goods and services within an industry, allowing consumers to select the best deals.
Money advice service	A government organisation set up to offer free and impartial financial advice in the UK.
Debt counsellors	A professional who offers independent advice on how best to manage debt.
Individual Voluntary Arrangements (IVAs) bankruptcy	A government organisation that allows an individual to declare themselves bankrupt while agreeing to pay all or part of the money they owe to creditors.

KEY TERMS BUSINESS FINANCE

The Purpose of Accounting

Accounting	Accounting involves the recording of financial transactions, planned or actual, and the use of these figures to produce financial information.
Income	Income is the money coming into a business.
Capital income	Capital income is the money invested by the owners or other investors, used to set up the business or buy additional equipment e.g. loan, mortgage, shares, owner's capital, debentures (medium to long-term sources of capital income).
Revenue income	Revenue income is the money that comes into the business from performing its day-to-day function - selling goods or providing a service e.g. sales (cash or credit), rent received, commission received, interest received, discount received.
Expenditure	Expenditure is the money spent by a business.
Capital expenditure	Capital expenditure is used to buy capital items, which are assets that will stay in the business for a long period of time.
Non-current assets	Tangible items that will appear on the statement of financial position and include things like land, premises, equipment and vehicles.
Intangible assets	Cannot be touched but add value to the business e.g. goodwill, patents, trademarks and brand names.
Revenue expenditure	Spending on items on a day-to-day or regular basis. These expenses are shown on the statement of comprehensive income e.g. inventory, rent, rates, heating & lighting, water, insurance, salaries, wages, bank charges, interest paid, depreciation allowance, discount allowed.

Sources of Business Finance

Retained profit	*Profit = Sales Revenue – Total Cost* Money kept in the business to fund future expenditure.
Net current assets	*Current Assets – Current Liabilities* Shows the money available in the business to fund day-to-day expenditure.
Sale of assets	Selling an item of value in order to achieve a cash injection.
Owner's capital	Money invested in the business from the owner's personal savings.
Loans	Money borrowed from a financial institution normally for a set period of time and for a specific purpose.

Key Term	Definition
Crowdfunding	Attracting investment from a large number of speculative investors, many of whom may invest relatively small amounts.
Mortgages	Long-term loans, normally around 25 years, that are secured against a specific asset e.g. a building.
Venture capital	Investment from an experienced entrepreneur in return for a stake in the business.
Debt factoring	Selling the debts of a business to a third party in order to receive a quick cash injection.
Hire purchase	Paying to use an asset in instalments to spread the cost over its useful life.
Leasing	Paying to use an asset in instalments, however the ownership of the asset remains with the supplier throughout the lease agreement.
Trade credit	A period of time, offered by suppliers, to allow the customer to purchase now and pay later.
Grants	A lump sum provided to a business by the government or another organisation to be used for a specific purpose.
Donations	Sums of money given voluntarily to a charity or social enterprise.
Peer-to-peer lending	Involves one business lending money to another business person in return for interest payments.
Invoice discounting	Reductions offered to customers making a product or service cheaper. Usually applied as a percentage of the total value.

Break-Even and Cash Flow Forecasts

Break-even analysis	Break-even is the point at which a business is not making a profit or a loss. The money received from sales is the same as the money being spent on costs. Total Revenue = Total Costs.
Variable costs	Costs that change with the level of output e.g. raw materials.
Semi-variable costs	Part of the cost stays the same and part varies in relation to the degree of business activity e.g. a worker paid a fixed rate of pay but in addition may receive variable amounts of overtime.
Fixed costs	Costs that do not vary with output. They remain the same e.g. rent.
Total costs	Total costs = fixed costs + total variable costs.
Total revenue	The total amount of money coming in from sales. Total revenue = Selling price x quantity sold.
Total sales	The amount of sales made in a set time period e.g. one year. It can be expressed as value (monetary) or volume (quantity).
Selling price per unit	The amount a customer will pay for each unit purchased.
Sales in value	Sales expressed as a monetary value e.g. £
Sales in volume (units)	Sales expressed as a quantity e.g. units.
Cash flow forecast	A cash flow forecast tries to predict the cash flowing into and out of a business. A healthy cash flow is crucial to the survival of a business.
Cash inflows/ receipts	Money coming into the business from various sources e.g. cash sales, credit sales, loans, capital introduced capital introduced, sale of assets and bank interest received.
Cash outflow/ payments	Money going out of a business for various purposes e.g. cash purchases, credit purchases, rent, rates, salaries, wages, utilities, purchase of assets, VAT and bank interest paid.
Opening balance	The amount of cash available in a business at the end of the start of the month.
Closing balance	The amount of cash available in a business at the end of the month. To calculate: Opening balance + net cash flow.
Liquidity	Measures a firm's ability to meet short-term cash payments.

Statements of Comprehensive Income and Financial Position

Statement of comprehensive income	SOCI shows the trading position of the business which is used to calculate gross profit. It then takes into account all of the expenses to calculate the profit or loss for the year.
Accrual	Accrual is when an expense is paid after the period to which it relates.
Prepayment	Prepayment is when an expense is made in advance of the period to which it relates.
Statement of financial position	SOFP provides a snapshot of the net worth of a business at a particular moment in time, normally at the end of the financial year. It is a summary of everything a business owns (assets) and everything it owes (liabilities).
Non-current assets	Non-current assets are items of value that are owned by the business and likely to be held for more than one year e.g. premises and fixtures & fittings.
Current assets	Current assets are items of value that are owned by the business whose value is likely to fluctuate on a regular basis e.g. inventories, trade receivables, prepayments, cash in the bank and cash in hand.

Key Term	Definition
Current liabilities	Current liabilities are things owed by the business that must be repaid within a 12-month period e.g. overdrafts, accruals and trade payables.
Non-current liabilities	Non-current liabilities are things a business owes that will take longer than one year to repay e.g. mortgages and bank loans.
Depreciation	Depreciation is an accounting concept used to spread the cost of an asset over it's useful life. Assets appear on the statement of financial position at a realistic value (net book value) and the annual monthly amount by which the assets are depreciated is included as an expense on the statement of comprehensive income.
Straight-line depreciation	Asset is depreciated by a set amount each year.
Reducing balance depreciation	Asset is depreciated by a set % of its remaining value each year. The percentage will be set by a senior account and means that the asset will be depreciated by a lower amount as it ages.

Ratio Analysis

Gross profit margin	This ratio looks at gross profit as a percentage of sales turnover.
Mark-up	This ratio calculates gross profit as a percentage of the cost of sales.
Net profit margin	This ratio shows the net profit as a percentage of sales.
Return on capital employed (ROCE)	This ratio shows the percentage return a business is achieving from the capital invested to generate the return.
Current ratio	This ratio shows a business the amount of current assets it owns in relation the amount of current liabilities it owes.
Liquid capital ratio	This ratio gives a more accurate reflection of the true liquidity of a business as it removes the least liquid of all current assets from the equation i.e. inventories.
Trade receivable days	This ratio measures, on average, how long it takes for debtors to pay and is expressed as a number of days.
Trade payable days	This ratio shows, on average, how long it takes a firm to pay for goods and services bought on credit and is expressed as a number of days.
Inventory turnover	This ratio shows the average amount of time an item of stock is held by a business and is expressed as a number of days.

FORMULA SHEET

Specification Reference	Formula	Equation
E1 - Cash Flow Forecasts	Net cash flow	Total Cash Inflow – Total Cash Outflow
	Closing balance	Opening balance + Net Cash Flow
E2 -Break-Even Analysis	Total revenue	Selling Price x Quantity Sold
	Total costs	Fixed costs + Total Variable costs
	Profit	Total revenue – Total costs
	Total contribution	Sales Revenue - Total Variable Costs
	Contribution (per unit)	Selling Price – Variable Cost (per unit)
	Profit (using contribution)	Contribution per unit x margin of safety
	Break-even output	Total Fixed Costs / Unit Contribution
	Margin of Safety	Actual Sales – Break-even level of output
F1 - Statement of Comprehensive Income	Revenue	Unit price x Quantity sold
	Gross profit	Sales Revenue – Cost of Goods Sold
	Cost of goods sold	Opening Inventory + Purchases – Closing Inventory
	Profit/loss for the year	Gross Profit – expenses + other income
	Net book value	Cost - Depreciation
F2 - Statement of Financial Position	Net current assets	Current Assets - Current Liabilities
	Net assets	Non-current assets + Net current assets - Long term liabilities
	Capital employed	Opening Capital + Profit for the Year less drawings
	Balance sheet (what needs to balance?)	Net Assets = Capital Employed
F3 - Measuring Profitability	Gross profit margin	Gross Profit/Revenue x 100
	Mark-up	Gross Profit/Cost of Sales x 100
	Profit margin	Profit/Revenue x 100
	Return on capital employed	Profit/Capital Employed x 100
F4 - Measuring liquidity	Current ratio	Current Assets/Current Liabilities
	Liquid capital ratio	Current Assets - Inventory/Current Liabilities
	Trade receivable days	Trade Receivables/Credit Sales x365
	Trade payable days	Trade Payables/Credit Purchases x 365
F5 - Measuring Efficiency	Inventory turnover	Average Inventory/Cost of Sales x 365