**Unit 3:** Personal and Business Finance

Revision Booklet 3 **ANSWERS**

**Learning Aim C:** Understand the purpose of accounting

Purpose of Accounting (C1)

Types of Income (C2)

Types of Expenditure (C3)

**Note:**

Unit 3: Personal and Business Finance contains six learning aims.

This booklet focuses only on Learning Aim C.

**Purpose of Accounting – C1**

**Revision Task 1:** Complete the table below, listing the five main purposes of accounting along with a corresponding brief description. The first purpose is completed for you.

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| **Purpose of Accounting** | **Explanation**  |
| **Record Transactions**  | It is important for a business to record all its transactions so that it can make accurate tax returns, pay its suppliers on time and collect all income due to the business. |
| **Management of the business** | For a business to be successful it is important to plan to ensure that there are sufficient funds to pay staff, buy stock and pay creditors. Accounting helps manage the business by recording all cash inflows and outflows from the business. A manager who understands the business’s accounts will be in a better position to make informed decisions about the future. |
| **Compliance** | Financial records must provide a fair and accurate picture of the business. There are various laws and regulations a business must comply with in order to achieve this. |
| **Measure Performance** | Financial Records enable the performance of a company to be measured in terms of making a profit or a loss. Financial Records also enable comparisons to be made against similar businesses e.g. Samsung and Apple’s performance can be measured and compared to determine which company is growing the quickest. Comparisons can also be made from previous years to determine if the business is growing its sales or increasing its profits or experiencing a slow down. |

**Revision Task 2 - Crossword Answers**

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|   | **ACROSS** |
|   | 5 | Money the business owes to suppliers. (**Trade Payables)** |
|   | 6 | A British Government Department Responsible for the collection of all types of Taxes. (**HMRC)** |
|   | 8 | Quantity sold multiplied by the selling price. (**Sales Revenue)** |
|   | 9 | Actions by a business which involve money entering or leaving the business. – (**Financial Transactions)** |
|   | 10 |  When an individual acts illegally to obtain company money for personal gain. (**Fraud)** |
|   | 11 |  Sales Revenue minus Cost of Goods Sold. (**Gross Profit)** |
|   | 12 |  Large value items owned by the business which are likely to remain in the business for a long period of time, usually for one year or more. (**Fixed Assets)** |
|   | 13 |  Any item of value which is owned by an individual or business. (**Asset)** |
|   | **DOWN** |
|   | 1 | Gross Profit minus other expenses. (**Net Profit)** |
|   | 2 | A fee paid to a salesperson in exchange for a service provided. It can be a flat fee or a percentage of the revenue or profit generated by the sale. (**Commission)** |
|   | 3 | An accounting method used to spread the cost of an asset over its useful life. (**Depreciation)** |
|   | 4 | Money owed to the business from sales made. (**Trade Receivables)** |
|   | 7 | Assets bought from capital expenditure. (**Capital Items)** |

**Revision Task 3:** Complete the table below providing descriptions for the different types of capital income.

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| **Capital Income** | **Description** |
| **Loans** | An amount of money lent to a business or business owner from a financial institution e.g. bank. It is a fixed amount which is then paid back each month over the period of the loan, usually five years. Interest is charged on the monthly repayments. Interest can be fixed or variable. Monthly repayments have to be paid even if the business is making a loss. |
| **Mortgages** | Similar to bank loans but are normally for a larger amount of money. The repayment period is often longer, normally 25 years. Businesses usually take out a mortgage to buy a property. |
| **Shares** | A business registered with Companies House is a company and can issue shares. Shareholders own the business and usually have voting rights. The more shares a shareholder has the bigger the influence they have on the decision making of the company. |
| **Owner’s Capital** | Money invested into the business from the owner’s personal savings. Sole traders (person who owns the business on their own) often invest their own personal savings into the business or borrow money from banks secured against their personal assets such as their house. Partnerships (business owned by two or more people) require the partners to invest their own personal capital into the business. Partners often share the decision making process. |
| **Debentures** | Medium to long term sources of capital income. The business issue these long-term securities which yield a fixed rate of interest and are secured against the business’s asset(s). |

**Revision Task 4:** Complete the table below, describing five types of revenue income a business can receive. The first one is done for you.

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| Revenue Income E.G. | Description |
| Sales | Money received from selling goods or services. These sales can be either cash or credit. |
| Rent Received  | Money received by a business for renting out a property it owns.  |
| Commission Received | If a business sells a product or service on behalf of another business they get paid a percentage of the final sale value. |
| Interest Received  | The money earned by a business on its savings or lending. E.g. if the business has a positive bank balance they will receive interest payments. If the business lends money to another company or individual then they will receive interest in addition to the repayments. |
| Discount Received | Sometimes suppliers offer discounts to businesses which pay their debts quickly or when they make large (bulk) orders.  |

**Revision Task 5:** Complete the missing words for the paragraph below:

Expenditure is ……… **(money)** spent by a business. It can be split into two categories **…… (capital Expenditure)** and **…(revenue expenditure)** . Non current assets are a form of capital expenditure. They are owned by a business and will remain in the business for a .. **(reasonable)** period of time. They are recorded on the business’s statement of financial position or …… **(balance sheet).** … Tangible assets are ones which can be (**touched)** and include things like machinery, premises and vehicles. … **(Intangible)** assets are ones which cannot be touched and included things like goodwill, patents, brand names and trademarks.

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| **Question Number** | **Answer** | **Mark** |
| **1** | Award **one** mark for any of the following up to a maximum of two marks: Goodwill is an intangible asset (1) – It is a form of capital expenditure (1) It relates to the name and reputation of the business (1) – It is difficult to value (1)  | **2** |

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| **Question Number** | **Answer** | **Mark** |
| **2** | Award **one** mark for any of the following up to a maximum of two marks: Patents are an intangible asset (1) –They are a form of capital expenditure (1) They are legal protection for inventions e.g. new vacuum cleaner (1)Patents prevent other businesses from copying the idea / invention (1) | **2** |

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| **Question Number** | **Answer** | **Mark** |
| **3** | Award **one** mark for any of the following up to a maximum of two marks: Trademarks are an intangible asset (1) –They are a form of capital expenditure (1) – they are often symbols or logs, brand names, words or even colours (1) Trademarks encourage brand loyalty allowing the business to charge higher prices for their products or services (1)  | **2** |

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| **Question Number** | **Answer** | **Mark** |
| **4** | Award **one** mark for any of the following up to a maximum of two marks: Brand names are an intangible asset (1) –They are a form of capital expenditure (1) Brand names encourage brand loyalty allowing the business to charge higher prices for their products or services (1) | **2** |

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| **Question Number** | **Answer** | **Mark** |
| **5** | Award **one** mark for any of the following up to a maximum of two marks: Most assets lose value over time (1) – Depreciation is an accounting method that reduces the value of the asset on the balance sheet each year (1) This is done to ensure that the value recorded for the asset on the balance sheet is fair (1). | **2** |

**Revenue Expenditure is spending on day to day items on a regular basis. These are expenses which appear on the Profit and Loss Account (also known as Statement of Comprehensive Income).**

**Revision Task 6:** Complete the table below providing examples and corresponding definitions of revenue expenditure. The first one is done for you.

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| Revenue Expenditure E.G. | Definition |
| Inventory | Most businesses will have to buy some form of inventory, such as raw materials or finished goods to sell on. |
| Rent | The costs of using premises which are not owned by the business |
| Rates | Businesses have to pay business rates, these are collected by the local council and fund services such as policing, street lighting, rubbish collection. |
| Heating and Lighting | Payments made to energy suppliers such as gas or electricity. |
| Insurance | Businesses have a legal requirement to have:Buildings Insurance – to protect it from damage such as firesContents insurance – to protect stock and items inside the building from fire, water or theftPublic Liability Insurance – Protect members of the public who enter the business from injuryEmployers’ liability Insurance – Protects the business again claims if an employee is injured at work. |
| Administration | Relates to paperwork e.g. printing, postage, stationaryTelephone charges are often included under Administration – These can be fixed (line rental) or variable (call charges) |
| Salaries / Wages | Salaries are annual figuresWages are hourly rates |
| Marketing | Cost of promoting the business e.g. adverts, promotions |
| Bank Charges | Banks often charge fees for business accounts |
| Interest Paid | If the business has taken out a loan it will need to repay the interest charged on the loan. |
| Depreciation | An estimated value of the decrease in value of assets.  |
| Discounts Allowed | Some businesses allow customers discounts if they buy in bulk or pay promptly when sold items on credit. |

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| **Question Number** | **Answer** | **Mark** |
| **6** | Award **one** mark for any of the following up to a maximum of two marks: Inventory – computer games - stock (1)Administration (telephone charges) (1)Rent for the mobile phone (1)Bank charges – Dave will need a bank account to process and receive payments (1)Marketing – Dave may spend money marketing his business (1)Dave will not be paying rent, wages, rates or utility bills therefore no marks are awarded for these examples.  | **2** |