

# Unit 3: Personal and Business Finance

Level: **3**

Unit type: **External**

Guided learning hours: **120**

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## Unit in brief

Learners study the purpose and importance of personal and business finance. They will develop the skills and knowledge needed to understand, analyse and prepare financial information.

## Unit introduction

This unit includes aspects of both personal and business finance. Personal finance involves the understanding of why money is important and how managing your money can help prevent future financial difficulties. It is vital you understand the financial decisions you will need to take throughout your life and how risk can affect you and your choices. This unit will also give you an insight into where you can get financial advice and support.

The business finance aspects of the unit introduce you to accounting terminology, the purpose and importance of business accounts and the different sources of finance available to businesses. Planning tools, such as cash flow forecasts and break-even, will be prepared and analysed. Measuring the financial performance of a business will require you to prepare and analyse statements of comprehensive income and statements of financial position.

This unit will provide a foundation for a number of other finance and business units and will help you to analyse profitability, liquidity and business efficiency. It will give you the knowledge and understanding to manage your personal finances and will give you a background to business finance and accounting as you progress to employment or further training.

## Summary of assessment

This unit is assessed by a written examination set by Pearson.

The examination will be two hours in length.

The number of marks for the examination is 100. (Section A contains questions on the personal finance unit content and approximately one-third of the marks, and Section B contains questions on the business finance unit content and approximately two-thirds of the marks).

The assessment availability is twice a year in January and May/June. The first assessment is available in June 2017.

Sample assessment materials will be available to help centres prepare learners for assessment.

## Assessment outcomes

**AO1** Demonstrate knowledge and understanding of business and personal finance principles, concepts, key terms, functions and theories.

Command words: describe, explain, give, identify, outline

Marks: ranges from 1 to 4 marks

**AO2** Apply knowledge and understanding of financial issues and accounting processes to real-life business and personal scenarios

Command words: analyse, assess, calculate, describe, discuss, evaluate, explain

Marks: ranges from 2 to 12 marks

**AO3** Analyse business and personal financial information and data, demonstrating the ability to interpret the potential impact and outcome in context

Command words: analyse, assess, discuss, evaluate

Marks: ranges from 6 to 12 marks

**AO4** Evaluate how financial information and data can be used, and interrelate, in order to justify conclusions related to business and personal finance

Command words: analyse, assess, discuss, evaluate

Marks: ranges from 6 to 12 marks

## Essential content

The essential content is set out under content areas. Learners must cover all specified content before the assessment.

### A Understand the importance of managing personal finance

#### A1 Functions and role of money

The ability to handle money received, and to control money paid, is a fundamental requirement for personal and business success. This success relies on understanding what 'money' is.

- Functions of money:
  - unit of account
  - means of exchange
  - store of value
  - legal tender.
- Role of money is affected and influenced by a number of factors:
  - personal attitudes towards risk and reward, borrowing, spending and 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 rates, 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 Payments Service (FPS)
- Clearing House Automated Payment System (CHAPS).

### **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 of borrowing, features, advantages and disadvantages:
  - 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 saving 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.

### **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.

**C Understand 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.
- 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, machinery and 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 business 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
  - crowd-funding
  - mortgages
  - venture capital
  - debt factoring
  - hire purchase
  - leasing
  - trade credit
  - grants
  - donations
  - peer to peer lending
  - invoice discounting

## E Break-even and cash flow forecasts

Formulas used in this topic will not be given in external assessment.

### 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.
- Calculation 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.

## **F Complete statements of comprehensive income and financial position and evaluate a business's performance**

This relates to sole traders only. Formulas used in this topic will not be given in external assessment.

### **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).
- 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, accruals.
- Interpretation, analysis, and evaluation of statements.

### **F3 Measuring profitability**

Calculation, interpretation, analysis and evaluation of:

- gross profit margin:  $(\text{gross profit}/\text{revenue}) \times 100$
- mark-up:  $(\text{gross profit}/\text{cost of sales}) \times 100$
- profit margin:  $(\text{profit}/\text{revenue}) \times 100$
- return on capital employed (ROCE):  $(\text{profit}/\text{capital employed}) \times 100$

### **F4 Measuring liquidity**

Calculation, interpretation, analysis and evaluation of:

- current ratio:  $\text{current assets}/\text{current liabilities}$
- liquid capital ratio:  $(\text{current assets} - \text{inventory})/\text{current liabilities}$

### **F5 Measuring efficiency**

Calculation, interpretation, analysis and evaluation of:

- trade receivable days:  $(\text{trade receivable}/\text{credit sales}) \times 365$
- trade payable days:  $(\text{trade payables}/\text{credit purchases}) \times 365$
- inventory turnover:  $(\text{average inventory}/\text{cost of sales}) \times 365$

### **F6 Limitations of ratios**

- Limitations of ratios when assessing business performance.



## Grade descriptors

To achieve a grade a learner is expected to demonstrate these attributes across the essential content of the unit. The principle of best fit will apply in awarding grades.

### Level 3 Pass

Learners will be able to demonstrate knowledge and understanding of the principles of personal and business finance, and determine appropriate courses of action. They will be able to rationalise the data available in different personal and business situations. Learners can appreciate the challenges faced by individuals and businesses and how these have been influenced by the financial situation. They will be able to apply accounting processes, and show understanding of the factors influencing the financial performance of a business. They will show an understanding of the need to prepare and analyse statements of comprehensive income and statements of financial position. Learners can propose and justify recommendations for personal finances and business improvement based on analysis of financial information.

### Level 3 Distinction

Learners will be able to apply principles of personal and business finance in order to critically evaluate real-life situations and determine appropriate courses of action. They can apply relevant concepts, models and theories in order to present reasoned evaluations in realistic personal and business scenarios. Learners make appropriate judgements and present fully justified recommendations for courses of action based on the analysis of financial data. They will understand the importance of statements of comprehensive income and statements of financial position and can analyse these statements methodically and critically. Learners can fully justify recommendations for personal finances and business improvement based on thorough analysis of financial information.

## Key terms typically used in assessment

The following table shows the key terms that will be used consistently by Pearson in our assessments to ensure students are rewarded for demonstrating the necessary skills.

Please note: the list below will not necessarily be used in every paper/session and is provided for guidance only.

Command or term	Definition
Analyse	Learners present the outcome of methodical and detailed examination either by breaking down: <ul style="list-style-type: none"> <li>• a theme, topic or situation in order to interpret and study the relationships between the parts and/or</li> <li>• information or data to interpret and study key trends and interrelationships.</li> </ul>
Assess	Learners present a careful consideration of varied factors or events that apply to a specific situation or to identify those which are the most important or relevant and arrive at a conclusion.
Calculate	Learners work out an answer, usually by adding, multiplying, subtracting or dividing. Can involve the use of formula.

Command or term	Definition
Discuss	Learners consider different aspects of: <ul style="list-style-type: none"> <li>• a theme or topic;</li> <li>• how they interrelate; and</li> <li>• the extent to which they are important.</li> </ul> A conclusion is not required.
Evaluate	Learners' work draws on varied information, themes or concepts to consider aspects such as: <ul style="list-style-type: none"> <li>• strengths or weaknesses</li> <li>• advantages or disadvantages;</li> <li>• alternative actions</li> <li>• relevance or significance.</li> </ul> Learners' inquiries should lead to a supported judgement showing relationship to its context. This will often be in a conclusion. Evidence will be written.
Explain	Learners' work shows clear details and gives reasons and/or evidence to support an opinion, view or argument. It could show how conclusions are drawn (arrived at). Learners are able to show that they comprehend the origins, functions and objectives of a subject, and its suitability for purpose.
Give	Learners can provide: <ul style="list-style-type: none"> <li>• examples</li> <li>• justifications.</li> </ul>
Identify	Learners indicate the main features or purpose of something by recognising it and/or being able to discern and understand facts or qualities.
Illustrate	Learners include examples, images or diagrams to show what is meant in a specific context.
Outline	Learners' work, performance or practice gives a summary or overview or a brief description of something.

## Links to other units

This unit links to:

- Unit 7: Business Decision Making
- Unit 10: Recording Financial Transactions
- Unit 11: Final Accounts for Public Limited Companies
- Unit 12: Financial Statements for Specific Businesses
- Unit 13: Cost and Management Accounting.

## Employer involvement

This unit would benefit from employer involvement in the form of:

- guest speakers
- work experience
- business materials as exemplars
- support from local business staff as mentors.

