

International
Preparation Course in Business
Business Finance module
LO1 session

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Aims and objectives for today's session

- Explain LO1 of the finance module
- Provide some teaching and learning resource ideas
- Answer any questions on LO1

Course handbook

Describe the purpose of accounting for an organisation.
Describe the different capital and revenue items of expenditure and income in an organisation.

Explain the difference between capital and revenue items of expenditure and income.

Evaluate the importance of a finance department in a business.

1. Understand the purpose of accounting and the categorisation of business income and expenditure

- → Purpose: record transactions; monitor activity; control; management of the business (planning, monitoring, controlling); measurement of financial performance (gross profit, net profit, value owed to and by the business)
- → Capital income: sole traders; partners; shares; loans; mortgages
Revenue income: sales (cash and credit transactions); rent received; commission received
- → Capital expenditure: fixed assets (land and buildings; office equipment; machinery; furniture and fittings; motor vehicles); intangibles eg goodwill, patents, trademarks
- → Revenue expenditure: premises costs eg rent, rates, heating and lighting, insurance; administrative costs eg telephone charges, postage, printing, stationery; staff costs eg salaries, wages, training, insurance, pensions; selling and distribution costs eg sales staff salaries, carriage on sales, marketing; finance costs eg bank charges, loan and mortgage interest; purchase of stock (cash and credit transactions)

LO1 - two parts

1. Accounting purposes
2. Categorisation of income and expenditure in accounting

LO1 - 1 Accounting purposes

What types of accounting are there?

Why do businesses have to follow strict accounting guidelines? Why is it important?

Who might be interested in the accounting information?

What would be the consequences for the business of ignoring accounting information and guidelines?

Accounting

Accounting involves making a record of the business's financial transactions, then preparing a set of accounts from this information which may be used to evaluate the business's performance. You will need to revise the five main purposes of accounting.

Accounting purposes

1

Recording transactions

Accountants record all money coming into and going out of the business. This enables them to keep track of payments received and ensure bills and taxes are paid on time.

2

Management of business

The manager of a business is responsible for:

- planning – to foresee likely financial commitments
- monitoring – to check performance and spending
- controlling – to ensure sufficient funds are available to cover outgoings.

3

Compliance

All businesses have a responsibility to comply with financial reporting requirements in accordance with laws and regulations. Internal accounting controls help to combat fraud.

4

Measuring performance

Accountants measure how well the business is performing financially through its:

- gross and net profit
- sales revenue
- efficiency in collecting money owed to the business
- expenditure
- costs.

5

Control

Accounting also tracks:

- trade receivables – debts that are generated by the sale of products or services between businesses (money owed to the business)
- trade payables – debts that have been created as a result of purchasing products or services from other businesses

Student task idea

Now try this

Explain how an accountant might check on the financial health of a business.



Think about what an accountant is concerned with and what they might look at.

Activity - Interactive teaching methods

Show a youtube clip to introduce the concept, for example one of these

[YouTube video 1 - purpose of accounting](#)

[Youtube video 2 - purpose of accounting](#)

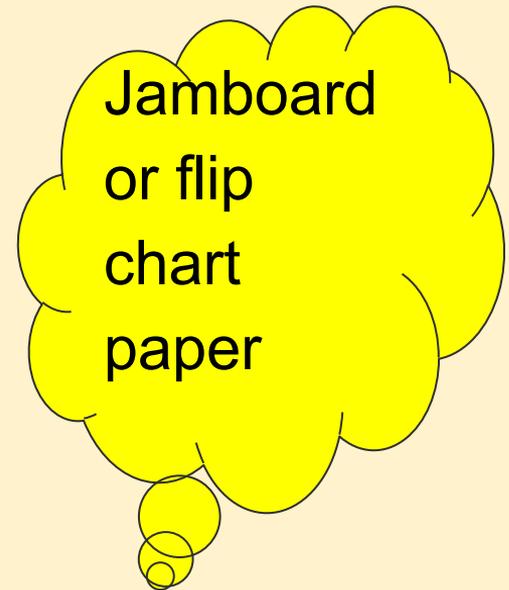
[Youtube video 3 - what is accounting](#)

Brainstorm ideas with students

Add a sticky note to the jamboard

Add ideas to a flipchart

of use a different interactive method



Jamboard example

The screenshot shows a Google Jamboard interface. The browser address bar displays the URL: jamboard.google.com/d/1goW7JQfu3iP9dZP11LFi86HrFO1mLS-2VGaU-VI8JQQ/viewer?f=0. The Jamboard title is "B03 Purpose of Accounting". The interface includes navigation and editing tools on the left and top. The main workspace is a grid with three columns and two rows. The top row contains three colored boxes: a yellow box labeled "Financial Accounting", an orange box labeled "Tax Accounting", and a light green box labeled "Management Accounting". The bottom row is empty. The Windows taskbar at the bottom shows the search bar and various application icons, with the system tray displaying the time as 5:29 PM on 9/2/2020.

LO1 - 2 Categorisation of income and expenditure in accounting

1. Categorisation of income and expenditure in accounting
 - Capital income
 - Capital expenditure
 - Revenue income
 - Revenue expenditure

Students need to know the difference and be able to place examples into the categories.

Link to previous topic by explaining that 'accounting' records different types of business transactions, the above are the categories of transaction that might happen.

Income

Income is money received by the business. On this page, you will revise the differences between capital income and revenue income.

Capital income

This is money used to set up a business. It is a long-term investment.

Examples of capital income include:

Loan – money lent to a business by an investor such as a bank. The business will pay back the loan with interest, usually in monthly instalments over a few years.

Mortgage – loan usually used to buy property, such as a business premises. The mortgage will be secured against the property purchased. The business will pay back the mortgage with interest usually over 25 years.

Debentures – a type of bond issued by large companies to raise money. Investors receive interest on their loan which is repaid in full by the company on an agreed date.



Capital income

Shares – issued by the company to shareholders who own the business. As investors in the business, shareholders may receive a dividend.

Owner's capital – the owner invests their personal savings in the business. The owner may be a sole trader or a partnership.

Revenue income

This is income received by the business on sales of its goods or services.

Examples of revenue income include:

Cash sales – through over the counter transactions

Credit sales – through sales using a method of credit

Rent received – when a business rents out a property it owns

Discount received – when a business pays a reduced price for goods or services

Revenue income

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graph TD; RI[Revenue income] --- CS[Cash sales]; RI --- CrS[Credit sales]; RI --- RR[Rent received]; RI --- CR[Commission received]; RI --- IR[Interest received]; RI --- DR[Discount received];
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Interest received – money earned on savings or lending

Commission received – when a business acts as an agent for another business and receives a percentage of every sale

Student task idea

Now try this

Identify which of the following are examples of capital income or revenue income:

- (a) money invested by a sole trader
- (b) loan received
- (c) sales
- (d) rent received
- (e) commission received
- (f) money received from the sale of shares.



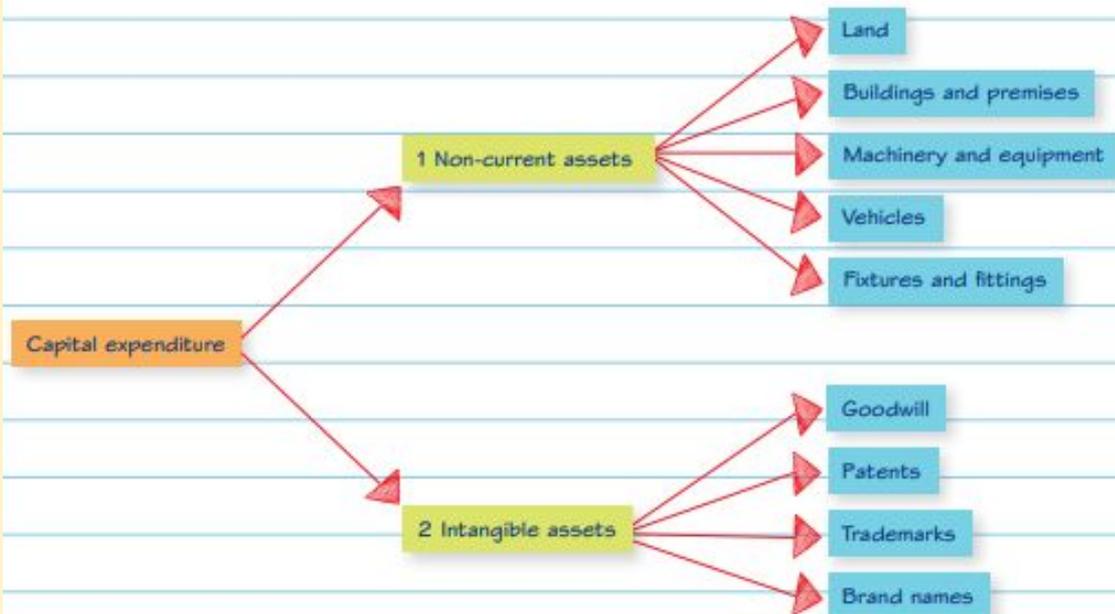
There are three of each.

Capital expenditure

Expenditure refers to items bought by the business. There are two types of expenditure: capital and revenue. On this page, you will revise capital expenditure.

Capital expenditure

These are assets – capital items – that the business plans to use over a long period of time. There are two types of assets: non-current (tangible) and intangible.

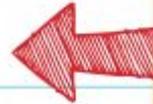


Student task idea

Now try this

Identify examples of capital expenditure:

- (a) wages
- (b) purchasing a vehicle
- (c) building a factory extension
- (d) electricity bill
- (e) stationery purchase
- (f) redecorating an office.



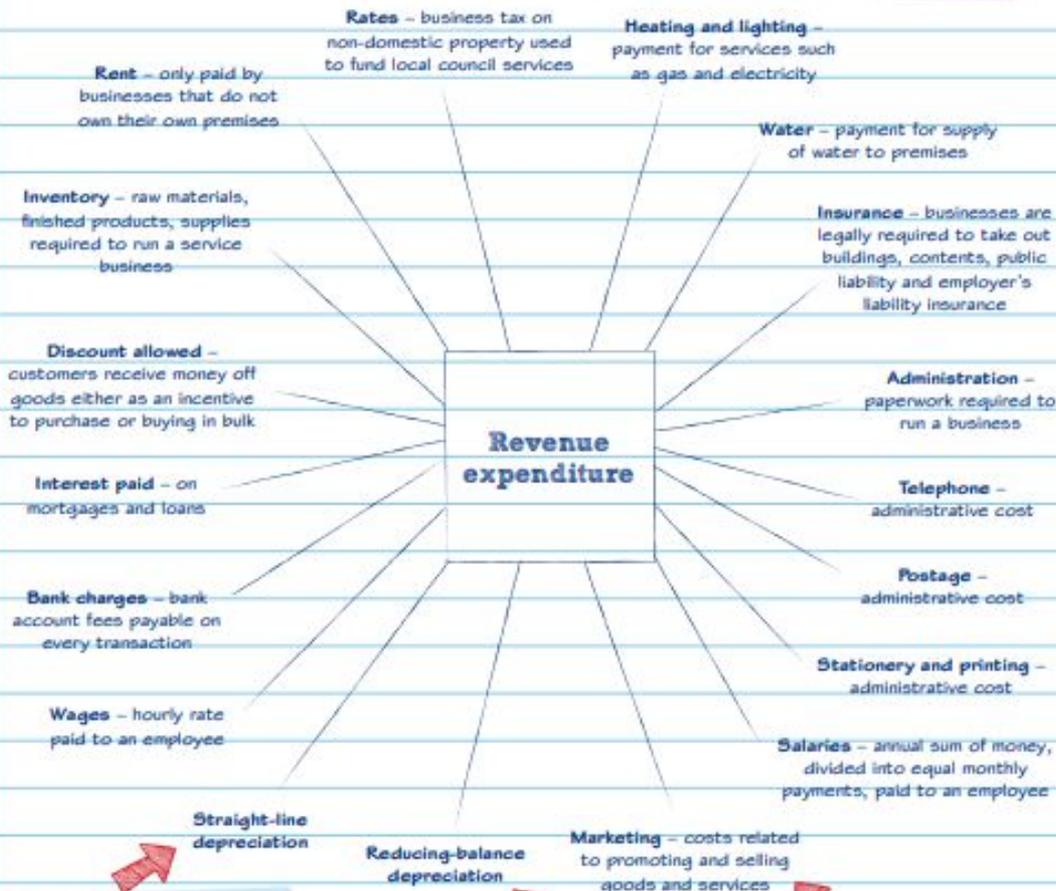
Three of the six are *capital expenditure* items.

Revenue expenditure

On this page, you will revise revenue expenditure – the day-to-day costs incurred in running a business.



Revise revenue income on page 60.



Student task idea

Now try this

Identify examples of revenue expenditure:

- (a) stationery
- (b) buying a patent
- (c) new office furniture
- (d) bank charges
- (e) rent
- (f) updated computer system.



Three of these are examples of revenue expenditure.

Important

Students need to understand that different types of income and expenditure have different effects on the business finances.

For example:

Capital expenditure - buying a new van

- This will affect the 'statement of financial position' (swapping money for a non-current asset) but not the profit of the business

Revenue expenditure - using electricity

- This will reduce the profit in the 'statement of comprehensive income'

Consolidate LO1 with a simple business example

Jake is a painter and decorator; he employs one assistant. Listed below are his incomes and expenditures. Decide whether they are CI - capital income RI - revenue income CE - capital expenditure, or RE - revenue expenditure.

- Ladder _____
- Stock _____
- Petrol _____
- Sales _____
- Van _____
- Bank loan _____
- Interest payments _____
- Depreciation on van _____
- Insurance _____
- Advert in local paper _____
- Wages _____
- Trademark _____

Explain five reasons why keeping accurate accounting records is important for Jake's business.

Useful videos on this topic

□ Capital & Revenue Income



<https://www.youtube.com/watch?v=vglojU9HQfE&index=24&list=PLBuW3SAj0djly2MaKyOzL4cnmeaPbEJj1>

□ Capital & Revenue Expenditure



<https://www.youtube.com/watch?v=FcqGMwX8YUc&list=PLBuW3SAj0djly2MaKyOzL4cnmeaPbEJj1&index=25>

□ <http://www.youtube.com/watch?v=6aAG4cNDRwo>

Creating student resources for finance

Depends on your school and their resources

I have been using a lot of of paper handouts up to now but have to change my practice due to COVID19 restrictions and online learning this year.



AS

The purpose of accounting

Watch the presentation about purpose of accounting and then answer the following questions.

1. Why is it important for a business to keep accurate financial records?

2. What do you think would be the result of not keeping accurate financial records? Try to think both long-term and short-term.

3. Briefly describe three types of accounting and their purposes.

1.

2.

3.

4. Describe one way in which information technology might help a business keep accurate financial records.

Business income and expenditure

1. What is meant by the term 'capital income'? What is it used for? Where would it be recorded?

2. Give two examples of capital income.

1. _____

2. _____

3. What is meant by the term 'revenue income'? What is it used for? Where would it be recorded?

4. Give two examples of revenue income.

1. _____

2. _____

5. What is meant by the term 'capital expenditure'? Where would it be recorded?

6. Give two examples of capital expenditure.

1. _____

2. _____

7. What is meant by the term 'revenue expenditure'? Where would it be recorded?

8. Give two examples of revenue expenditure.

1. _____

2. _____

9. Jake is a painter and decorator; he employs one assistant. Listed below are his incomes and expenditures. Decide whether they are CI - capital income RI - revenue income CE - capital expenditure, or RE - revenue expenditure.

- | | | |
|----------------|-----------------------------|-------------------------------|
| • Ladder _____ | • Van _____ | • Insurance _____ |
| • Stock _____ | • Bank loan _____ | • Advert in local paper _____ |
| • Petrol _____ | • Interest payments _____ | • Wages _____ |
| • Sales _____ | • Depreciation on van _____ | • Trademark _____ |

Creating student resources for finance

Good online formats to use for activities in accounting:

Google presentations (for introducing a topic)

Google docs (shared for teamwork or individual ones)

Google sheets (for anything with numbers)

Jamboards (for brainstorming ideas and previous knowledge)

Quizlet (for revision cards)

Kahoot (for checking learning in a quiz format)

Exam question example

Susie's mobile beauty parlour, 'Beautylicious', has become a local favourite around her home town of Plymouth. The business initially started with home visits to customers and more recently it has expanded with treatments taking place in the busy shopping centre. After three successful years of trading, ambitious Susie is thinking about taking the next steps to growing her business even further.

Part A

Questions on purposes of accounting 10% of paper – 10 marks

Q 1 Name and describe **two** purposes of accounting for a business like 'Beautylicious'.

4 marks

Q 2

Susie would like to expand her business. She is employing a professional accountant to help her with her accounts and this plan.

Evaluate **two** reasons why being able to access this financial information would be important for Susie.

6 marks

Exam question example

Q 4a Provide **two** examples of **capital expenditure** that a business like Susie's would have.

2 marks

1. _____

2. _____

Q 4b Provide **two** examples of **capital income** that a business like Susie's would have.

2 marks

1

Let's play a Kahoot!

[Kahoot quiz on LO1](#)

Conclusion/Summary

- Two parts to learning outcome 1
1. Accounting purposes
 - Have an engaging starter - YouTube video on 'accounting purposes'
 - Gather ideas about 'What accounting is? Why is it important in business? Different types of accounting?'
 - Confirm correct answers with students
 2. Categorisation of business income and expenditure
 - Explain the four categories
 - Give students a business example with income and expenses to categorise

THANK YOU
ANY QUESTIONS?

