

## Unit 2: Managing Financial Resources and Decisions

**Unit code:** H/601/0548

**QCF level:** 4

**Credit value:** 15 credits

### Aim

The unit aim is to provide learners with an understanding of where and how to access sources of finance for a business, and the skills to use financial information for decision making.

### Unit abstract

This unit is designed to give learners a broad understanding of the sources and availability of finance for a business organisation. Learners will learn how to evaluate these different sources and compare how they are used.

They will learn how financial information is recorded and how to use this information to make decisions for example in planning and budgeting.

Decisions relating to pricing and investment appraisal are also considered within the unit. Finally, learners will learn and apply techniques used to evaluate financial performance.

### Learning outcomes

**On successful completion of this unit a learner will:**

- 1 Understand the sources of finance available to a business
- 2 Understand the implications of finance as a resource within a business
- 3 Be able to make financial decisions based on financial information
- 4 Be able to evaluate the financial performance of a business.

## Unit content

---

### 1 Understand the sources of finance available to a business

*Range of sources:* sources for different businesses; long term such as share capital; retained earnings; loans; third-party investment; short/medium term such as hire purchase and leasing; working capital stock control; cash management; debtor factoring

*Implications of choices:* legal, financial and dilution of control implications; bankruptcy

*Choosing a source:* advantages and disadvantages of different sources; suitability for purpose eg matching of term of finance to term of project

### 2 Understand the implications of finance as a resource within a business

*Finance costs:* tangible costs eg interest, dividends; opportunity costs eg loss of alternative projects when using retained earnings; tax effects

*Financial planning:* the need to identify shortages and surpluses eg cash budgeting; implications of failure to finance adequately; overtrading

*Decision making:* information needs of different decision makers

*Accounting for finance:* how different types of finance and their costs appear in the financial statements of a business; the interaction of assets and liabilities on the balance sheet and on international equivalents under the International Accounting Standards (IAS)

### 3 Be able to make financial decisions based on financial information

*Budgeting decisions:* analysis and monitoring of cash and other budgets

*Costing and pricing decisions:* calculation of unit costs, use within pricing decisions; sensitivity analysis

*Investment appraisal:* payback period; accounting rate of return; discounted cash flow techniques ie net present value; internal rate of return

*Nature of long-term decisions:* nature of investment importance of true value of money; cash flow; assumptions in capital investment decisions; advantages and disadvantages of each method

**4 Be able to evaluate the financial performance of a business**

*Terminology:* introduction to debit, credit, books of prime entry, accounts and ledgers, trial balance, final accounts and international equivalents under the International Accounting Standards (IAS)

*Financial statements:* basic form, structure and purpose of main financial statements ie balance sheet, profit and loss account, cash flow statement, notes, preparation not required; changes to reporting requirements under the International Accounting Standards (IAS) eg statement of comprehensive income, statement of financial position; distinctions between different types of business ie limited company, partnership, sole trader

*Interpretation:* use of key accounting ratios for profitability, liquidity, efficiency and investment; comparison both external ie other companies, industry standards and internal ie previous periods, budgets

## Learning outcomes and assessment criteria

<b>Learning outcomes</b> <b>On successful completion of this unit a learner will:</b>	<b>Assessment criteria for pass</b> <b>The learner can:</b>
LO1 Understand the sources of finance available to a business	1.1 identify the sources of finance available to a business 1.2 assess the implications of the different sources 1.3 evaluate appropriate sources of finance for a business project
LO2 Understand the implications of finance as a resource within a business	2.1 analyse the costs of different sources of finance 2.2 explain the importance of financial planning 2.3 assess the information needs of different decision makers 2.4 explain the impact of finance on the financial statements
LO3 Be able to make financial decisions based on financial information	3.1 analyse budgets and make appropriate decisions 3.2 explain the calculation of unit costs and make pricing decisions using relevant information 3.3 assess the viability of a project using investment appraisal techniques
LO4 Be able to evaluate the financial performance of a business	4.1 discuss the main financial statements 4.2 compare appropriate formats of financial statements for different types of business 4.3 interpret financial statements using appropriate ratios and comparisons, both internal and external.

## Guidance

---

### Links

This unit links with the following units within this specification *Unit 6: Business Decision Making, Unit 9: Management Accounting: Costing and Budgeting, Unit 10: Financial Accounting and Reporting, Unit 11: Financial Systems and Auditing and Unit 12: Taxation.*

This unit also covers some of the underpinning knowledge and understanding for the NVQ in Accounting as set out in *Annexe B.*

The unit covers financial topics essential for learners who would like a career in this field and wish to gain membership of a professional accounting body.

### Essential requirements

Learners will require access to financial and company reports.

### Employer engagement and vocational contexts

Centres should develop links with local businesses. Many businesses and chambers of commerce want to promote local business and are often willing to provide work placements, visit opportunities, information about businesses and the local business context and guest speakers.

[www.businessbritainuk.co.uk](http://www.businessbritainuk.co.uk) provides information about business in Britain and has extensive links to other business and business news sites.

[www.fsb.org.uk](http://www.fsb.org.uk) The Federation of Small Businesses provides information, support and guidance about small businesses in the UK.