

A Level Accounting Summer Independent Learning Activity

Sources of Finance

Welcome to A Level Accounting! As part of your studies in this subject, you need to learn about **sources of finance**. The additional reading on the links given is highly recommended but not mandatory.

A 'source of finance' is a place from where a business obtains the money (also known as 'capital) to operate.

You are expected to know about the following sources of finance: owner's capital (owner's savings); partners' capital; bank overdraft; bank loan; mortgage; ordinary shares; debentures

For each source of finance above, you'll need to know a definition, the features of the source of finance, and the advantages and disadvantages each source of finance to the business.

Task 1

Open up a word document and create a table like the one below. Using the links over the page, complete the table for **each** source of finance. These should then be **printed and brought to your first class** when you begin college in **September**.

Type of finance: Owner's Capital		
Definition/ general description		
	Advantages	Disadvantages

A general introduction to sources of finance

<http://www.bbc.co.uk/education/guides/zmj7tfr/revision/1>

Owner's capital & partners' capital

<https://www.tutor2u.net/business/reference/finance-personal-sources-of-finance-for-a-startup>

<https://www.tutor2u.net/business/reference/organisation-partnerships>

Bank Overdraft & Bank Loan

<https://www.tutor2u.net/business/reference/sources-of-finance-bank-overdraft>

<https://www.tutor2u.net/business/reference/sources-of-finance-bank-loans>

Ordinary shares

<https://www.tutor2u.net/business/reference/finance-introduction-to-raising-equity-finance>

Debentures

<https://www.tutor2u.net/business/reference/debentures>

Task 2

Once you've got the required knowledge of each source of finance, the key skill you need is the ability to compare and contrast different sources of finance, in order to decide whether that particular source will benefit the business or not. A popular comparison is between money from shares (share capital) and money that comes from loans or debentures (loan capital)

Using the information from task 1, analyse (explain) the differences, and similarities between loan and share capital. Make a judgement as to which you think is best for a business. Bring this to your lesson in September.

Income Statements

Businesses have to complete an income statement. An income statement is a financial statement which must be produced every year, that shows the total sales and expenses a business has and whether it is making a profit or a loss.

Please follow the link to the attached PowerPoint presentation showing the purpose and layout of an income statement.

<https://nclt.ac.uk/wp-content/uploads/2022/06/Summer-Independent-Learning-11.pptx>

Task 1

- a) Learn the layout of the income statement on slide 5 of the PowerPoint presentation
- b) Learn the key terms (see slide 6)
- c) Learn the formulae (slide 8)
- d) Work through the Matthew Lloyd worked example on the PowerPoint (slides 12, 13, 14)

Once you have completed task 1, you should now be in a position to complete the following tasks, 2, 3 and 4.

Task 2

You are to fill in the missing figures for the following businesses:

	Revenue	Opening Inventory	Purchases	Closing Inventory	Cost of Sales	Gross Profit	Expenses	Profit/ (Loss) for the year
	£	£	£	£	£	£	£	£
Business A	20 000	5 000	10 000	3 000			4 000	
Business B	35 000	8 000	15 000	5 000				10 000
Business C		6 500	18 750	7 250		18 500	11 750	
Business D	45 250	9 500		10 500		20 750		10 950
Business E	71 250		49 250	9 100		22 750	24 450	
Business F	25 650	4 950	13 750			11 550		(3 450)

Task 3

The following balances have been recorded by the bookkeeper of John Adams at 31st December 2017.

	£	£
Inventory at 1 st January 2017 (opening inventory)	14 350	
Purchases	114 472	
Revenue (Sales)		259 688
Office rent	13 718	
Heating and Lighting	12 540	
Wages and Salaries	42 614	
Vehicle Expenses	5 817	
Advertising	6 341	

Inventory at 31st December 2017 is valued at £16 280 (closing inventory)

You are to prepare the Income Statement of John Adams for the year ended 31st December 2017.

Task 4

The following balances have been recorded by the bookkeeper of Clare Lewis as at 31st December 2018.

	£	£
Revenue (Sales)		144 810
Purchases	96 318	
Inventory at 1 st January 2018 (Opening inventory)	16 010	
Salaries	18 465	
Heating and Lighting	1 820	

Rent and Business rates	5 647	
Sundry Expenses	845	
Vehicle Expenses	1 684	

Inventory at 31st December 2018 (Closing inventory) is valued at £13 735.

You are to prepare the Income Statement of Clare Lewis for the year ended 31st December 2018

Profitability Ratios

A business uses the income statement to analyse its progress by comparing its performance from one year to the last. It can then see whether it is improving, by making more profit, or deteriorating by making less profit. This analysis helps the business to make decisions.

It does this by calculating some ratios. See slide 17

Task 5

Learn the profitability ratios

Task 6

Using the income statement created for Clare Lewis, calculate the following profitability ratios:

- I. Gross profit margin
- II. Gross profit mark up
- III. Expenses in relation to revenue
- IV. Profit in relation to revenue

Bring your work for tasks on sources of finance and income statements, tasks 2, 3, 4 and 6 to college on your first day

Good luck and see you soon

The Accounting Team at New College Learning Trust