Tech Award
Enterprise
The Revision Guide

- ✓ Using technology
- ✓ Financial documents
- ✓ Profit and Loss
- ✓ Balance Sheets
- ✓ Ratios
- ✓ Stakeholders
- ✓ Methods of Payment

Using Technology when ….	Advantages	Disadvantages
Using financial accounting systems	Work is more accurate then when using a manual system as calculations can be made automatically Labour costs could be lowered – as fewer staff will be needed/specialist accountants will not be needed to complete the basic accounts Work can be completed faster than when using a manual system which increases profit and efficiency Stationery costs are lowered – less need for pens/paper/accounts books as the system will store the accounts which can be printed only when needed. Allows data to be manipulated meaning the company can get a better understanding of their financial position A computerised system produces documents with different presentation as required e.g. graphs and charts Multiple copies of business documents can be made/distributed Business documents and information can be sent electronically Electronic backups can be made Improved security – passwords etc	Staff need training to use the system – this will take time and increase costs Staff may not like changing to computerised systems/may not trust new systems – and resist change/not want to undertake training The company will be relying heavily on technology – computers can breakdown/crash/files can corrupt/there may be security issues when storing data – this may adversely affect the company Computerised accounting systems can be expensive Information could be lost if computer gets virus/breakdown There may be input errors/human error.
Example Answer (3 Marks)	Computerised accounting systems make the business more efficient (1) as work can be completed faster than using a manual system (1) which gives the owner more time to	Computerised accounting systems are expensive (1) as they cost money to purchase and to train staff to be able

	do other things in the business generating more revenue(1)	to use them (1). This cost could be greater than benefits they bring and reduce the company's profits (1)
Creating financial documents (invoices/credit notes/purchase orders)	The document is produced automatically/quicker than with a manual system Layout is saved in the system which will save time in the future Printed automatically/does not have to be written out Can be emailed meaning the business can operate more efficiently Manipulates data easily meaning small changes can be made Accurate calculations/less possibility of errors when compared to a manual system Can be backed up for security Accounting records are automatically updated and so account balances (e.g. customer accounts) will always be up-to-date	Expensive to install Staff need to be trained Human error could have an impact on a number of documents Reliant on technology so vulnerable if crashes or viruses
To store financial documents	Easier/cheaper to store the information rather than a manual system – electronic storage rather than books/filing cabinets Fast access to records – system can be searched saving time when compared to looking through accounts manually Can be backed up	Reliant on technology so power failures would mean documents are inaccessible Viruses could delete valuable data Cost/time to set up system (training may be needed)
To make payments	Using online payments will save time as they will not have to travel to the business Payments can be made 24/7 using a website which is more convenient Payments can be set up to go out on a regular basis (standing order or direct debit)	Security issues of entering details on the internet

To receive payments **Example Answer (3 marks)**	Using online payments will save time as they will not have to travel to the bank to deposit the money Online payments are more convenient as they do not have to wait for her bank to open for business May increase sales as customers can purchase the products over a bigger geographical distance More secure/there is less risk A benefit of receiving payments by cash is that it is safer (1) as the transfer is electronic (1) and therefore cash cannot be stolen on the way to the bank/cheques cannot get lost in the post (1)	Costs to install and run eg. Card machines Credit card transactions can carry a fee per transaction Reliant on technology Security risks
To control their stock (through barcodes)	Keeps up to date stock records and helps ensure that they don't have too much stock that they can't sell -this reduces wastage and storage costs Saves time/less time is needed to count stock/label stock in store Automatic ordering Labels/stickers/price tags – no need to buy/no need to label each item of stock Gives accurate sales information – can see which products are selling well and which are not Till mistakes are minimised, prevents wrong price being entered into till, lowers costs through fewer errors.	Set-up/equipment costs could be expensive Training will be needed which will incur costs All stock will need barcode labels Staff may be resistant to change Not all stock can be easily barcoded Potential for the system to malfunction. If the system breaks, the business may not be able to make sales and lose revenue

Start Up and Running Costs

Start up costs are incurred at the time of/before the business starts trading. These are usually paid once.

Running costs are incurred in the normal course of regular trading. These can be things a business has to pay for regularly.

Flow of documents

Document	Purpose	Key things to note
Purchase Order	**Sent by the customer** to order goods from the supplier to be delivered	Will include the quantity of the items (be careful to check if the items come in boxes with more than one in!) as well as product codes and unit price and total price (if you are ordering more than one of the same thing) There isn't always a total and it **does not** include any discount or VAT. There is sometimes instructions for when it is to be delivered (often this is asap) and includes the addresses of both the customer and the supplier.
Delivery Note	**Sent by the supplier** to show which products have been delivered to the customer	These will show product codes and the quantity delivered, they may include the prices but not VAT
Goods Received Note	**Sent by the customer** after the products have been received to record the goods that have been received and any problems (damaged goods or missing items)	These documents will contain the product codes/description and confirm what was received and if there were any problems. They will not have prices on.
Credit Note	**Sent by the supplier** to inform the customer of a refund from the supplier that will be credited back onto their account. This could be because of damaged or undelivered goods.	Will include VAT and shows how much the customer is due to be refunded.
Invoice	**Sent by the supplier** to request payment from the customer for the goods they have received	May include a discount – which **has to be calculated and then taken away** and VAT **which has to be calculated and added on**
Remittance advice slip	**Sent by the customer** with the payment to show which invoices they are paying	
Cheque	**Sent by the customer** to pay for the goods	Needs to include the date, the amount to be paid (in numbers and in words), the person being paid and a signature.
Statement of Account	**Sent by the supplier** to show the payments and credits that have been made and	This should contain the supplier and the customer names, the amount that was owing at the start of the period, the

	the amount that the customer still owes	payments the customer has made should be taken off (these will be called credits) and the new things they have bought will be added on (these are called charges). A new total should then be added to the bottom of the document.

Checking for errors on documents

- ✓ Do the products have the right codes?
- ✓ Do the products have the right prices?
- ✓ Is the quantity correct?
- ✓ Has the VAT been correctly calculated and added and not subtracted?
- ✓ Has the discount been correctly calculated and subtracted and not added?
- ✓ Is the delivery address correct?
- ✓ Is the order number correct?
- ✓ Are the delivery terms correct?

If the company is being overcharged

If they do not spot the mistake, they will pay the extra money to the supplier and therefore they will be losing profit as a result of their mistake. Their records and accounts will also become inaccurate. They may also have to spend time sorting out the mistake that they could use for other things within the business.

If the company is being sent the wrong products/wrong quantity

This could slow down production which could mean their customers are unhappy with delays receiving their products and could cancel orders and the company will then have reduced profits. The company will also have to spend time reordering the correct products/quantity which will use time that they could have used for other things.

If the company is being refunded too little on a credit note

If they do not spot this mistake, they will receive too little money back meaning they will be losing out on profit. This would lead to inaccurate records. They will have to spend time correcting this mistake which they could use for something else inside the business.

Profit and Loss Account

Sales/Revenue – This is the money a business has made by selling its products/services
Cost of sales – this is the cost of the company's raw materials that are directly associated with making the product or providing the service.
Expenses – all the other costs the business has to pay
Gross Profit = Sales – Cost of Sales
Net Profit = Gross Profit – Expenses

	£	£	How is it calculated
Sales		100,000	
Cost of sales		50,000	
Gross Profit		50,000	Sales – Cost of Sales
Expenses			
Light, Heat and Power	9000		
Wages and Salaries	21000		
Telephone and Broadband	1500		
Rent, Rates and Insurance	18000		
Total Expenses		49500	Add up the expenses
Net Profit		500	Gross Profit – Total Expenses

The Profit and Loss Account shows the profit or loss of a business over a given period of time. It describes how the profit or loss arose – e.g. categorising costs between cost of sales and expenses and showing how much the business made in sales.

Investors might be interested in a company's profit and loss account as it shows the revenue and costs/profit or loss a company has made over a period of time and It will tell potential investors whether it is worth buying shares in the business

Suppliers will be interested in the profit and loss as it will show if it is making profits/losses and therefore likely to stay in business/to expand/to close. This gives the supplier a good idea if they are likely to keep receiving orders from the business.

Banks will be interested in the Profit and Loss Account as it will help them decide whether they should risk lending money to the business based on whether they think they can pay it back.

Owners are interested in the profit levels as they have invested time and money into the business and want to make sure they are getting a return.

Managers want this information to help them plan for the future and identify areas that need to be improved. They may be rewarded if the business does well so they want to make sure the business is making a profit.

<u>Balance Sheet</u> - It gives a snapshot of the value of a business at any one time by looking at the assets and liabilities of the business as well as how it is funded. It can be used to work out the liquidity of the company.

Assets are something a company **OWNS**
Fixed assets are something a company owns for a long time and isn't easily converted to cash **eg. Machines, Vehicles, Buildings**
Current assets are something a company owns for a short time and is easily converted into cash **eg. Stock, cash in the bank, debtors (money their customers owe them)**

Liabilities are something a company **OWES**
Current liabilities are debts that have to be repaid within 12 months **eg. Creditors (money owed to suppliers), bills, short term loans**
Long term liabilities are debts that have to be repaid in more than 12 months **eg. Bank loans, mortgages**

Working Capital = Current Assets – Current Liabilities

From a balance sheet, **an investor** can get an idea of how good an investment it would be and potential investors can see from this if the business is likely to be worth investing money in. **A bank** can see from the balance sheet if the business is likely to be able to pay back the loan. **The owner** can see how liquid the business is and whether they need to take steps to improve their financial position. **Suppliers** would want to see if the business was in a strong position in terms of its debts to make sure the business can continue to pay for the goods they are purchasing.
Net Assets and Capital Employed always balance (they are the same)

	£	£	How it is calculated
Fixed Assets			
Premises	500,000		
Vehicles	80,000		
Machines	30,000		
		610,000	Add up the fixed assets
Current Assets			
Stock	28,000		
Cash in bank	33,000		
Debtors	50,000		
		111,000	Add up the current assets
Current Liabilities			
Overdraft	15,000		
Creditors	68,000		
		83,000	Add up the current liabilities
Working Capital		28,000	Current assets – current liabilities
Net Assets		638,000	Fixed Assets + Current Assets – Current liabilities
Financed By			
Capital	638,000		
		638,000	

Ratios

Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$ — **How much of Revenue is kept as GP**

Net Profit Margin = $\frac{\text{Net Profit}}{\text{Revenue}} \times 100$ — **How much of Revenue is kept as NP**

Return on capital employed = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$ — **How much is made compare to what has been invested**

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ — **How able the business is to pay its short term debts**

Acid Test Ratio = $\frac{\text{Current Assets- Stock}}{\text{Current Liabilities}}$ — **How able the business is to pay its short term debts without counting stock as an asset**

Why would GPM change?

DECREASE

- Fall in sales
- Products/Services becoming less popular
- Increase in the cost of stock bought for resale
- Increase in the costs of raw materials
- Economic conditions e.g. recession
- Decrease in Prices charged

INCREASE

- Increase in sales
- Increased selling price
- Cheaper raw materials
- Competitor has gone out of business
- Good economic conditions
- Increase in prices charged

Why would NPM change?

DECREASE

- Increase in fixed costs and/or expenses
- Increase in cost of utilities
- Increase payments to employees
- Higher bank fees etc
- Company had to reduce selling price

INCREASE

- Decrease in fixed costs or expenses
- Decreased wages
- Decreased bank fees
- Company increased selling price

Benefits of using ratios

Ratios show how profitable a business is (GPM, NPM, ROCE)
Ratios show how liquid a business is (CR, ATR)
They show if the business is an attractive investment and therefore likely to attract investors
They can be used to show why the business is a reliable candidate for a loan
They are a measure of overall performance
Profitability ratios can be used to compare current performance to past records
Can be used to compare performance to other businesses in the industry

Drawbacks of using ratios

Ratios need to be looked at in conjunction with other information/are useless in isolation
Ratios need to be compared over time to identify trends
Ratios do not tell the business what is going right or wrong
Ratios are based on historic data
Ratios are only as reliable as the data used to calculate them
Ratios should be calculated on a year's data to cancel out any seasonal changes in demand

Payment Methods

Paying by Cheque	Safer than cash Can only be banked by the person named on the cheque Can be cancelled if lost/stolen Takes 5 days to clear so improves cash flow Will give a record of payment on bank statement Can be posted	If the cheque bounces due to not having enough in account or an error filling in the cheque, the business will have to pay a fee
Being Paid by Cheque	Secure – money is transferred from one account to the other Can only be paid into the account of the person written on the cheque so cannot be stolen	Takes 5 days to clear If there is not enough money available in the customer's account, the cheque will bounce and the business will have to spend time contacting them to arrange a replacement (if they have details) if not, the money is lost
Paying in Cash	Convenient – don't have to have a bank account No borrowing so money doesn't have to be paid back with interest	Have to carry large amounts of cash – security issues Have to have the money available instantly Have to visit the premises to purchase the product
Being Paid in Cash	Instant No fees involved Most people have access to cash Cash can be reused instantly by the business	Need to count/transport cash to bank – takes time and money that could be used for something else

		Risk of fake bank notes which can't be traced Have to store – security issue and business may have to pay for safe/security guard Will have to have money available to give people change if needed (a float)
Paying by Credit Card	No need to carry cash Money is borrowed so does not have to be available instantly as it can be paid back in instalments	Credit cards are borrowed money which has to be repaid – this is usually with interest so will cost more
Being Paid by Credit Card	Encourages impulse purchases as customer doesn't have to have cash on them More secure as cash is not stored by the business No time/cost of counting and transporting cash to bank Customer can purchase goods over phone/online means they can access more customers	Business has to rent the credit card machines which will decrease profit Credit card payments usually have a fee that the business has to pay which will reduce profit Open to fraud if people pay with stolen cards Not an instant payment, takes time to move from one account to another which reduces cash flow
Paying by Debit Card	Comes out of bank account so no interest is repayable Safe – money is transferred from one account to another	Money needs to be available instantly as it is not borrowed
Being Paid by Debit Card	Guaranteed payment - once the transaction has	Business has to rent the machines to take the payments

	been approved, the money will be transferred	which will decrease profit Reliant on technology to make payment Takes 2-3 days for the money to be received
Paying by Direct Debit	Once it is set up, the money will be taken when needed which will avoid fees for late payment Easy to track payments Saves time as cheques do not need to be written or posted and cash doesn't have to be taken	Need to ensure the amount needed is available on the date of the direct debit
Being Paid by Direct Debit	Money is guaranteed Amount can be altered each month to ensure the business receives the full amount it is due	Amounts will have to be altered to ensure the correct amount is paid
Paying Online	Money is transferred so safer than handling cash	Security risks
Being Paid Online	Convenient way of receiving payments Transaction only take a few seconds Reduces administration costs Improves accounting accuracy Increased security/less cash on premises Meeting payment needs of customers	Cost of purchase of system Training staff Running costs Risk of malfunction Potential for fraud