



BUSINESS FINANCE

KEY TERMS AND CONCEPTS - JUNE 2020



START UP COSTS -

- the amount of money spent setting up a business before it starts trading

OPERATING COSTS (RUNNING COSTS)

- the money spent on a regular basis to keep the business running

INCOME

- Money which is paid into a business (Revenue, investment, interest on savings)

REVENUE (SALES / SALES REVENUE

⦿ Revenue = number of sales x price per unit

⦿ So, 10 items sold @ £10 each = $10 \times 10 =$
£100

FIXED COSTS (INDIRECT COSTS)

- ⦿ Expenditure on items which does not change with the number of items sold or produced

VARIABLE COSTS

- Costs which vary according to the number of items sold or produced

TOTAL COSTS

The total amount of money spent running a business over a certain period of time

$$\mathbf{FIXED\ COSTS + VARIABLE\ COSTS = TOTAL\ COSTS}$$

EXPENDITURE

- ◎ Money that a business spends (all the money it pays out (a mixture of fixed and variable costs))

OPERATING COSTS (OVERHEADS)

- The everyday running costs of the business that it has to pay even if it has no customers (usually its fixed costs)

PROFIT

- When revenue is more than expenditure (total costs)

LOSS

- When expenditure is more than revenue

BREAK EVEN

- ◉ When revenue equals total costs (no profit but no loss)
- ◉ Break even point:

Fixed costs

Selling price per unit - variable cost per unit

So, a burger van has fixed costs of £100 per week (insurance / tax).
The variable cost per burger is 80p. He sells the burgers for £1.30

$$\frac{\underline{\pounds 100}}{\pounds 1.30 - 80\text{p}} = \frac{\underline{\pounds 100}}{50\text{p}} = 200 \text{ burgers to break even}$$

BUDGETING

- Planning future expenditure and revenue targets with the aim of ensuring a profit is made

BUDGETING CONTROL

- The process of checking what is actually happening comparing this with the plan and taking action if things are not correct

CASH FLOW FORECASTS

- ◉ Cash inflows - the amount of money coming into a businesses bank account
- ◉ Cash outflow - the amount of money leaving a businesses bank account
- ◉ Net Cash Flow - the difference between the cash inflow and the cash outflow (usually monthly)
- ◉ Cash balance - the amount of money forecast to be in the bank account after the net cash flow figure has been added (or subtracted) from the existing bank balance

MEASURING SUCCESS

- Capital - money spent by the business on items which will last a long time (assets)
- Owners often invest capital into their businesses

MEASURING SUCCESS 2

◎ Cost of sales -
the cost of
producing a
product

MEASURING SUCCESS 3

- Gross profit - the money made from selling a product (the sales revenue) after the cost of producing that product (cost of sales) has been deducted
- **GROSS PROFIT = Sales Revenue - Cost of Sales**

MEASURING SUCCESS 4

- ◉ Net Profit - the money made from selling a product after all the costs (expenditure) has been deducted from the gross profit
- ◉ Net profit = Gross profit - expenditure

INCOME STATEMENTS (PROFIT AND LOSS ACCOUNTS)

- Shows how a business has performed
- Shows the revenue and how much money was spent by the business
- Shows gross profit and net profit

STATEMENT OF FINANCIAL POSITION (BALANCE SHEETS)

- ⦿ Shows the assets and liabilities of a business
- ⦿ ***Fixed assets*** - stay in the business for a long time and are needed for the business to trade e.g. equipment
- ⦿ ***Current assets*** will soon be turned into cash e.g. stock, debtors (people who owe the business money)

STATEMENT OF FINANCIAL POSITION (BALANCE SHEETS) 2

- ◉ Liabilities of the business:
 - ◉ ***Current liabilities*** - money they business owes and has to be paid within the year e.g. to suppliers, bank overdraft, creditors (businesses / people the business owes money to)
 - ◉ ***Long - term liabilities*** - such as loans that need to be paid back over a longer period

STATEMENT OF FINANCIAL POSITION (BALANCE SHEETS) 3

- ◉ Money invested into the business by the owner is called *share capital*
- ◉ *Retained profits* are profits saved from previous years - these could be used to buy new equipment or expand in future years
- ◉ *Working Capital* - sometimes called *net current assets* - this is money the business can raise quickly which is calculated by:

Current assets - current liabilities

Current assets (stock, money, debtors - that can be turned into cash quickly) minus *current liabilities* (all the current debts owed to the business)