Summer Y10| **Business**| Finances

Unit 4.1 – Sources of finance	
The key to answering any questions about forms of finance is its appropriateness. Sole traders will not be selling shares and plc's will not use friends and families or raffles. Think about the type of ownership, the size of the firm, the context and the purpose of the finance	
Bank loans	are long to medium term loans that can be used to buy producer goods. The goods become the property of the business immediately but failure to repay the loan to the bank could lead to the business being closed down.
Business angels	are wealthy individuals who invest their private capital into start-up businesses in return for a share in the business (a bit like Dragons Den).
Friends and family	you could ask friends and family to lend you some money to help start or run the business. They will probably want repaying but might not want any interest payment from you.
Government grants	are non-repayable sums of money given by the government to help entrepreneurs start businesses. They are not available everywhere in the UK and have strict criteria that you have to meet to get the money.
Hire purchase	is a system of credit whereby the borrower pays a deposit to be able to use a good for a set period of time. During this time instalments are paid to cover the cost of the good plus interest. The good becomes the property of the buyer when the final payment is made. Non-payment means that the good can be taken back by the lender.
Issue (more) shares	If you are a sole trader or partnership you could convert to an LTD and invite other investors to purchase shares in your business. If you are already an LTD or plc you could sell more shares to new investors to raise funds.
Leasing	is a system of renting an asset to a business. The asset remains the property of the company renting out the good.
New business partners	in a partnership you can have up to 20 partners. You could invite new partners into the business who would contribute funds for a stake in the business; they will share profit and loss with you and the other partners.
Overdrafts	are a form of short term loan provided by banks to cover cash-flow difficulties of businesses. The business is allowed to take more from its account than is in the account. When cash is paid into the account, the overdraft will be cleared.
Owners capital/savings	You use your own savings to start and run the business. Normally a bank will not loan a firm money if you do not invest any of your own money.
Retained profit	is what is left at the end of a financial year after all payments are made. It represents the income for a sole trader or partnership. You can choose to spend it or reinvest it into the business.
Sale of assets	Is where you sell off unwanted assets that you no longer have a need for. This could be unwanted land, buildings or machinery. By selling the asset you free up money but do loose the use of the asset.
Trade credit	is a system of interest free short-term credit for the purchase of non-durable goods. These will need to be paid for usually within one month.
Venture capital	involves private investors providing capital to new or small businesses which have the potential for growth.

Unit 4.3 – Profit & loss accounts (Income statements)	
Cost of sales (COGS)	Is the amount of money that a firm directly spends on buying raw materials, components or products to sell.
Expenses	Are costs involved in running the firm. These include staff wages, utility bills, marketing & advertising costs, insurance etc.
Gross profit	is the profit made before expenses have been paid. It is calculated by: Gross profit = sales revenue – costs of sales(COGS)
Gross profit margin	is the gross profit expressed as a percentage of sales. It is calculated using the formula: Gross profit margin = gross profit / Turnover x 100
Net profit	is the final profit made by a business after all costs have been paid. It is calculated by: Net profit = gross profit - expenses
Net profit margin	is the net profit expressed as a percentage of sales. It is calculated using the formula: Net Profit Margin = Net Profit / Turnover x 100
Revenue	is the amount of money taken in by a business when selling a product. Also called turnover or receipts.

Tier 3 language

Overdrafts	are a form of short term loan provided by banks to cover cash-flow difficulties of businesses. The business is allowed to take more from its account than is in the account. When cash is paid into the account, the overdraft will be cleared.
Contribution	is the amount taken from the cost of selling every good used towards paying the fixed costs of producing that good. Contribution per good is selling price minus the cost of the good
Revenue	is the amount of money taken in by a business when selling a product. Also called turnover or receipts.

Unit 4.2 – Revenue and costs	
Cost	is the amount of money used to buy a good or service.
Profit	is the difference between the total revenue of a business and the total costs of a business, when revenue is greater than cost.
Revenue	is the amount of money taken in by a business when selling a product. Also called turnover or receipts.
Total revenue	is the full amount of money taken in by a business when selling all its goods in a particular period. It is calculated by multiplying the selling price by the number of goods sold.
Fixed cost	always stays the same no matter how many goods are produced. A good example is the rent on a shop unit or the hire cost of a piece of machinery.
Total cost	is the full amount of money spent by a business when producing the goods sold in a particular period. It is calculated by adding its fixed costs to its variable costs.
Variable cost	is the cost which varies with the number of goods produced. The best example for this is raw material costs; the more you produce, the more raw materials you need to purchase.
Break-even	occurs where the total amount of money taken in by a business is the same as the amount of money paid out. The firm doesn't make a profit or a loss as total revenue equals total cost.
Contribution	is the amount taken from the cost of selling every good used towards paying the fixed costs of producing that good. Contribution per good is selling price minus the cost of the good.
Average rate of return (ARR)	is used in helping to decide whether an investment has been successful. It is measured by the formula: ARR = Average Annual Return / Initial Outlay x 100 If the answer is greater than expected or greater than could have been earned in a building society account then the investment has been a success.

Unit 4.4 – Cash flow	
Cash	is money held by the business or in its bank accounts.
Cash flow	the flow of money into and out of a business and the differences between the income and expenditure.
Cash-flow forecast	In a cash-flow forecast businesses predict what they expect to happen to their cash-flow in the future.
Closing balance	is the amount of money a business has in its bank account at the end of a month or at the start of the financial year
Net cash-flow	is the difference between the total revenue entering the firm and the total expenses being paid out. This can be positive or negative.
Opening balance	is the amount of money a business has in its bank account at the start of a month or at the start of the financial year

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