

5 Why a business needs finance – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)
Business finance	企业资金	_____
capital expenditure	资本性支出	_____
fixed assets	固定资产	_____
revenue expenditure	收益性支出	_____
internal sources	内部来源	_____
external sources	外部来源	_____
retained profit	留存利润	_____
share capital	股本	_____
loan	贷款	_____
overdraft	透支	_____
profit	利润	_____
cash	现金	_____

Recall

Starting and running a business costs money. Bring this with you:

- You pay for things with money every day; a business does too, but on a much larger scale.
- A business that runs out of money has to stop.

At AS we study where a business gets its money (**finance**) and how it manages cash.

New ideas

■ 1 Why finance is needed

Business finance 企业资金 is the money a firm needs to start, run and grow. Spending falls into two kinds:

- **capital expenditure** 资本性支出 — money spent on **fixed assets** 固定资产 that last a long time (machines, vehicles, buildings);
- **revenue expenditure** 收益性支出 — money spent on day-to-day running (wages, rent, raw materials).

capital expenditure
fixed assets that last
(machines, vehicles, buildings)

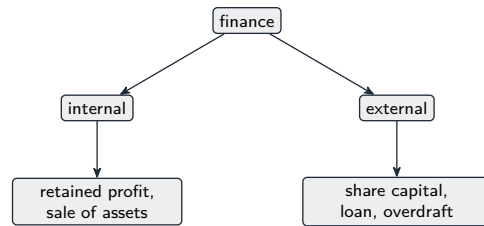
revenue expenditure
day-to-day running
(wages, rent, materials)

Micro-check. Is buying a delivery van capital or revenue expenditure? [1]

■ 2 Sources of finance

Finance comes from **inside** the business (**internal sources** 内部来源) or from **outside** (**external sources** 外部来源):

- internal: **retained profit** 留存利润 (profit kept in the business), or selling assets the firm no longer needs;
- external: **share capital** 股本 (money from selling shares), a **loan** 贷款, or an **overdraft** 透支 (the bank lets the account go below zero for a short time).



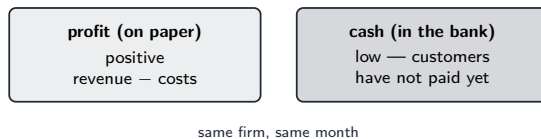
Micro-check. Is a bank loan an internal or an external source? [1]

■ 3 Cash is not the same as profit

This is a key idea:

- **profit** 利润 is what is left when total costs are taken from total revenue over a period;
- **cash** 现金 is the money the firm actually has **right now** to spend.

A firm can be **profitable** but still run out of cash — for example, if it has sold goods but customers have not paid yet. Many firms fail not from low profit, but from running out of cash.



Micro-check. Can a profitable business still run out of cash? [1]

Watch out: *cash is not the same as profit* — a profitable firm can still run out of cash (e.g. customers have not paid yet). Capital expenditure buys long-lasting assets; revenue expenditure pays day-to-day costs.

Practice

5.1 State which is **capital** and which is **revenue** expenditure: (a) buying a new factory; (b) paying this month's wages. [2]

5.2 State whether each source is **internal** or **external**: (a) retained profit, (b) a bank loan, (c) selling shares. [3]

5.3 Explain how a business can be profitable yet still run out of cash. [2]

5.4 Give **one** internal and **one** external source of finance. [2]

5.5 State what an **overdraft** lets a business do. [1]

5.6 Challenge. A firm makes a healthy profit but its bank account is empty because it sells on 60-day credit. Suggest **one** way it could improve its cash without lowering its profit. [2]