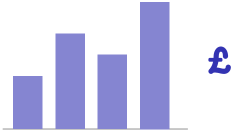
Finance & Accounting

A-Level Business ▪ Topic 5

A-Level Business



What we will cover

1. Why finance & cash vs profit
2. Sources of finance
3. Cash-flow forecasts
4. Costs
5. Break-even & budgets
6. Recap

Spending and working capital

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

revenue expenditure
day-to-day running (wages, rent, materi-als)

share capital

Cash is not the same as profit

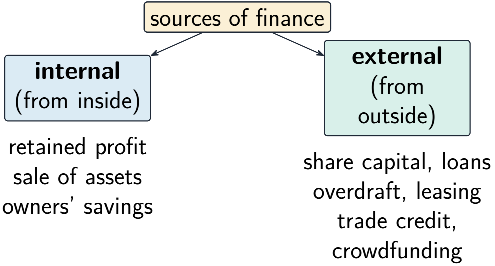
a firm can be profitable but still run out of cash

profit (on paper)
revenue – costs
= positive

cash (in the bank)
low — customers
haven't paid yet

working capital banknotes

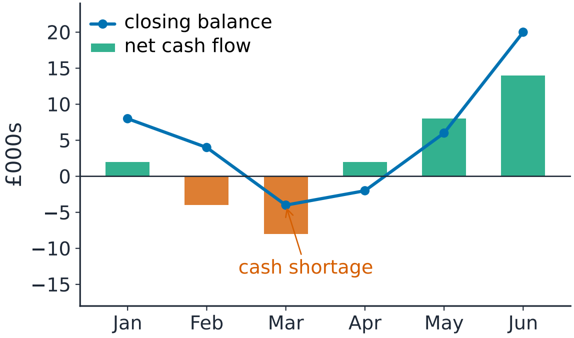
Sources of finance



Internal 内部来源 (**retained profit** 留存利润, asset sales) vs **external** 外部来源 (**share capital** 股本, **loan** 贷款, **overdraft** 透支, **leasing** 租赁).

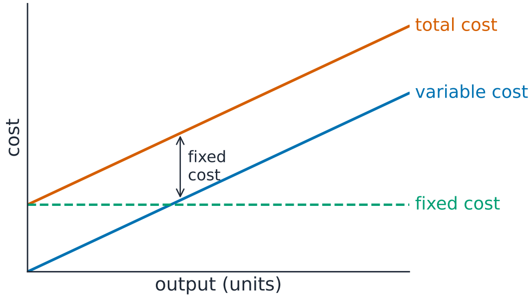
> Choose by amount, purpose, cost, structure & **collateral** 抵押品.

Cash-flow forecasts



Net cash flow 净现金流 = inflows − outflows; add to the **opening balance** 期初余额 for the closing balance. Fix shortages: collect sooner, delay payments, arrange an overdraft, hold less stock.

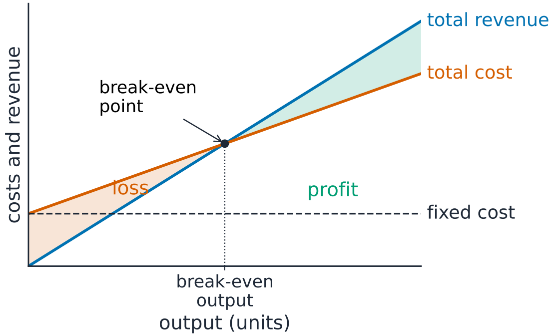
Costs



$$\text{total cost} = \text{fixed} + \text{variable}.$$

- **fixed** 固定成本 (rent) vs **variable** 可变成本 (materials)
- **direct** 直接成本 vs **indirect** 间接成本 (overheads)

Break-even analysis



Contribution 贡献 = price − variable cost.

$$\text{BEP} = \frac{\text{fixed costs}}{\text{contribution}}.$$

Price £20, VC £12, FC £40,000

contribution £8 $\Rightarrow$ BEP = 5000 units

Budgets and variances

A **budget** 预算 is a financial plan. A **variance** 差异 = actual − budgeted.

- **favourable** 有利差异 – better for profit
- **adverse** 不利差异 – worse for profit

Wages: budget £30k, actual £34k

variance = £4k adverse

Topic 5 – key takeaways

1 Cash vs profit

a profitable firm can still run out of cash

2 Sources

internal vs external; short vs long

3 Break-even

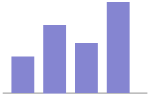
BEP = fixed costs / contribution

4 Budgets

variance = actual − budgeted

Check yourself

1. Can a profitable firm run out of cash?
2. Retained profit: internal or external finance?
3. Contribution if price £15, variable cost £9?
4. Higher-than-planned costs: favourable or adverse?



Answers **1.** yes **2.** internal **3.** £6 **4.** adverse