

## Finance & Accounting

A-Level Business • Topic 5

A-Level Business



Finance & Accounting

### 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



# 1 Finance basics

Finance & Accounting

Finance basics

### Spending and working capital

**Capital** spending buys assets that last (a van, a machine). **Revenue** spending is day-to-day (wages, stock). **Working capital** 营运资本 = current assets – current liabilities – the cash to keep trading.

Finance & Accounting

Finance basics

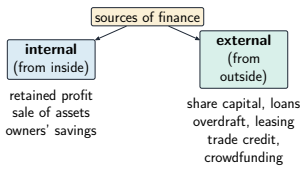
### Cash is not the same as profit

Profit is revenue minus costs in a period. Cash is money in the bank. A profitable firm can still run out of cash if customers pay late or it buys a machine.

Cash flow keeps the business alive this month. Profit is why it is worth running.

# 2 Sources and cash flow

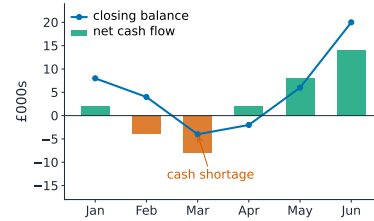
## Sources of finance



**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.

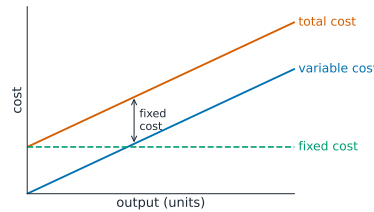
## Cash-flow forecasts



**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.

# 3 Costs and break-even

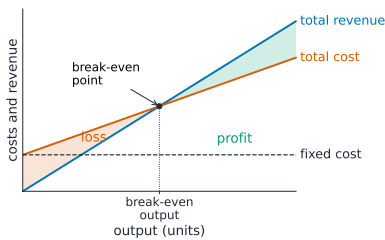
## Costs



total cost = fixed + 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 ⇒ 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

# 4

## Recap

### 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

$BEP = \text{fixed costs} / \text{contribution}$

#### 4 Budgets

$\text{variance} = \text{actual} - \text{budgeted}$

### 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