

Finance and accounts

IB DP Business Management HL Unit 3 sections 3.1-3.9 full package

1. Unit 3 at a glance

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IB Business Management HL Unit 3.1-3.9: the role of finance and its sources, costs and revenues, final accounts, ratio analysis, gearing (HL), cash flow, investment appraisal and budgets (HL) - on the shared repair business in its second company year.

Must-know: income statement 600 000 revenue, 240 000 gross, 90 000 profit; balance sheet balancing at 400 000; GPM 40 percent, margin 15 percent, ROCE 25 percent; current 2.0, acid test 1.25, gearing 80 percent; depreciation 5000 a year; third workshop payback 3 years, ARR 8.3 percent, NPV +18 600 at 6 percent.

2. Finance and its sources

Finance and its sources

Capital expenditure buys non-current assets used for years; revenue expenditure runs the business day to day - match the source to the period or Paper 2 penalises it.

Internal sources: retained profit (free, limited), sale of assets, owners' savings.

External: share capital (permanent, dilutes), loan capital (collateral, interest), overdrafts (flexible, dear), trade credit (free, risky to reputation), leasing, crowdfunding, microfinance, business angels.

Choose by cost, control, flexibility, risk, period and gearing: the second workshop - half retained profit, half five-year loan at 8 percent; parts on trade credit; an eleven-day overdraft for the December wages.

3. Costs, revenues and final accounts

Costs, revenues and final accounts

Fixed costs ignore output; variable costs follow it; direct costs attach to a product, indirect costs are shared. Revenue is price times quantity - 2000 repairs a month at 25 is 600 000 a year.

The income statement: revenue 600 000, cost of sales 360 000, gross profit 240 000, expenses 150 000, profit 90 000. The balance sheet: non-current 320 000, current assets 80 000, current liabilities 40 000, non-current liabilities 160 000, equity 200 000; the sheet balances at 400 000. Depreciation: $(22\,000 - 2000)/4 = 5000$ a year, straight line.

4. Ratios, gearing and cash flow

Ratios, gearing and cash flow

Profitability: GPM 40 percent, margin 15 percent, ROCE 25 percent against an 8 percent loan - the loan earns its keep. Liquidity: current ratio 2.0, acid test 1.25 with the gap being inventory. Improve profitability by cost control, buying, pricing; liquidity by selling inventory, collecting faster, delaying payables.

HL gearing: 160 000 over 200 000 is 80 percent - magnified returns while ROCE beats interest, magnified risk when it does not; the next source should be equity. Cash is not profit: motives transactionary, precautionary, speculative; the forecast shows April at -5000 two months early.

5. Appraisal and budgets (HL)

Appraisal and budgets (HL)

The third workshop: 120 000 cost, 40 000 a year for four years. Payback 3 years - risk-focused, blind to year 4. ARR 8.3 percent - comparable with the loan rate. NPV at 6 percent: $PVs\ 37\ 720 + 35\ 600 + 33\ 600 + 31\ 680 = 138\ 600$, so +18 600 - value added that payback and ARR cannot see.

HL budgets: a plan in money for a period; forecasts predict, budgets commit. Cost centres gather costs (each workshop), profit centres revenues too. Variances are favourable or adverse - name the cause, price or volume, before the remedy. Workshop 3: budget 520 at 25, delivered 560 at 24 - favourable volume, adverse price, favourable total.

Check yourself

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Capital vs revenue expenditure; the source ladder by cost, control and risk; matching source to period.

The income statement chain 600 000 to 90 000; the balance sheet balancing at 400 000; straight-line depreciation 5000.

GPM 40, margin 15, ROCE 25 vs the 8 percent loan; current 2.0 and acid test 1.25; gearing 80 percent; profit vs cash with the April -5000.

Payback 3 years, ARR 8.3 percent, NPV +18 600 and what each cannot see; budget vs forecast; cost and profit centres; variance causes.