

5 Cash flow and profit – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English

Write it 3 times (English)

Cash flow

Profit

revenue

loss

Recall

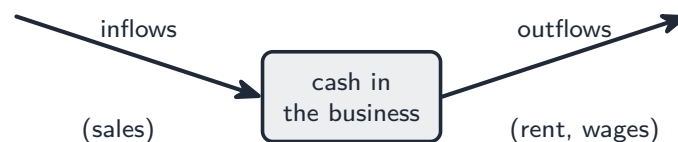
A business must watch its cash and work out its profit.

New ideas

Read these first, then do the Practice.

■ 1 Cash flow

Cash flow is the money flowing into and out of a business:



If more flows out than in, the business may run out of cash – even if it is making a profit.

■ 2 Working out profit

$$\begin{array}{rcl} & \text{revenue (sales)} & \\ & - \text{ costs} & \\ \hline & = \text{ profit} & \end{array} \quad \begin{array}{l} \text{if costs are bigger,} \\ \text{it is a loss} \end{array}$$

Profit = total **revenue** – total costs. If costs are bigger, it is a **loss**.

Watch out: **cash flow** is money flowing *in and out*; a business can be **profitable but still run out of cash** if more flows out than in at the wrong time. **Profit** = total revenue – total costs.

Practice

Try these in order.

5.6 What is *cash flow*? [1]

5.7 Give one cash inflow. [1]

5.8 Give one cash outflow. [1]

5.9 How do you work out profit? [1]

5.10 What happens if total costs are bigger than revenue? [1]

5.11 Challenge. Explain how a *profitable* business could still run out of cash. [2]