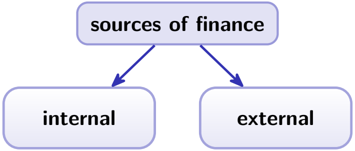
# Financial Information & Decisions

IGCSE Business Studies ▪ Topic 5

IGCSE Business Studies

# What we will cover

1. Why finance is needed
2. Sources of finance
3. Cash flow
4. The income statement
5. The balance sheet
6. Ratios




*sources of finance*

# Why finance is needed

start up

finance — run day-to-day

grow / expand


*accounts*

*stock*

# Sources of finance

**sources of finance**

**internal**
from inside

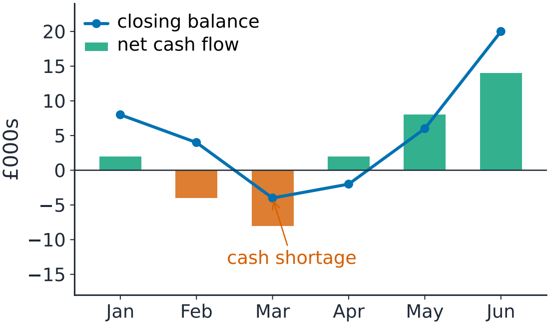
retained profit, sale of assets, owners' savings

**external**
from outside

share capital, loans, overdraft, leasing, crowdfunding

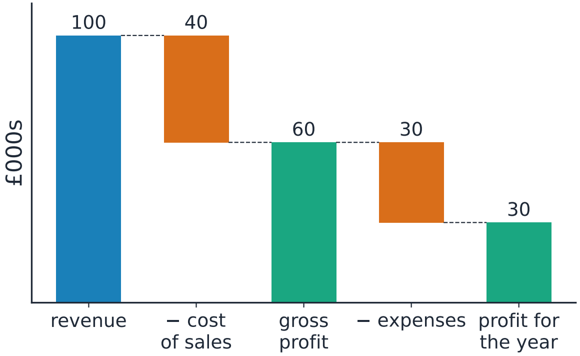

*bank finance*

# Cash flow




*stock exchange*

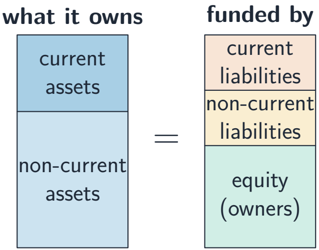
# The income statement




An **income statement** 损益表 runs from **revenue** 收入 down to profit.

- revenue − cost of sales = **gross profit** 毛利
- − expenses = **net profit** 净利

# The balance sheet




The **statement of financial position** 资产负债表 balances:

$$\text{assets} = \text{liabilities} + \text{equity}$$

It shows what the business **owns** 资产 & **owes** 负债.

# Ratios

**profitability 盈利能力**

gross & net **profit margin 利润率**: profit as a % of revenue

**liquidity 流动性**

**current ratio 流动比率** = current assets / current liabilities

# Worked example – cash flow

**A shop expects £12,000 in and £9,000 out next month, and starts with £2,000 in the bank.**

- Net cash flow = inflows − outflows $= 12{,}000 - 9{,}000 = £3{,}000$
- Closing balance = opening balance + net cash flow
- $= 2{,}000 + 3{,}000 = £5{,}000$
- This month's closing balance is next month's opening balance.

Cash flow is not profit: a profitable firm can still run out of cash if customers pay late. Most business failures are cash failures.

# Topic 5 – key takeaways

1 **Sources**

internal (retained profit) vs external (loans)

2 **Cash**

cash $\neq$ profit; forecast inflows & outflows

3 **Income**

revenue to gross profit to net profit

4 **Balance**

assets $=$ liabilities $+$ equity

# Check yourself

1. Is retained profit internal or external?
2. Can a profitable business run out of cash?
3. Revenue minus cost of sales is what?
4. What must a balance sheet always do?

**Answers** **1.** internal **2.** yes **3.** gross profit **4.** balance (assets = liabilities + equity)