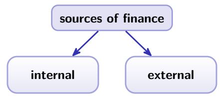
Financial Information & Decisions

IGCSE Business Studies ▪ Topic 5

IGCSE Business Studies

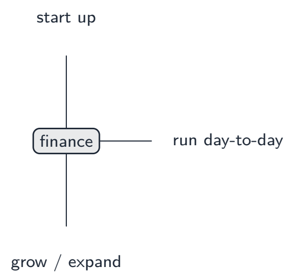
What we will cover



sources of finance

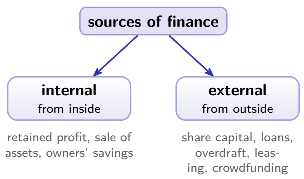
1 Finance

Why finance is needed



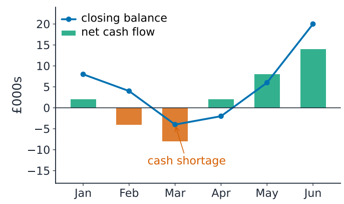
- start up – **start-up capital** 启动资金 to buy equipment and stock before it earns anything,
- grow – money for **expansion** 扩张, such as new shops or machines,
- run day to day – **working capital** 营运资金 to pay wages and suppliers while waiting for customers to pay,
- survive a **cash-flow** 现金流 problem, when more money is

Sources of finance



> Banks are a key external source of business finance, through loans and overdrafts.

Cash flow



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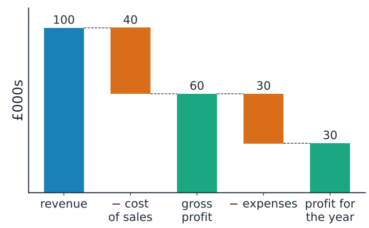
2 Accounts

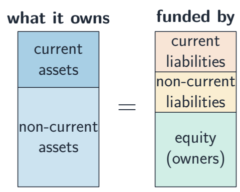
The income statement



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:

assets = liabilities + 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

3 Recap

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

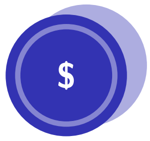
revenue to gross profit to net profit

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)