

Financial Information & Decisions

IGCSE Business Studies ■ Topic 5

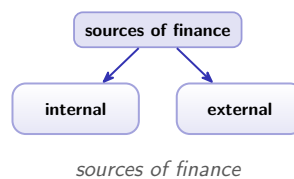
IGCSE Business Studies



Financial Information & Decisions

What we will cover

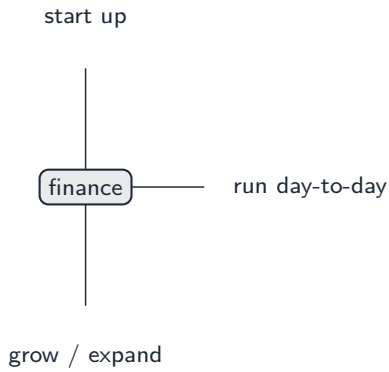
- 1 Why finance is needed
- 2 Sources of finance
- 3 Cash flow
- 4 The income statement
- 5 The balance sheet
- 6 Ratios



1

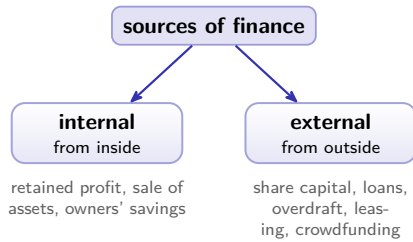
Finance

Why finance is needed



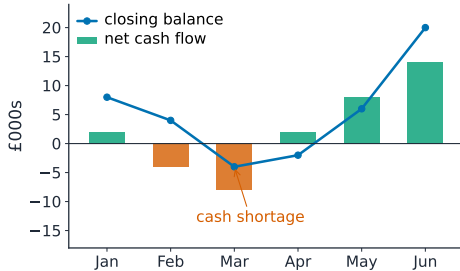
- start up – **start-up capital** 启动资金 to buy equipment and stock before it earns anything,
- grow – money for **expansion** 扩张, such as new shops or machines,
- run day to day – **working capital** 营运资金 to pay wages and suppliers while waiting for customers to pay,
- survive a **cash-flow** 现金流 problem,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

Sources of finance



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

Cash flow



- 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,
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2 Accounts

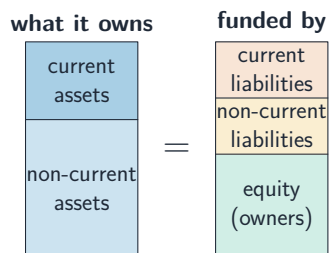
The income statement



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:

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

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

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

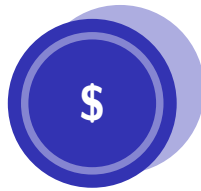
revenue to gross profit to net
profit

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)