GCSE Business
Finance

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Functions of the Accounts/Finance Department

- Keeps financial records/accounts/"the books"
- Draws up financial tables ➔ profit and loss account/balance sheet/cash flow/budgets
- Deals with wages
- Settles bills/pays creditors
- Collects/chases up debt
- Organises loans etc. ➔ liaises with banks.

Revenues and Costs

Turnover (Revenue)

Definition: The value of sales/income/revenue of a business/money made from selling goods or services.

Calculation: Selling Price x Quantity Sold

Ways to improve turnover:
- **Increase price ➔** make more revenue per item sold
- **Reduce price ➔** may create demand/sell more goods to increase total revenue
- **Increase promotion/advertising ➔** may attract more customers/ sales.

Profit

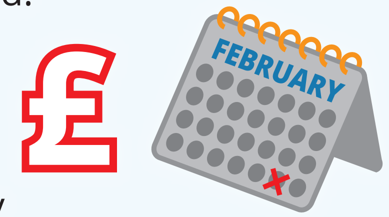
Definition: The difference between the total revenue of a business and the total costs of a business, when revenue is greater than cost.

Calculation: Total Revenue – Total Costs

Fixed Costs

Definition: Costs which do not change with the number of goods made or sold.

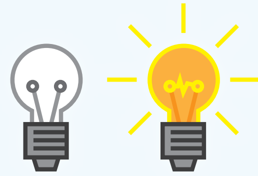
Examples:
- rent for the shop
- monthly lease on equipment and machinery
- payment of business rates on premises.



Variable Costs

Definition: A cost that changes with the number of goods produced/sold/output.

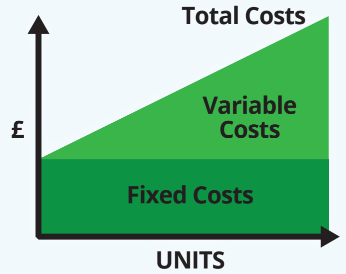
Examples:
- raw materials
- electricity and gas.



Total Costs

Definition: The full amount of money spent by a business when producing the goods sold in a particular period. It is calculated by adding its fixed costs to its variable costs.

Calculation: Fixed Costs + Variable Costs



Contribution

Definition: The amount taken from the cost of selling every good used towards paying the fixed costs of producing that good. Contribution per good is selling price minus the cost of the good.

Calculation: Selling Price – Variable Costs

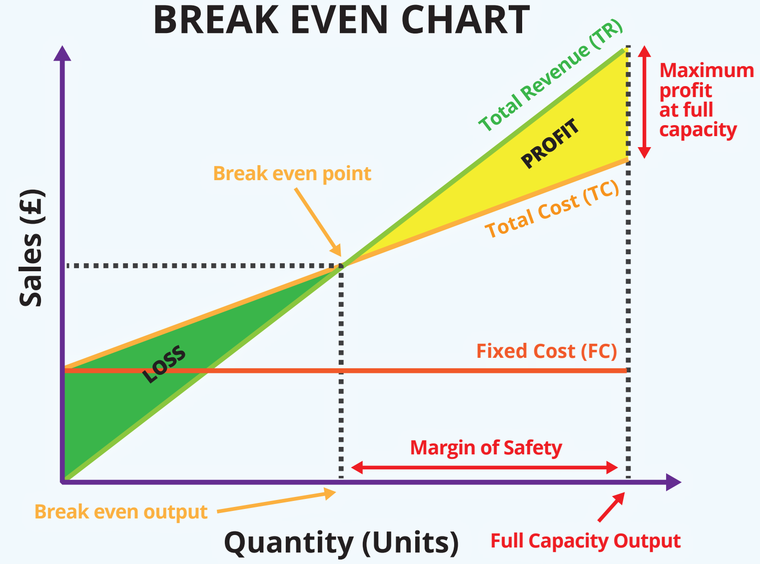
Break-Even

Definition: Occurs where the total amount of money taken in by a business is the same as the amount of money paid out. Neither a profit nor a loss is made where total revenue equals total cost.

Calculation: $\frac{\text{Fixed Costs}}{\text{Contribution per unit}}$

(Contribution = Selling Price – Variable Costs)

Graph:



Sources of Finance

Factors a business will need to consider if it is trying to raise extra finance

- **Availability of finance ➔** some banks may not lend ➔ willingness of banks to lend
- **Interest charged ➔** will add to cost / may add to price
- **Time for repayment ➔** to spread cost over time / lower repayments
- **Amount of money needed ➔** banks not willing to lend large amounts / effect on interest
- **Effect on business ownership ➔** more shareholders = less control
- **Administration charges ➔** will add to costs ➔ reason for borrowing ➔ long-term / short-term ➔ capital / expenses etc.

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	Sources of Finance	Definition	Advantages	Disadvantages
Internal Sources	**Personal Savings / Owners' Capital**	Money that is put into a business by its owner or owners.	• Not an inexpensive source of finance but requires no interest or repayments.	• May not have the required amount, for example, expansion plans are likely to require a considerable sum of money.
	Retained profits	Profits that have been kept in the business rather than paid out to its owners.	• Cheaper than taking out a loan. • Business has the flexibility to decide how much is used and when.	• Once the money has been used it is gone. • Owners or shareholders may want the retained profit as their income.
	Sale of Assets	Items of property owned by the business that are sold to raise funds.	• If the assets are no longer required, this could raise large sums of money.	• All assets are likely to be essential to the business ➔ once sold they are no longer available for use.
External Sources – Short Term	**Overdraft**	A form of short-term loan provided by banks to cover cash-flow difficulties of businesses.	• The business is allowed to take more from its account than is in the account. • When cash is paid into the account, the overdraft will be cleared.	• Interest is paid on overdrawn amount. • Counts as a current liability as the amount has to be paid back.
	Trade Credit	A source of finance whereby a business receives stock and can pay for it at a later date.	• Allowed credit for short time ➔ usually 30 days ➔ no interest charged ➔ discounts allowed if payment within time. • Allows products to be sold before payment.	• Counts as a current liability as the amount has to be paid to the other business.
	Hire Purchase	A system where goods are rented but which are eventually owned by the business.	• Useful for purchasing plant and machinery which can be obtained quickly. • Finance houses may also be less selective than banks. • The good becomes the property of the buyer when the final payment is made.	• Interest rates are usually very high. • The property is not owned by the business until the last payment has been made ➔ items can be legally repossessed if the business falls behind with repayments.
	Leasing	A system of renting an asset to a business. The asset remains the property of the company renting out the good.	• The business acquires the use of resources without the need for a large sum of money. • The maintenance and repair bills are met by the leasing company. • They are generally easier to obtain than loans.	• Over a long period of time it can be very expensive and well in excess of the purchase price. • The business never gets to own the items leased.

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	Sources of Finance	Definition	Advantages	Disadvantages
External Sources – Long Term	**Bank Loan/ Mortgage** 	Long to medium term loans that can be used to buy producer goods.	• Access to large sums of money. • Spread payments/instalments. • If successful the money becomes immediately available • The goods become the property of the business immediately.	• **Eligibility ➔** hard to get ➔ business plan needed ➔ prove can pay back. • **Interest charged ➔** will add to cost causing cash flow problems ➔ pay back more than borrowed. • **Cost of repayments may be added to price ➔** causing a loss of customers. • **Some businesses may not be able to repay the loan** ➔ business/personal assets may be taken to repay ➔ business may have to close.
	Loans/finance from family or friends	Raising finance by borrowing from friends and family.	• Money will be available immediately. • May not incur interest/pay back.	• Limited funds may be available. • If loan is not repaid could damage friendships/cause family issues.
	Government Assistance (Grants)	Funds given by charities or the government to help businesses get started.	• Usually given to businesses in regions where unemployment is high. • Often they are grants which do not have to be repaid.	• They tend to be small amounts that last only for a relatively short period of time. • Very hard to obtain ➔ they are also few and far between due to strict criteria.
	Share Capital/ Issue	Funds raised by issuing shares in return for cash.	• There are no interest or repayment costs attached to it.	• It is a source of finance only available to limited companies • It is costly ➔ means giving away some of the company and its profits to investors.
	Take on a Partner	Funds raised by inviting an individual to join the business who then invests money.	• They invest capital without interest payments. • They offer expertise, skills, specialisations.	• The owner will lose some control • The profits will be distributed between partners/ shareholders.
	Venture Capital/ Business Angels	Involves private investors providing capital to new or small businesses which have the potential for growth.	• Possibly large sums of money can be attained quickly . • Advice may also be given. 	• Likely to lose full control of the business as the business angels will want a share of the business in exchange for their investment.