

## Sources of Finance

	Definition	Internal	External
Owners Funds			
Retained Profit			
Sale of Assets			
Bank Overdraft			
Bank Loan			
Trade Credit			
Hire Purchase			
Government Grant			
Share Issue			
Mortgage			

### Cash Flow Hokey Kokey

You put your revenue in  
 You take your costs out  
 Inflow less (-) Outflow equals (=) Net Cash Flow  
 If your Cash Flow is poor  
 You won't pay your bills  
 That's what its all about!  
 Ohhhhhh, the Cash Flow Hokey Kokey  
 Ohhhhhh, the Cash Flow Hokey Kokey  
 Ohhhhhh, the Cash Flow Hokey Kokey

Inflow! Outflow!  
 Net Cash Flow!  $\text{Inflow} - \text{Outflow} = \text{Net Cash Flow}$

### Typical Cash Flow For a Small Garden Centre

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b>Receipts</b>													
Grant	-5000												5000
Sales	1000	4000	12000	16000	25000	24000	18000	8000	2000	1000	2000	9000	
<b>Total Receipts</b>	6000												
<b>Payments</b>													
Setting up costs	6000												
Stock purchases	1000	2000	5000	7000	11000	11000	8000	4000	1000	500	1000	3000	
Motor expenses	300	300	300	300	300	300	300	300	300	300	300	300	
Office expenses	150	150	150	150	150	150	150	150	150	150	150	150	
Insurance	1200												
Wages	4000	4000	4000	5000	5000	5000	5000	5000	4000	4000	4000	4000	
<b>Total Payments</b>	12650												
<b>Net Cash Flow</b>	-6650	-2450											6900
<b>Opening Balance</b>	0	-6650											
<b>Closing Balance</b>	-6650	-9100											

## Cash Flow Forecasts

$\text{Inflow} - \text{Outflow} = \text{Net Cash Flow}$

Cash flow is simply about money coming and going from the business. Managers must make sure there is always enough cash to pay expenses.

Cash flow tells us nothing about **profit** – a profitable business can have poor cash flow, and still go bankrupt

Causes of Poor Cash Flow	Description
Poor sales	
Overtrading	
Poor business decisions	

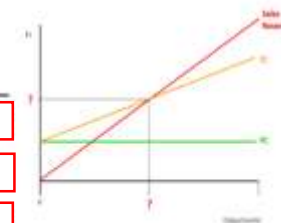
## Break Even Analysis

VARIABLE costs CHANGE with output  
 +  
 FIXED costs DO NOT CHANGE with output  
 =  
 TOTAL COSTS

Break Even =  $\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{variable cost per unit}}$

Fixed costs = £50,000  
 Variable cost = £10,000 per kitchen  
 Selling price = £15,000 per kitchen

Break Even =  $\frac{£50,000}{\text{[ ]}}$   
 Break Even = [ ]  
 Revenue = [ ]



### Margin of Safety

Actual output – Break-even output  
 (How many sales the business can lose before it makes a loss)



# Costs, Revenue and Profit



Revenue = \_\_\_\_\_ x \_\_\_\_\_

Profit = \_\_\_\_\_ - \_\_\_\_\_

Total Costs = \_\_\_\_\_ + \_\_\_\_\_

**Mr. Tricker's Fruit and Veg Stall**

Let's find out how well Mr. Tricker's stall is doing. We'll look at the sales and costs for each of the first 10 days.

He has 10 kg of apples and 10 kg of oranges. He has 10 kg of apples and 10 kg of oranges.

Day	Apples Sold (kg)	Apples Price (p)	Apples Revenue (£)	Oranges Sold (kg)	Oranges Price (p)	Oranges Revenue (£)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

# Average Rate of Return

A way of deciding if an investment is worthwhile and to compare investments

Average yearly profit = \_\_\_\_\_

ARR = \_\_\_\_\_ x 100

Which project gives the best return?

ARR =  $\frac{\text{average yearly profit}}{\text{cost of investment}} \times 100$

A. A new delivery van will cost £40,000 and will increase profit by £6,500 a year

ARR =  $\frac{6,500}{40,000} \times 100 = 16.25\%$

B. A new order system will cost £10,000 and will increase profit by £2,300 a year

ARR =  $\frac{2,300}{10,000} \times 100 = 23\%$

# Income Statement

An income statement is

Write a definition in each box to explain what that component of the income statement is

Example Company Ltd	
Income Statement	
Year Ended 31 December	2016
Revenue	£19,780
Cost of Sales	12,680
<b>GROSS PROFIT</b>	<b>7,100</b>
Overheads	4,890
<b>OPERATING PROFIT</b>	<b>2,210</b>
Tax and interest	700
<b>NET PROFIT</b>	<b>1,510</b>

# Ratios

## PROFIT FORMULAS

Gross Profit =

Operating Profit =

Net Profit =

## PROFITABILITY RATIOS FORMULAS

Gross Profit Margin =

Net Profit Margin =

# Balance Sheet

The Balance Sheet shows:

ASSETS (What it OWNS)	Balance Sheet For the year ending 31 <sup>st</sup> December	LIABILITIES (What it OWES)
	<b>£000</b>	
	<b>FIXED ASSETS</b>	
	Vehicles 200	
	Plant and Equipment 500	
	<b>700</b>	
	<b>CURRENT ASSETS</b>	
	Stock 200	
	Cash at Bank 80	
	<b>250</b>	
	<b>Less CURRENT LIABILITIES</b>	
	Trade Creditors 150	
	<b>150</b>	
	<b>NET CURRENT ASSETS</b>	
	<b>100</b>	
	<b>LONG TERM LIABILITIES</b>	
	Mortgage 450	
	Bank Loan 200	
	<b>650</b>	
	<b>NET ASSETS</b>	
	<b>150</b>	
	<b>TOTAL EQUITY</b>	
	Share Capital 100	
	Retained Profit 50	
	<b>150</b>	

LEARN ALL THE FORMULAS / Use figures in every answer