

Cash Flow	Jan	Feb	March
Sales	300	250	240
Bank loan	1000		
Total In	1300	250	240
Wages	100	100	100
Rent	140	140	140
Raw materials	90	90	90
Total out	330	330	330
Net cash flow	970	(80)	(90)
Opening balance	0	970	890
Closing Balance	970	890	800

Total in, all the money coming into the business. Also known as, cash inflow and total income.

Net cash flow, is the difference between the inflows and the outflows.
Total in - total out = net cash flow.

Opening balance is taken from the closing balance of the previous month. It is what the business has available at the start of the month.

Closing balance is what the business ends with at the end of the month. Net cash flow + opening balance = closing balance.

Total out. - Also known as cash outflow and expenses, this is all the money going out. .

Cash flow solutions

If a business predicts a negative closing balance it needs to act. It either needs to improve its inflows or reduce its outflows. It may take the following solutions.

- Rescheduling payments
- Overdraft
- Reducing outflows
- Increasing inflows
- Finding a new source of finance

Cash flow forecast or statement

A cash flow forecast is a prediction of the money coming in and out of the business.

A cash flow statement is the actual money flowing in and out of the business.

Cash flow is not profit!

External sources of finance - This is finance from outside the business - loans, overdrafts, friends & family, new share issue, mortgage, hire purchase, trade credit, government grants.

New share issue

Selling new shares in a company to raise finance, it is only Ltd's and PLC's that can use this source of finance. Large amounts of finance can be raised, no interest but ownership is diluted, new shareholders may want to be involved and they will expect dividends.

Hire purchase

Allows a business to purchase assets and pay in installments over time.

It allows the business to use the asset immediately and it helps with cashflow but it is more expensive due to interest and you do not own the item until the last payment has been made.

Trade credit

This is when suppliers allow normally 30 days for payment. This helps with cash flow but it is only short term so may not have a big impact.

Government Grants

Money given by the government that does not have to be re-paid. It is free money but the criteria and application process is intense and it is difficult to qualify.

Unit 6 Finance

6.2 Cash Flow

6.1 Sources of Finance

Internal sources of finance - This is finance from within the business - Retained profit, sale of assets, owner's savings.

Retained profit

This is profit kept in the business, it is not applicable to new businesses. No interest needs to be paid as it is the businesses money but it can take along time to build up.

Sale of assets

Selling business items to raise money, no interest but it is usually only a small amount.

Owners savings

This is the owners money, normally takes a long time to save, limited amount but no control is lost and no interest.

Loans

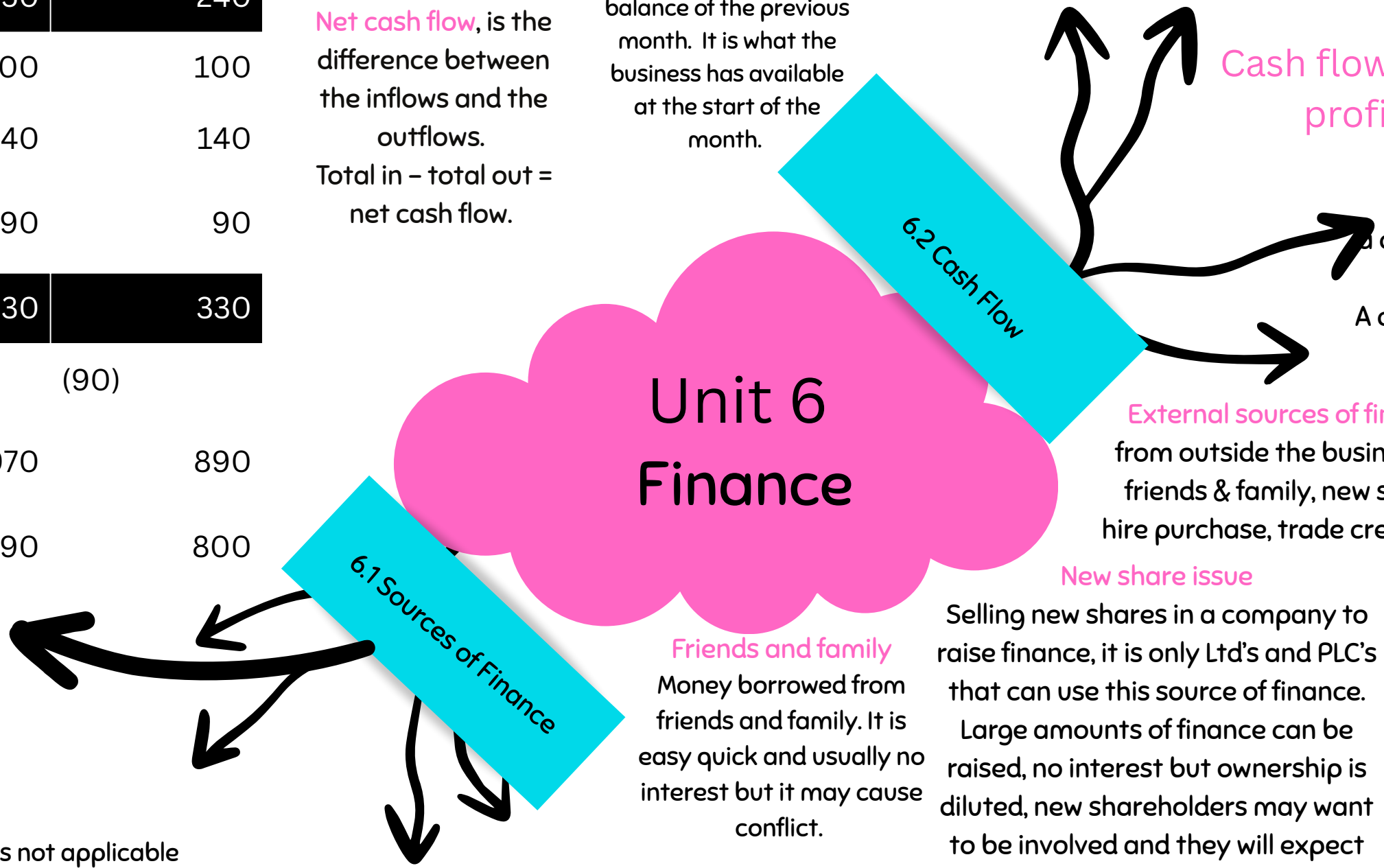
Money borrowed from a bank or lender that must be paid back with interest. This enables the business to get a large amount of money and no control is lost, the bank may give advice but it does increase costs due to interest.

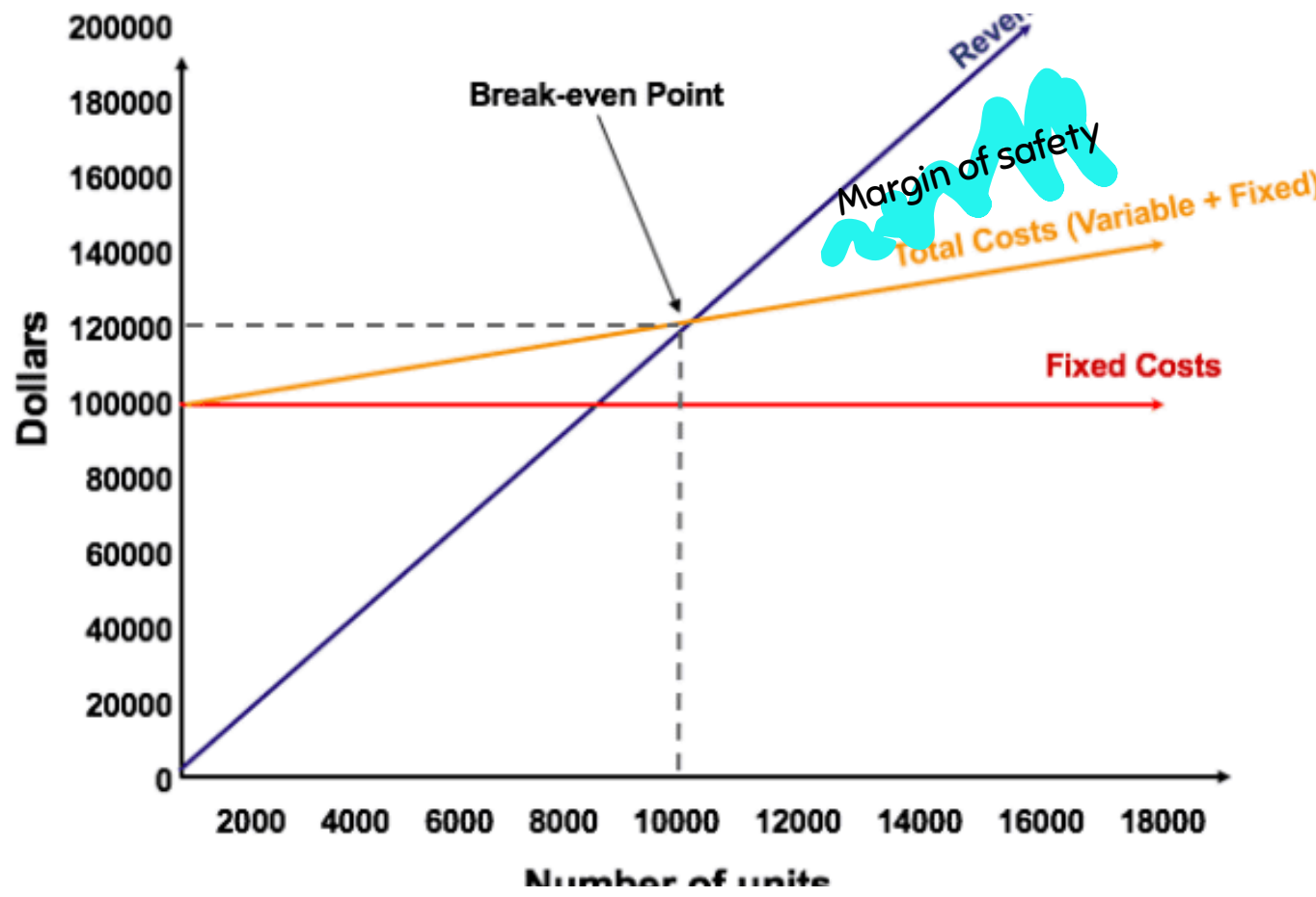
Overdrafts

This is an arrangement with a bank that allows the business to spend more money than it has in its account. It is flexible, short-term and interest is only paid on the amount you use but the interest is normally high.

Mortgage

A long-term loan used to buy property. It allows businesses to buy expensive property and spreads payments over a long period. Failure to pay could result in losing the property.





Margin of safety is the difference between current (or expected) sales and the break-even level of sales. It measures how safe the business is from making a loss.

Margin of safety = Current sales - Break-even sales

Total costs are fixed and variable costs added together.

Fixed costs + total variable costs = Total costs

Fixed costs are costs that don't change with output. It makes no difference in how many products you make, this cost stays the same.

Examples are:
Rent
Insurance
Salaries (these are the same each month no matter how many hours the individual works.)

Variable costs change according to output. Normally the more items you make the higher the variable costs. Examples are:
Raw materials
Wages (these are paid hourly)
Packaging
Shipping costs

**Unit 6.3
Financial terms and calculations**

Revenue - This is all the money the business earns from selling its goods or services before any costs or expenses are deducted.

Price x quantity sold = revenue

Profit is the amount of money a business has left after subtracting all its costs from its revenue.

Revenue - total costs = profit

The break-even point is when Revenue = Total costs
The business is not making a profit or a loss.

ARR, Average rate of return, shows the average annual profit from an investment as a percentage of the initial investment cost. Businesses will set a target for their ARR, they may also compare projects to see which has the highest return.

$\frac{\text{Average annual profit (total profit over the years / number of years)}}{\text{Initial investment}} \times 100 = \text{ARR}$

A **loss** occurs when a business's total costs are greater than its revenue.

Income Statement	2025 (£ million)	2024 (£ million)	2023 (£ million)
Revenue	800	536	274
Cost of goods sold	325	230	130
Total expenses	563	397	259
Net profit/loss	(88)	(91)	(115)

Cost of goods sold or cost of sales, are the direct cost of producing the product. This has increased which you would expect as revenue has increased, so it shows that more products are being sold therefore more need to be made. They are managing costs well as in proportion to revenue, the increase is lower.

A statement of financial position is also known as a balance sheet. It shows what a business owns, what it owes and its value at a specific point in time.

Revenue is all the money coming into the business. Revenue has increased from 274 to 800, which is positive and is a rise of 191%.

An **income statement** is also known as a profit and loss account. It shows a business's revenue, costs, profit and loss over a period of time

Net profit / loss is the overall profit or loss a business makes after all costs have been deducted. Brackets show the business is making a loss. However their loss has been reducing due to an increase in revenue and an improvement in managing costs. The business will need to continue this to ensure it can be profitable.

Total expenses are the indirect costs (general running costs). These have increased which you would expect due to an increase in revenue as more sales means more costs. They are managing general costs well as in proportion to revenue the increase is lower.

It is important you can interpret an income statement. View the years, calculate the % change and ensure you understand the positives and negatives.

6.4 Analysing the financial performance of a business

This business is looking stable and healthy. They have more than double current assets to current liabilities, this means they can easily pay their short term debts. They have low long term liabilities, which shows they are very stable. However are they taking all the opportunities they can with such low debt?

Statement of Financial Position

Balance Sheet J Walker Limited 31st March 2004		000s	000s
Fixed Assets			15200
Current Assets		3500	
Current Liabilities Creditors		1400	2100
Net Current Assets (Working Capital)			2100
Less long term liabilities			350
Assets Employed			12750
Financed by Shareholders funds:			
Share capital		2200	
Retained profit		10550	
Capital Employed			12750

Items of value owned by the business that are not expected to be of value in a year's time.

Debts which the business must pay within the next year.

Debts which the business must pay over more than one year.

The money invested in the company when the shares were originally sold.

The money that has been put into the business by the owners, either profits or investment.

The profit made in the present and previous years that has been retained in the business.

Items of value owned by the business that are expected to still be of value in a year's time

The difference between current assets and current liabilities. Helps tell how much money is available to help run the business.

How much the business is worth. The difference between what it owns and what it owes.