1.3 Knowledge Organiser and revision questions

Subject Content	What students need to learn?
1.3.1 Business aims and objectives	What business aims and business objectives are. Business aims and objectives when starting up: ● financial aims and objectives: survival, profit, sales, market share, financial security ● non-financial aims and objectives: social objectives, personal satisfaction, challenge, independence and control. Why aims and objectives differ between businesses.

Aim: Business aims are the broad targets that an entrepreneur has at the back of their mind.

Objective: Business objectives are clear, measurable targets of how to achieve business aims. (The stepping stones for how they are going to achieve them.)

Financial	Non-Financial
Survival	Personal satisfaction
Break even	Challenge
Improve reputation	Independence
Increase motivation of staff	Control
Increase market share	Helping others
To grow	Being your own boss
To sell in a new market – e.g. abroad	Something to be proud of

Ethical and socially responsible objectives – organisations like the Co-op or the Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate

Charities, social enterprises and voluntary organisations – their aims and objectives are led by the beliefs they stand for e.g. Divine Chocolate want to support the cocoa growers by giving back profits to help them get education and jobs so they are no longer living in poverty

Public sector businesses like the leisure centre, schools, doctors or library are run to not only generate a profit but provide a service to the public. This service will need to meet the needs of the less well off in society or help improve the ability of the economy to function: e.g. cheap and accessible transport service

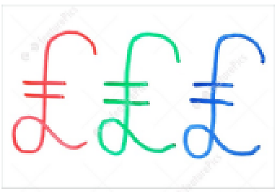
Subject Content	What students need to learn?
1.3.2 Business revenues, costs and profits	The concept and calculation of: ● revenue ● fixed and variable costs ● total costs ● profit and loss ● interest

Before a business starts to sell their products and services, money needs to be spent setting up the business so it can run properly.

START – UP COSTS
Start-up costs are not paid on a regular basis and are often one off. E.g. buildings, equipment and machinery.

RUNNING COSTS

A business will also have costs that they have got to pay regularly as a normal part of trading. These are usually paid monthly. These are known as **running costs.** Eg. Rent, raw materials, **wages.**



COSTS are the spending that is necessary to set up and run a business.

FIXED COSTS
Are costs that **DON'T** change when sales go up or down i.e. they **DO NOT** vary with output. E.g. Rent, salaries, insurance.

VARIABLE COSTS
Are costs that **DO** change when sales go up or down. i.e. they **DO** vary with output. E.g Raw materials, electricity, wages.
Variable Costs = Variable cost per unit x Output

TOTAL COSTS
All the costs a business must pay in a set period of time.
Total Costs = Fixed Costs + Variable Costs

REVENUE

Revenue is the money generated from selling products/services. It is often referred to as sales revenue. **Revenue = Selling price x Quantity Sold**

PROFIT

Profit is the amount of money the business has to keep once all costs have been covered.

Profit = Sales Revenue – Total Costs

If the figure is **positive**, the business has made a **profit**. If it is **negative**, the business has made a **loss.**

INTEREST

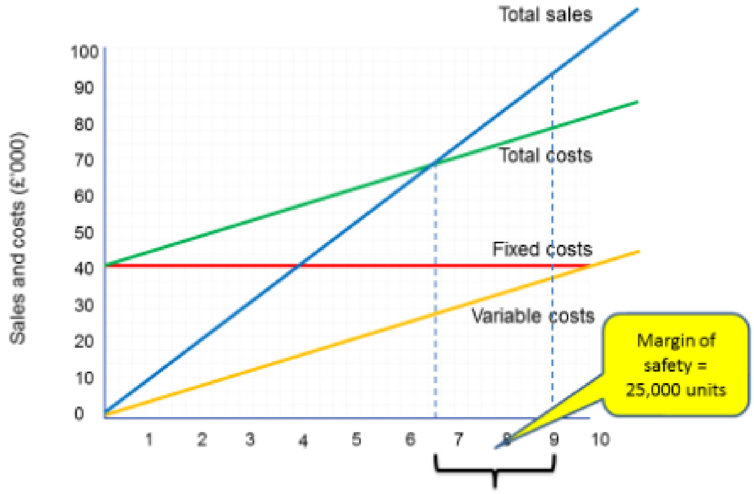
Interest is the **cost of borrowing** money. When you take out a bank loan you must may back the amount with interest. E.g. a loan of £100 at a rate of 5% interest you pay back £105.

It is also the **reward for saving.** If you saved £100 in your bank account with an interest rate of 1%, by the end of the year you would have £101 in your account.

Subject Content	What students need to learn?
1.3.2 Business revenues, costs and profits	• break even level of output • margin of safety. Interpretation of break even diagrams: • the impact of changes in revenue and costs • break even level of output • margin of safety • profit and loss.

BREAK EVEN =

The point at which **sales revenue = total costs**. At this point the business is nether making a **profit** nor a **loss**.



Calculating break even without using a graph.

Break even charts can be time consuming to make so often a formula is used instead:

$$\text{BREAK EVEN} = \frac{\text{FIXED COSTS}}{\text{(SELLING PRICE – VARIABLE COST PER UNIT)}}$$

MARGIN OF SAFETY =

The difference between the break even level of output and actual level output.

MOS = CURRENT OUTPUT – BREAK EVEN OUTPUT

In this example = 90,000 – 65,000 = **25,000 units**

Subject Content	What students need to learn?
1.3.3 Cash and cash-flow	The importance of cash to a business: • to pay suppliers, overheads and employees • to prevent business failure (insolvency) • the difference between cash and profit. Calculation and interpretation of cash-flow forecasts: • cash inflows • cash outflows • net cash flow • opening and closing balances.

Cash Flow

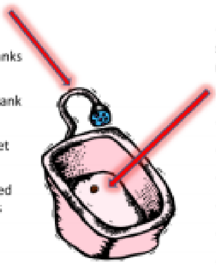
Cash flow is the money that **flows into and out of the business on a day to day basis**

Money that flows **INTO** the business are known as **CASH INFLOWS**

Money that flows **OUT** of the business are known as **CASH OUTFLOWS**

IN

- Sales
- Loans from banks
- Interest on money in the bank (savings)
- Sale of an asset (like a Lorry)
- Money invested by a businesses owners
- Grants from governments



OUT

- Purchase of stock/raw materials
- Wages/salaries
- Interest on loans
- Bills (electricity)
- Rent/mortgage
- Taxes
- Business rates
- Start up costs

Key Definitions:

Cash: 'The money a firm holds in **notes** and **coins** and in its bank **account**.'

Cash Flow: 'The movement of money **in** and **out** of the business.'
Cash Flow forecast: 'Estimating the **likely** flows of cash over the coming months – therefore showing the state of a business's bank balance

Why is cash important?

Cash is like air; profit is like food. You need cash all the time but you can survive for a while without profit.

Cash is needed to:

- Pay suppliers
- Overheads e.g rent
- Employee wages

Cash and profit are DIFFERENT – you need to remember this and understand the reasons why

If a business does not have enough cash to pay for these things it is likely they will fail as they will have become **insolvent.** (Not enough cash topay their debts.)

Cash flow forecast

- Cash **IN**
- Cash **OUT**
- **Net cash flow** – the difference between cash in (inflows) and cash out (outflows). You want this to be in **CREDIT**
- **Opening balance** – a businesses cash position at the start of the month (*Use last months closing balance)*
- **Closing balance** – how much a business has at the end of the month. **It is calculated by: adding the net cash flow and the opening balance**. This figure then becomes the opening balance for next month

Subject Content	What students need to learn?
1.3.4 Sources of business finance	Sources of finance for a start-up or established small business: ● short-term sources: overdraft and trade credit ● long-term sources: personal savings, venture capital, share capital, loans, retained profit and crowd funding.

Short term finance:

This is money the business borrows and pays back within **one** year.

Long term finance:

This is money the business borrows and pays back over a long period of time, **over one year.**

Short Term Finance

Overdraft: This allows a business to spend more money than it has in its account. The bank and business will agree on a limit and interest is charged when the account goes overdrawn.

Trade Credit: This is when businesses buy raw materials and components and pay for then at a later date, usually within 30-90 days.

Long Term Finance

Personal savings: Owners may be planning to set up their own business for a number of years. This will involve regular saving in order to have enough capital to set up the business/keep it running.

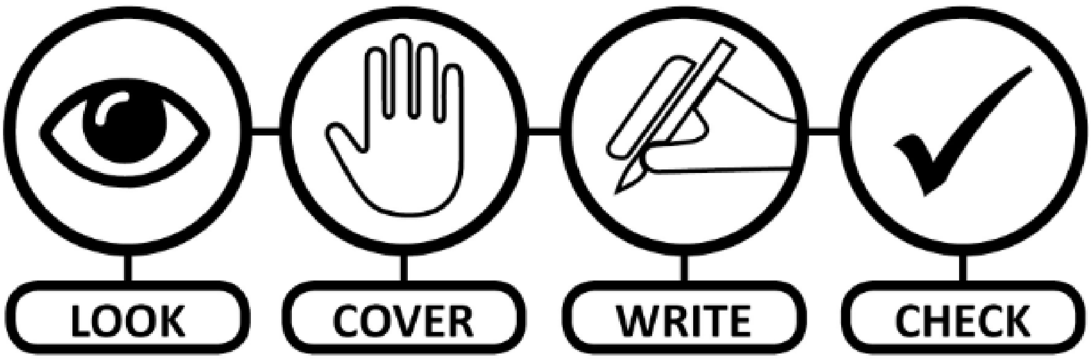
Venture Capital: These are industry experts who invest in small and medium sized businesses in return for a stake in the company.

Share capital: This is money raised through the selling of shares in the business. There are two main types – ordinary shares and preference shares.

Bank loans: This is an arrangement where the amount borrowed must be repaid over a clearly stated period of time, in regular instalments. The amount is paid back with interest.

Retained Profit: Profit kept within the business that is not paid out in dividends to the shareholders. This source of finance is the best if the business wants to expand.

Crowd funding: Raising capital online from many small investors to fund a project. (This does not involve the stock market)



1. What is the difference between aims and objectives
2. What are the two types of objective?
3. Give two examples of each.
4. Why might the body shop and L'oreal have difference objectives?
5. What are start-up costs?
6. What are running costs?
7. Define fixed costs and give two examples
8. Define variable costs and give two examples
9. How are total costs calculated?
10. How is revenue calculated?
11. What is the formula and definition for profit
12. What is 'interest?'
13. Define break even and write the formula
14. What is margin of safety
15. Draw a break even graph (in rough) on the back of the sheet
16. What is 'cash flow'
17. What is a 'cash flow forecast'
18. Give another term for inflow and two examples
19. Give another term for outflow and two examples
20. What is net cash flow
21. What is opening balance
22. When is the opening and closing balance the same
23. What are the two types of sources of finance?
24. What is trade credit

25. In five words, describe ‘overdraft’
26. Define venture capital
27. Describe crowd funding in three words
28. Describe share capital in five words