

# 3.6 Finance

List three reasons why a business may need to raise finance:

- 1.
- 2.
- 3.

The \_\_\_\_\_ performance of a business can be assessed by calculating \_\_\_\_\_ such as the gross and \_\_\_\_\_ profit \_\_\_\_\_. Both of these ratios are expressed as a \_\_\_\_\_ and the higher the percentage the \_\_\_\_\_ the financial performance of the business. Once calculated, these ratios can be \_\_\_\_\_ to those of \_\_\_\_\_ years and competitors.

Choose from: compared; percentage; better; net; previous; financial; ratios; margins

Define: cash flow

What is revenue?

What is the difference between fixed and variable costs?

Define: break-even

A business has the following data for February:  
 Opening balance: (£250,000)  
 Cash inflows: £3,250,000  
 Cash outflows: £3,150,000  
 What is the business's net cash flow for February?

State the following formulas on a cash flow forecast:  
 Net cash flow:  
 Closing balance:

Give two methods a business may use to improve cash flow:  
 1)  
 2)

Which one? Using the list provided, place the asset/liability in the relevant column:

Non-current assets	Current assets	Non-current liabilities	Current liabilities

Choose from: mortgage; inventories; payables; equipment; receivables; vehicles; bank overdraft; premises; bank and cash; long-term loan; fixtures & fittings

Net profits - £250,000  
 Cost of Sales - £900,000  
 Revenue - £1,900,000  
 Overheads - £700,000

What is the business's gross profit margin?

What is the business's net profit margin?

State two reasons why UK companies might prepare financial statements.

- 1.
- 2.

A business plans to invest £5 million in new machinery. This will make a total profit of £2 million over four years. Which of the following is the ARR on this investment project?  
 (a) 400%  
 (b) 40%  
 (c) 10%  
 (d) 0.5%

At a certain level of production, a business has fixed costs of £100,000 and total costs of £240,000. What are its variable costs?

Define: ARR

List as many of the following as you can:

Internal sources of finance	External sources of finance

## Complete the cash flow forecast

	Item	Jan	Feb	Mar	Apr
<b>Cash In</b>	Sales Revenue	3,500	4,250	3,950	
	<b>Total cash inflows</b>		<b>4,250</b>	<b>3,950</b>	<b>3,750</b>
<b>Cash Out</b>	Wages and rent	1,500		1,800	2,000
	Interest on bank loan	450	450		450
	Purchase of materials	1,500	1,400	1,200	1,300
	Telephone and heating		150	150	160
	Advertising	900	600	300	
	<b>Total cash outflows</b>	<b>4,700</b>	<b>4,400</b>	<b>3,900</b>	<b>4,210</b>
<b>Net monthly cash flow</b>	Net cash flow	(1,200)		50	(460)
	Opening balance	245	(955)		(1,055)
	Closing balance	(955)	(1,105)	(1,055)	

State two advantages to managers from the use of break-even analysis

- 1)
- 2)