

Learning Aim A1 – Functions and the role of money

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*



Key Vocabulary

External influences – factors that are outside of an individual's control

Interest rates – a charge on borrowing money or a reward for saving money, expressed as a percentage

Debt – when you owe money

Repossession – when a financed item is taken back by the organisation that has lent the funds

Bankruptcy - a legal proceeding involving a person or business that is unable to repay their outstanding debts

Income – money received from work or investments

Inflation – the decrease in value over time of money; the increase in prices

Credit rating – an evaluation of an individual's credit risk, predicting the ability to repay. A higher number indicates a lower risk to the lender

Core Knowledge



Functions of money

- Unit of account, i.e. a value
- Means of exchange, i.e. to can be used to sell, buy or trade
- Store of value, i.e. it can be kept and used in future
- Legal tender

Role of money is affected by and influenced by the following factors:

- Personal attitudes
- Life stages
- Culture and beliefs
- Life events
- External influences and trends
- Interest rates which affect the cost of borrowing/reward of saving

Individuals need to plan expenditure because:

- Avoid debt (which is expensive)
- To control costs
- Avoid legal action and/or repossession of belongings
- Remain solvent, i.e. have enough available funds to pay bills
- Maintain a good credit rating
- Avoid bankruptcy
- Manage money to fund purchases
- Generate income and savings
- Set financial goals and targets
- Provide insurance against loss or illness
- Counter the effects of inflation

Don't be a "man on the street"



- Not all debt is a bad thing – some is 'good' debt
- Interest is a charge on borrowing, not whether something is liked

Wider Business World

Can't pay, will take it away

– one of a number of TV programmes illustrating the impact of not planning expenditure

Eat well, spend less – one of a number of programmes that highlight the concept of planning expenditure



Synoptic Links

Unit 1 – external factors influencing business

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Learning Aim A2 – Different ways to pay



Key Vocabulary

Cash – physical notes and coins

Debit card – a card issued by banks that allows the cardholder to spend their bank balance in a more secure method

Credit card – a card issued by banks and other financial institutions that allows the user to borrow up to a set limit and pay back at a later date

Cheque – a written order to pay a sum of money

Electronic transfer – payment made between bank accounts

Direct debit – an instruction to allow a third party to be paid from a bank account on a regular basis

Standing order – an instruction to a bank from an account holder to make regular payments

Pre-paid cards – cash uploaded onto a card

Charge cards – a short-term, interest free loan issued by financial companies

Store cards – issued by retailers, similar to a credit card, but can only be used in selected stores

Core Knowledge



Method	Benefit	Limitation
Cash	Accepted in most places	Can be stolen, counterfeited Not able to be used online
Debit card	Secure Use online	Risk of hacking or overspending
Credit card	Short interest free period Enables user to spread cost of larger items	Interest charges if not repaid at the end of the month
Cheque	Fairly secure, especially for sending through post	Most retailers do not accept cheques
Electronic transfer	Easy to set up and use Transfer is immediate	Bank details of third party must be correct
Direct debit	Simple way to pay regular bills	Payee may vary amounts Must have sufficient funds in account for it to work
Standing Order	Payments do not change Made automatically	Must have sufficient funds in account for it to work
Pre-paid cards	Widely accepted	Cannot spend more than on card Could be lost or stolen
Contactless cards	Fast, easy and secure	Only for small amounts Can lose track of spending
Charge cards	Interest free	Must be repaid in full each month Annual charge
Store cards	Discounts and loyalty schemes may exist	Interest Limited places accept

Wider Business World

PayPal – an example of a third party payment organisation

Visa, Mastercard – examples of credit card brands

One4All – an example of a pre-paid card

M&S, NEXT – examples of retailers that can issue a store card



Synoptic Links

Cash flow – payments in and out can be made in all of these ways

Attitude to debt – likely to affect whether someone wants a credit card or not

Managing personal finance – credit cards are one way of borrowing

Don't be a "man on the street"



- Avoid using brand names such as Apple Pay, PayPal, Visa
- Don't confuse debit and credit cards

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Learning Aim A3 – Current Accounts



Key Vocabulary

Standard account – account used by most people

Packaged accounts – accounts with a monthly fee, often only offered to select customers who meet specific criteria

Student accounts – accounts only offered to students, as long as they pay their student finance into the account.

Basic account – a no frills account offered to customers with poor credit rating

Direct debit – an instruction to allow a third party to be paid from a bank account on a regular basis

Standing order – an instruction to a bank from an account holder to make regular payments

Credit balance – a positive bank balance

Overdraft – when the account holder is allowed to have a negative bank balance

Core Knowledge



Accounts are offered by banks and building societies

Standard account

- No banking fees
- Cheque book and bank card
- Can set up direct debits/standing orders to pay bills
- Salary can be paid in automatically

Packaged/Premium account

- Additional benefits such as travel insurance
- Interest on credit balances
- Cash back on household bills paid via direct debit
- Special rates of interest on overdrafts
- All benefits are offered even if the holder does not want them

Student account

- Interest-free overdrafts up to a certain limit
- Often 'perks' are offered such as a free railcard

Basic Account

- No overdraft facility
- Debit card
- No banking fees

Don't be a "man on the street"

- Everyone does need a bank account as salaries and benefits are paid in using the BACS system



Wider Business World

HSBC, TSB, Barclays, Natwest – examples of UK banks

Nationwide – an example of a UK Building Society



Synoptic Links

Attitude to debt – some individuals will not want overdrafts

Life stages – you may have different accounts through out your life

Cash flow – businesses can also have overdrafts

Learning Aim B1 – Features of financial institutions

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Key Vocabulary

Bank of England - UK's central bank, Role is to regulate and supervise banks, building societies, insurance companies investment companies and credit unions, as well as maintaining the UK's monetary policy and financial stability

Banks – owned by shareholders

Building societies – owned by the members (account holders)

Credit unions – financial cooperatives run and owned by their members. A not-for-profit organisation.

NS&I – National Savings and Investments. A government backed institution that offers savings and investment products

Insurance – financial service that protects an individual or organisation against financial loss. In return for paying a premium, the individual will be compensated in the event of financial loss

Pension – a policy where individuals invest in a long term saving scheme designed to help save for retirement

Core Knowledge



The roles of different financial institutions are:

Bank of England – sets interest rates, issues legal tender

Banks – offer customers a range of financial services; may charge for some premium services

Building societies – provide financial services; can offer better interest rates and savings than banks, but have fewer branches

Credit unions – offer savings accounts current accounts and loans; limited funds and opportunities compared to banks and building societies

NS&I – offers savings and investments such as premium bonds; poor interest rates

Insurance companies – offer policies to compensate policyholders against personal injury, loss or damage

Pension companies – businesses that sell pension policies

Pawnbrokers – individuals or businesses that loan money against the value of an asset, e,g, jewellery; interest is charged abs items are sold if not bought back within a time frame

Payday loan companies – businesses that offer short term, high cost loans to people needing cash between paydays

Don't be a "man on the street"



- Bank of England is not used by individuals
- Bank of England sets interest rates, not the government
- 'Loan sharks' are not regulated, payday loan companies are

Wider Business World

Lloyds, TSB, Barclays – examples of UK banks

Coventry Building Society – an example of a building society

QuickQuid – example of a payday loan company

AXA – one of many insurance companies

H&T – UK's largest pawnbroker



Synoptic Links

Unit 1 External Factors - Bank of England sets interest rates

Unit 1 Ownership – banks have shareholders; building societies are more co-operatives

Unit 3 Learning Aim A3 – types of accounts

Unit 3 Learning Aim A4 – Managing personal finance

Learning Aim B2 – Communicating with customers

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Key Vocabulary

Bank branch - physical premises often on high streets

Telephone banking – using a landline or mobile to contact a bank and complete simple transactions

Online banking – using a website to manage an account(s)

Postal banking – sending items such as statements through the post

Mobile banking – using an app on a mobile device

Core Knowledge



Banks use a combination of methods to communicate with customers. What customers use is likely to depend on their access to technology and own personal preferences.

Method	Benefits	Limitations
Branch	Customers can seek advice Face-to-face contact	Staff may try to sell additional service and products Access limited to opening hours
Telephone	Can be efficient	Services are automated which can be confusing with the options Overseas call centres may not be able to meet the needs of the customer
Online	Access is 24/7 No need to travel	Services are more limited than in a branch Need to remember passwords
Postal	Can be used to receive statements and pay in cheques	Cheques can be delayed in the post Some accounts are only offered through postal banking
Mobile	24/7 access Efficient	Security concerns

Wider Business World

Lloyds, TSB, Barclays – examples of UK banks



Synoptic Links

Unit 1 Communication – methods of communication, pros and cons

Unit 3 Learning Aim A3 – types of accounts

Unit 3 Learning Aim A4 – Managing personal finance

Don't be a "man on the street"



- Don't make the assumption that "everyone" has the internet or prefers to communicate via digital devices

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Learning Aim B3 – Consumer protection in relation to personal finance



Key Vocabulary

FCA – Financial conduct authority regulates the conduct of financial services providers. Independent body funded by the organisations it regulates

Financial Ombudsman Service – an organisation that consumers can turn to if they have an unresolved complaint about a service provided by a financial institution

FSCS – Financial Services Compensation Scheme

OFT - Office of Fair Trading

Legislation – business term for laws

Core Knowledge



Consumers using financial institutions are protected by several independent organisations each with their own functions, role and responsibilities.

FCA – authorises businesses to trade, supervised their work and changes poor practice; ensures that consumers are provided with a wide range of products and services

Financial Ombudsman Service – gives advice or makes decisions based on facts. It is an independent body so cannot regulate or fine businesses

FSCS – pays compensation to consumers for financial loss if a financial services business cannot pay the claim

Consumer credit Act 1974 – the law that regulates credit card purchases and gives consumers protection when signing loan and hire purchase agreements

Office of Fair Trading – was the government department responsible for protecting consumer interests until 2014. Now it is the FCA

Wider Business World

Mobile phone contracts now require a credit check because they are regulated by the FCA



Synoptic Links

Unit 1 External factors – consumer protection is part of Legal factors

Aim A3 – types of accounts

Unit 3 Learning Aim A4 – Managing personal finance

Unit 3 Learning Aim A2 – different ways to pay

Don't be a "man on the street"



- Don't make the assumption that "everyone" has the internet or prefers to communicate via digital devices

Learning Aim B4 – Information Guidance and advice

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Key Vocabulary

Citizens advice – a charitable organisation providing personalised, free, confidential and impartial advice

Independent Financial Advisers (IFAs) – professional qualified individuals who provide independent advice on a range of financial products

Price comparison websites – websites that compare features and prices of different types of financial products provided by a range of suppliers

Debt counsellors – specialist agencies or individuals who provide financial advice to individuals struggling with debt

The money advice service – Government agency providing free and impartial money advice to help improve an individual's finances

Individual Voluntary Agreements – an agreement that an individual undertakes with creditors to pay off all or part of their debts

Bankruptcy – when you need to use some of your assets, e.g. your house to pay off your debts

Core Knowledge



An individual can ask for advice at their bank or other financial institution, but these organisations will not provide independent advice.

Organisation	Benefits	Limitations
Citizens Advice	Helpful for low-income citizens Useful first point of call	Advisers are volunteers, not financial professionals May not be able to deal with complex financial problems
IFAs	Advisers do not receive commission from any of the products they recommend	IFAs charge for their services
Price comparison websites	Allow consumers to select a product best suited to their needs and budget Free to access Interactive	Requires a computer with online access Not all suppliers included Can be cheaper to purchase directly
Debt counsellors	Personalised advice Some offer budgeting tools and web chat services Authorised by FCA	Some charge for the service
Money Advice service	Online tools, web chat facility Calculators to help with budgeting	Requires a computer with online access Some consumers may not feel confident using the tools

Wider Business World

Compare the market – an example of a price comparison website

National Debtline – a charity providing debt advice

Money Saving Expert – a website set up by Martin Lewis, a financial journalist



Synoptic Links

Learning Aim B3 – consumer protection

Learning Aim A1 – importance of planning; attitude to money

Don't be a "man on the street"



- Don't assume that declaring bankruptcy means you don't pay off your debts

Learning Aim C3 – Types of Expenditure

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Key Vocabulary

Income – money received by a business

Capital income - money used to set up a business

Revenue income – money received from the sale of goods and services

Loan – money lent to a business by a financial institution which is paid back in monthly instalments over a number of years

Mortgage – loan used to buy property. Monthly repayments are made with interest

Shares – issued to by a company to shareholders who own a part of the business

Debentures – a type of bond issued by large companies to raise money

Owners capital – the personal savings of a business owner

Credit sales – enabling the customer to receive goods but pay at a later date

Commission – receiving a percentage of the value of a sale

Interest – a reward for saving money, paid by a bank or building society

Discount – reduced price

Core Knowledge



Capital income can come from

- Loan
- Mortgage
- Shares
- Debentures
- Owner's capital

Revenue income includes:

- Cash sales
- Credit sales
- Rent received
- Commission received
- Interest received
- Discount received

Wider Business World

DFS - an example of a business offering customers the chance to 'buy now, pay later', i.e. credit



Synoptic Links

Unit 3 D1 – sources of finance

Unit 3 E1 – creating and understanding cash flow forecasts

Unit 1 – understanding ownership

Don't be a "man on the street"



- Don't confuse revenue / income / turnover with profit
- Cash sales doesn't just refer to those paid in cash, but rather those where the business will receive the funds immediately
- Remember that only LTDs and PLCs can issue shares

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Learning Aim C3 – Types of Expenditure



Key Vocabulary

Expenditure – items bought by the business

Capital expenditure – spending on items that will last / be used by the business over a long period of time

Revenue expenditure – spending on the day to day running of the business

Non-current assets – also referred to as tangible assets. These are items owned by the business that will be used over a long period of time

Intangible assets – non-physical items that are difficult to sell

Depreciation – the decline in value of an asset over a period of time

Inventory – raw materials, finished products and supplies needed to run a business. May also be referred to as stock

Rates – a business tax charged by the government on non-domestic properties to fund local council services. Similar to a household's council tax

Core Knowledge



Capital expenditure can be on non-current and intangible assets

- **Non-current assets** such as land, buildings & premises. Machinery and equipment, vehicles, fixtures and fittings
- **Intangible assets** such as goodwill, patents, trademarks brand names

Revenue expenditure is the everyday costs of running a business:

- Rent or mortgage repayments
- Rates
- Utility bills – heating, lighting, water, telephone, broadband
- Insurance
- Administration
- Stationery, printing, postage
- Salaries, wages, commission
- Marketing
- Depreciation
- Bank charges, interest payments, loan repayments
- Discounts allowed
- Inventory

Don't be a "man on the street"



- Don't capital and revenue expenditure
- Intangible assets have a value, and can cost the business, but may be difficult to liquidate in the event of business failure
- Don't confuse rent and mortgage repayments

Wider Business World



Synoptic Links

Unit 3 C1 – purpose of accounting includes recording all expenditure

Unit 3 E1 – creating and understanding cash flow forecasts

Unit 3 F2 – creating and understanding a statement of financial position

Unit 2 Marketing – use of brand names, patents and trademarks

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Learning Aim D1 – Sources of finance



Key Vocabulary

Interest – the charge on borrowing money

Share capital - the investment raised from selling shares (part of the company) to investors

Dividends – the part of the profit that is paid to shareholders as a reward for their investment

Loan – borrowing an amount of money from the bank which is paid back in monthly instalments at a fixed rate of interest

Mortgage – a type of loan that is secured on property. Interest can be fixed or variable

Venture capital – a combination of share and loan capital providing by an investor willing to take a risk

Retained profit – profit kept by the business from previous years

Crowdfunding – raising capital online from lots of small investors

Overdraft – having a negative bank balance

Trade credit – buying goods and paying for them at a later date

Net current assets (Working capital) – money that is immediately available

Core Knowledge



Some businesses can generate their own finance which they can use to fund expenditure. This is known as internal finance. Most businesses will need to use external finance, i.e. finance from another source.

Internal finance

- Retained profit
- Net current assets
- Sale of assets

External finance

- Loans
- Owner's capital
- Crowd-funding
- Venture capital
- Mortgages
- Debt factoring
- Hire purchase
- Leasing
- Trade credit
- Grants
- Donations
- Peer-to-peer lending
- Invoice discounting

Don't be a "man on the street"



- Being in debt is not a bad thing and won't always lead to business failure
- The interest rate, is not to do with the number of people who want to buy, but the charge you pay on borrowing money
- Remember you pay back loans and mortgages each month, not at the end of the time period

Wider Business World

Dragon's Den – the Dragons are venture capitalists

Go Fund Me – an example of a crowdfunding website



Synoptic Links

C3 – types of expenditure – repayments are a type of revenue expenditure; financed can be used to fund capital expenditure

A4 – managing personal finance. Some options are the same for individuals as businesses

Unit 1 Learning Aim C – interest rates are an external influence

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Learning Aim A4 – Managing personal finance – Saving & Investing



Key Vocabulary

Overdraft – short term loan which can be used to pay bills. You can take money out of your account up to a set limit leaving a negative balance

Loan – borrowing a larger fixed amount that is repaid in set monthly instalments

Hire purchase – a deposit is paid and then the individual pays monthly instalments until the balance is paid off

Mortgage – a loan to purchase property. Usually for 25 years and repaid monthly

Credit card – provided by a bank or financial institution this allows you to spend money up to a set limit and then repay over time. The limit and % interest rate are likely to depend on an individual's credit rating

Payday loan – short-term loan for small amounts with the aim of repaying on the next payday.

Core Knowledge



People borrow for lots of reasons, e.g. to fund a large purchase, to spread payments, unexpected expenditure or because of a lack of planning.

Type	Benefit	Limitation
Overdraft	Free to set up Flexible Interest only charged on the amount borrowed	Interest rates are high May also be charged fees Penalty charges for going over the limit
Loan	Monthly instalments help planning	May be arrangement fees If you fail to make payments, you can lose the asset the loan is secured against
Hire Purchase	Allows you to buy an expensive item at an amount you can afford	You don't own the item until the final payment The item can be repossessed if you miss payments
Mortgage	Allows you to buy a home and spread the cost over a long period	An increase in interest rates will affect the monthly payments Missing repayments can lead to repossession
Credit card	If repaid in full each month, no interest Insurance included	Interest rates are usually higher than a personal loan
Payday loan	Can help with cash flow problems	Very expensive

Wider Business World

QuickQuid and **PiggyBank** are examples of Payday loan companies

www.moneysavingexpert.com – a comparison and information site set up by Martin Lewis



Synoptic Links

Ways to pay – credit cards can be used for one off purchases

External factors (Unit 1) – interest rates are an economic factor

Don't be a "man on the street"



- Don't confuse mortgages and loans; mortgages are only for property
- Hire purchase is not the same as leasing

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Learning Aim A4 – Managing personal finance – Insurance



Key Vocabulary

Third party – car insurance that only covers other people in the event of an accident that you cause, but does not cover damage to your own

Third party, fire and theft – covers damage to others, plus loss due to a fire or theft of a vehicle

Fully comprehensive – covers damage to others, your own vehicle as well as loss through fire or theft

No claims bonus – a reduction in premiums due to not claiming

Policy excess – the amount an individual would have to pay of any claim

Life assurance – a mixture of life insurance and an investment. Can be paid at the end of a fixed period if you live

Life insurance – pays out if you die to your estate

Core Knowledge



Insurance is a financial service that protects an individual or organisation against financial loss. In return for paying a premium, the individual will be compensated in the event of financial loss

Type of insurance	Benefits	Limitations
Car	Satisfies the legal requirement Can build up no claims discounts	Expensive for new drivers Policy excess can add extra costs in the event of a claim
Home & contents	Covers the cost of rebuilding or repairs due to fire, flood damage etc Contents covers loss or damage to personal possessions	Over costs cost of rebuilding, not current market value
Life	Can be used as collateral Pay-out may be higher than payments	Linked to performance of investments Pre-existing medical conditions not covered
Travel	Cover for delays, cancellations, etc Covers personal possessions	May not cover full amount of financial loss
Pet	Covers injuries	Doesn't cover annual vaccinations
Health	Can have more choice about treatments	Pre-existing medical conditions not covered

Wider Business World

www.moneysavingexpert.com – a comparison and information site set up by Martin Lewis

BUPA – a health insurance provider



Synoptic Links

Attitude to money – the attitude towards risk is likely to impact the type of insurance individuals choose

Don't be a "man on the street"



- Remember that car insurance is a legal requirement
- Mortgages may only be granted if life insurance and buildings insurance is in place
- Assurance and Insurance are not the same

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Learning Aim A4 – Managing personal finance – Insurance



Key Vocabulary

ISA – Individual Savings Accounts

Cash ISA – a savings account

Stocks & Shares ISA – funds are invested in shares or bonds

Deposit / savings accounts – a bank or building society account that you can use to save money

Bonds and gilts – fixed interest securities issued by companies and the government

Shares – buying a part ownership of a company

Pension – long term saving scheme designed to help save for retirement

Core Knowledge



Saving and investing can be achieved if an individual earns more than they spend. Saving and investing can lead to additional income and reduce the need for borrowing in the future.

Some methods have more risk than others. Usually the greater the potential reward, the higher the risk.

Type	Benefit	Limitation
ISA	No tax payable on the interest earned	A limit to the amount you are allowed to save each year May need to give notice of withdrawals
Savings account	Can be instant access	Interest rates paid are variable May need to give notice of withdrawals
Premium bonds	Savings are secure Can cash in at any time Potential to win more than you have invested	No interest No return unless you win a prize
Bonds and gilts	Regular interest paid over a set period of time	Value of bond can fall
Shares	Dividends are paid based on the performance of the company so can be high	Value can go down
Pensions	Employers contribute too	You may pay more than you receive if you die young

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www.moneysavingexpert.com – a comparison and information site set up by Martin Lewis



Synoptic Links

External factors (Unit 1) – interest rates are an economic factor

Attitude to money – the attitude towards risk is likely to impact the type of savings and investment individuals choose

Unit 1 ownership – only companies can sell shares

Don't be a "man on the street"



- Don't confuse mortgages and loans; mortgages are only for property
- Hire purchase is not the same as leasing

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Learning Aim C1 – Purpose of accounting



Key Vocabulary

Gross profit – sales revenue minus costs of sales. The profit generated by a business when only taking into account the direct costs of that product

Net profit – Gross profit – expenses. The profit generated when all costs are considered

Sales revenue – selling price x number sold. The income from selling products

Efficiency – how well something is done; in terms of finance how many days it takes to sell a product or collect a debt

Expenditure – items bought by a business

Costs – day to day things that the business pays for

Debts - money that is owed to or by the business

Core Knowledge



Accounting involves making a record of the business's financial transactions, then preparing a set of accounts from this information which may be used to evaluate the business's performance.

There are five purposes of accounting:

1. Recording transactions – all money that comes in and leaves the business
2. Management of the business – planning, monitoring and controlling financial commitments
3. Compliance with financial reporting requirements in accordance with laws and regulations
4. Measuring performance through gross and net profit, sales revenue, efficiency, expenditure and costs
5. Control by tracking debts that are generated and debts created



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Synoptic Links

Unit 3 Learning Aim C2 – understanding the types of income

Unit 3 Learning Aim C3 – understanding the types of expenditure

Unit 3 Learning Aim D1– understanding sources of finance

Unit 3 Learning Aim E1 – creating and understanding cash flow forecasts

Unit 3 Learning Aim F – completing statements and evaluating performance

Don't be a "man on the street"



- Don't confuse expenditure and costs
- Don't confuse gross and net profit
- Don't confuse revenue / income with profit

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Learning Aim E1 – cash flow forecasts

Key Vocabulary

Cash – the money a business holds in notes and coins and in its bank accounts

Cashflow – the movement of money in and out of a bank account

Insolvency – when a business lacks the cash to pay its debts

Overdraft – the amount of an agreed overdraft facility that a business uses; when a business has a negative bank balance

Overdraft facility – the maximum amount that a business is allowed to go into negative balance on its bank account

Cash inflows – money entering the bank account, e.g. from sales

Cash outflows – money leaving the bank account, e.g. bills for supplies

Net cash flow – inflows minus outflows

Opening balance – the amount of money at the start of the month

Closing balance – the amount of money at the end of the month; Opening balance ADD net cash flow

Core Knowledge

	Aug	Sept
<i>Cash inflows</i>	0	85
<i>Cash outflows</i>	185	75
(A) Net cash flow	-185	10
(C) Opening Balance	250	65
(B) Closing balance	65	75

Inflows:

- Sales – both cash and credit
- Loans
- Capital introduced
- Sale of assets
- Bank interest received

Outflows:

- Purchases – both cash and credit
- Rent or mortgage payments
- Rates and other utility bills
- Salaries and wages
- Purchase of assets including inventory
- VAT (Value Added Tax)
- Bank interest and charges paid

(C) Net cash flow = inflows - outflows

(B) Closing Balance = Opening + Net Cash flow

(A) Opening Balance = last month's closing balance

Benefits: helps predict cash flow problems; can reduce costs through arranging finance to cover shortfalls

Improve cash flow by

- Get debtors to pay quicker
- Reduce unnecessary expenses
- Sell debts
- Request credit from suppliers
- Increase overdraft

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Retailers – they often have seasonal or unsteady cash flow as they need to buy stock before they can sell it

Hotels / restaurants - may have seasonal business, so it will be important to build up a balance to support them through periods of low sales



Synoptic Links

Aim D1 Sources of finance – if outflows are greater than inflows, short term finance is needed

Aim C2 – types of income – these appear as inflows

Aim C3 – types of expenditure - these appear as outflows

Don't be a "man on the street"

- Do not confuse cash & profit – they are very different things
- A cash flow forecast is a prediction not what has happened
- An overdraft does not mean the business will fail – it simply means that in that month outflows exceeded more than inflows. Debt is not always a bad thing!
- Lots of cash in the bank is not always a good thing – this could be invested to improve the business

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Learning Aim E2 – Break-even analysis



Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Output – quantity of products produced

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Semi-variable costs – combination of fixed and those that become variable costs when a certain point is reached

Total costs – All costs added together

Profit – revenue is greater than costs

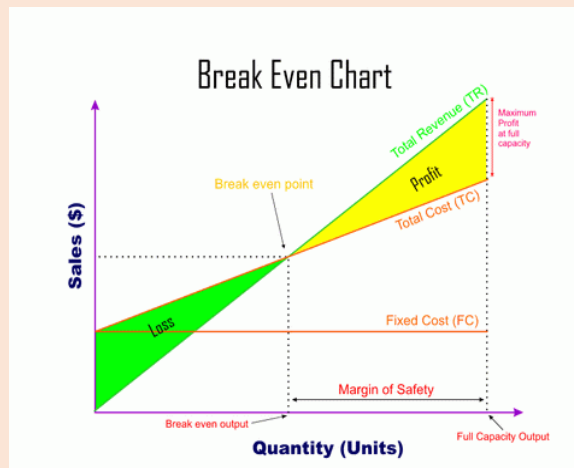
Loss – revenue is lower than costs

Breakeven point – when total revenue = total costs

Breakeven output – the number of products needed to break-even

Margin of safety – number of products produced above breakeven

Core Knowledge



A graph that identifies the point at which costs are equal to revenue from sales.

The contribution method is a quicker, more accurate way to calculate breakeven:

Break-even = $\text{Fixed costs} \div (\text{Selling price} - \text{variable cost})$

Any changes in costs or selling price, mean that break even must be recalculated

Uses:

- Planning how many to sell
- Monitoring of potential problems
- Control of costs
- Target setting

Wider Business World

Gordon Ramsey – watch any of his 'Nightmare' shows to see how he talks about knowing the break-even number of meals, and the importance of costing each meal

High street retailers – consider the impact of COVID19 on the breakeven point of most retailers: what were their costs and revenue during this period



Synoptic Links

Learning Aim C1 – breakeven contributes to the purposes of accounting

Learning Aim C2 – sales revenue is plotted but not other revenue income or any capital income

Learning Aim C3 – revenue expenditure is plotted but further split into fixed and variable costs

Don't be a "man on the street"



- A business can easily lower the breakeven point by reducing costs - this may not be true. Fixed costs are out of the control of the business, and buying lower cost materials can affect quality
- Increasing price will make more profit for a business – not always! Increasing the price, will lower the breakeven point, BUT may lead to lower sales

BUSINESS: *Creating informed, discerning employees, consumers and future leaders*

Learning Aim F1 – Statement of comprehensive income



Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Profit – revenue is greater than costs

Loss – revenue is lower than costs

Core Knowledge



Uses:

- Sets out revenue and expenses
- Identifies changes in turnover and costs

Wider Business World



Synoptic Links

Learning Aim C1 – statements contribute to the purposes of accounting

Learning Aim C2 – sales revenue will need to be identified

Learning Aim C3 – revenue expenditure is listed

Learning Aim F2 – profit from this statement will be entered into the statement of financial position

Don't be a "man on the street"



- Don't confuse Revenue / Turnover with profit
- Make sure you can differentiate between the different types of profit