

Finance and accounting

A-Level Business

Why a business needs finance

Business finance 企业资金 is the money a firm needs to start, run and grow. A new firm needs money to buy **premises** 经营场所 and equipment; a growing firm needs money for new projects; and every firm needs money to pay day-to-day bills.



Banks are a key external source of finance, through loans and overdrafts.

Image: Harrison Keely, CC BY 4.0 (commons.wikimedia.org)

Capital and revenue expenditure

Spending falls into two types:

- **capital expenditure** 资本性支出—money spent on **fixed assets** 固定资产 that last a long time, such as machines, vehicles and buildings.
- **revenue expenditure** 收益性支出—money spent on day-to-day running, such as wages, rent and raw materials.

Working capital

Working capital 营运资本 is the money a firm has for its daily needs. It is found from the **balance sheet** 资产负债表:

$$\text{working capital} = \text{current assets} - \text{current liabilities}$$

Here **current assets** 流动资产 are things that become cash within a year (cash, inventory, money owed by customers), and **current liabilities** 流动负债 are debts due within a year. Too little working capital is dangerous—the firm may not be able to pay its bills.

Cash is not the same as profit

This is a key idea.

- **profit** 利润 is what is left when total costs are taken from total revenue over a period.
- **cash** 现金 is the money the firm actually has right now to spend.

A firm can be **profitable** but still run out of cash —for example, if it sells goods but customers have not paid yet. Many firms fail not from low profit, but from running out of cash.

Sources of finance

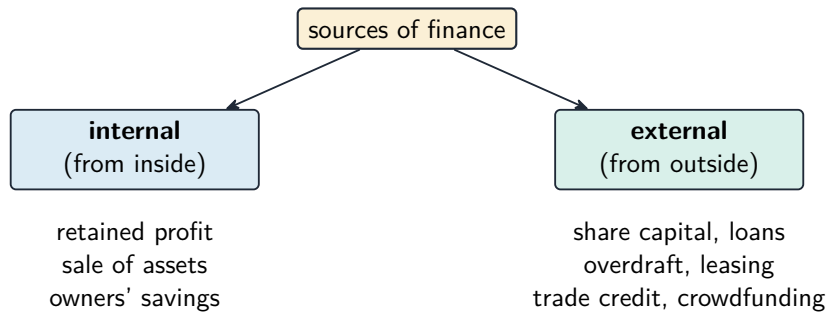


A stock exchange: public limited companies raise finance by selling shares.

Image: ehnmak, CC BY 2.0 (commons.wikimedia.org)

Finance can come from **inside** the business (**internal sources** 内部来源) or from **outside** (**external sources** 外部来源). It can also be **short-term** 短期 (paid back within a year) or **long-term** 长期.

Source	Type	What it is
retained profit 留存利润	internal, long	profit kept in the business instead of paid out
sale of assets 出售资产	internal	selling items the firm no longer needs
share capital 股本	external, long	money raised by selling shares
loan 贷款	external, long	borrowed money repaid with interest
debenture 公司债券	external, long	a long-term loan certificate sold by a company
overdraft 透支	external, short	the bank lets the account go below zero for a short time
leasing 租赁	external	renting an asset instead of buying it
hire purchase 分期付款	external	buying an asset by paying in instalments
trade credit 商业信用	external, short	paying a supplier later (e.g. after 30 days)
venture capital 风险资本	external, long	money from investors into risky young firms
crowdfunding 众筹	external	small amounts raised from many people online
microfinance 小额信贷	external	small loans for people with little access to banks



Sources of finance come from inside the business (internal) or outside it (external)

Choosing a source of finance

There is no single best source. The choice depends on:

- the **amount** needed —large amounts may need shares or a long loan.
- the **purpose** —long-term assets should use long-term finance.
- the **cost** —interest and fees differ between sources.
- the **legal structure** —only a company can sell shares.
- how much the firm already owes, and whether it can offer **collateral** 抵押品 (an asset the lender can take if the loan is not repaid).

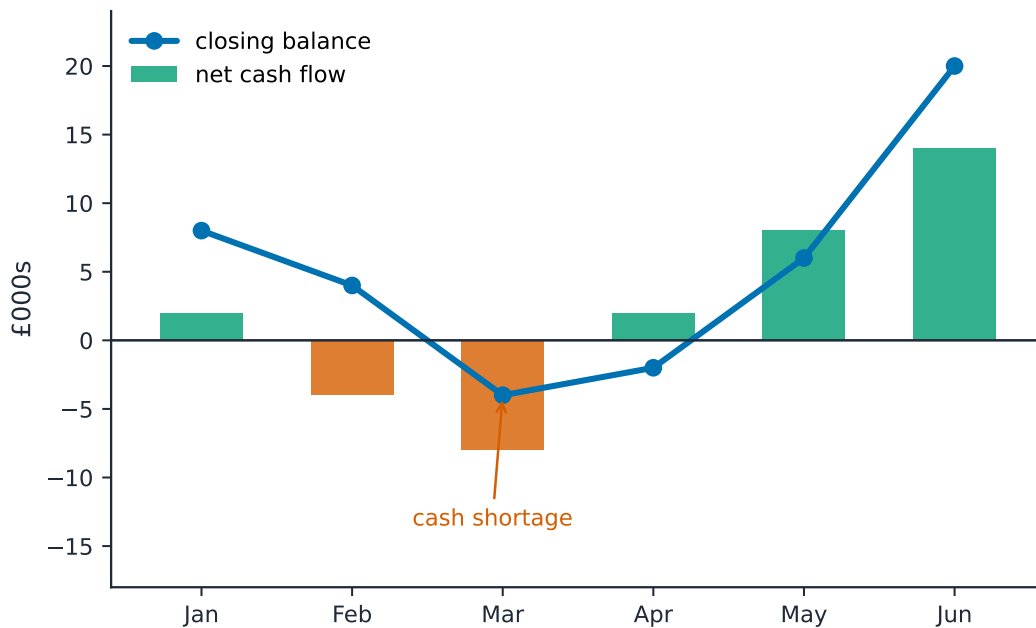
Cash-flow forecasts

A **cash-flow forecast** 现金流量预测 predicts the cash coming in and going out each month. It helps a firm spot a shortage early.

- **cash inflows** 现金流入—money coming in, mostly from sales.
- **cash outflows** 现金流出—money going out, such as wages and rent.
- **net cash flow** 净现金流—inflows minus outflows for the period.

$$\text{net cash flow} = \text{cash inflows} - \text{cash outflows}$$

The **opening balance** 期初余额 is the cash at the start of the month. Adding net cash flow gives the **closing balance** 期末余额, which becomes next month's opening balance.



A cash-flow forecast tracks the closing balance each month, warning of a shortage early

Cash-flow problems and how to fix them

Common causes of cash-flow problems are: too many sales on credit, holding too much stock, buying too many assets at once, and **overtrading** 过度交易 (growing too fast for the cash available).

Ways to improve cash flow:

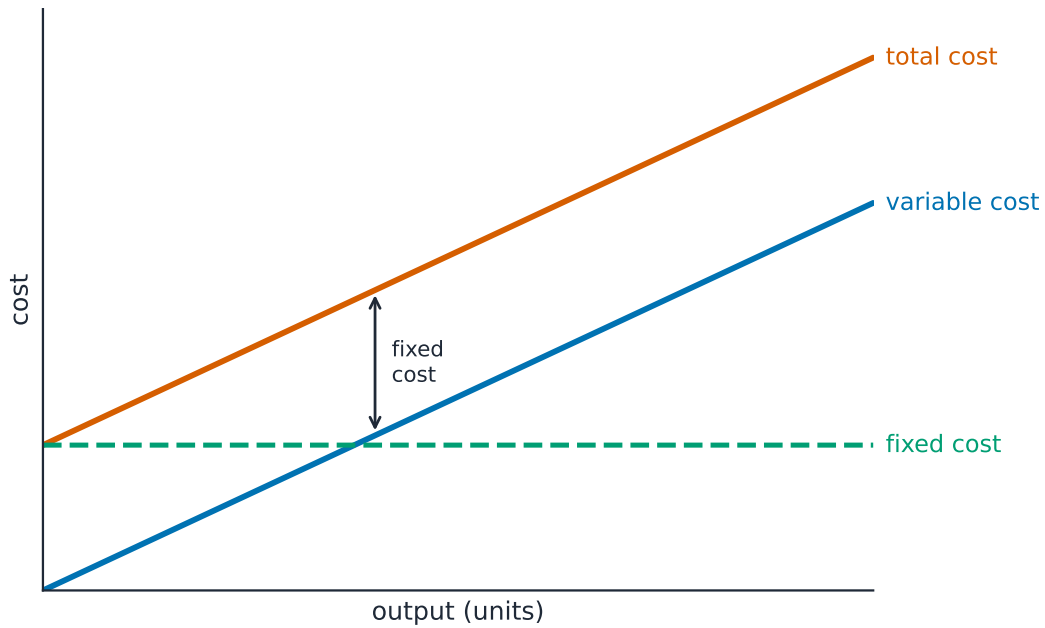
- bring cash in sooner —ask customers to pay faster, or offer discounts for quick payment.
- delay cash going out —agree longer trade credit with suppliers.
- arrange an overdraft or short loan to cover a gap.
- hold less stock to free up cash.

Good **working capital management** keeps enough cash to stay safe without holding so much that money sits idle.

Costs and how we classify them

A **cost** 成本 is money the business spends to make its product. We sort costs in several ways:

- **fixed costs** 固定成本—costs that do not change with output, such as rent.
- **variable costs** 可变成本—costs that rise and fall with output, such as raw materials.
- **direct costs** 直接成本—costs clearly linked to one product, such as its materials.
- **indirect costs** 间接成本 (overheads) —costs not linked to one product, such as manager salaries.
- **marginal cost** 边际成本—the cost of making one more unit.
- **average cost** 平均成本—the cost per unit, found by total cost ÷ number of units.



Total cost = fixed cost + variable cost; only variable cost rises with output

Cost information helps managers set prices, choose what to make, and control spending.

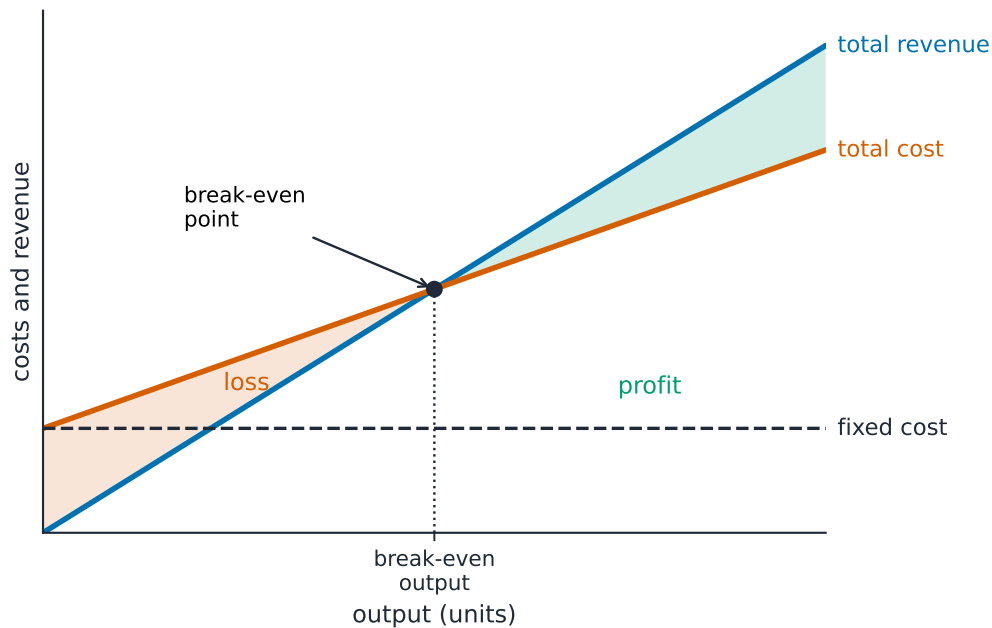
Break-even analysis

Contribution 贡献 is how much each sale adds towards paying the fixed costs:

$$\text{contribution per unit} = \text{selling price} - \text{variable cost per unit}$$

Break-even 盈亏平衡 is the point where total revenue equals total costs, so profit is zero. The **break-even point** 盈亏平衡点 in units is:

$$\text{break-even point} = \frac{\text{fixed costs}}{\text{contribution per unit}}$$



The break-even point is where total revenue equals total cost —left of it is loss, right of it is profit

The **margin of safety** 安全边际 is how far current sales are above the break-even point:

$$\text{margin of safety} = \text{actual output} - \text{break-even output}$$

A large margin of safety means sales can fall a lot before the firm makes a loss. Break-even analysis is quick and useful, but it has **limitations** 局限性: it assumes the selling price and costs stay the same, and that everything made is sold.

Budgets and variances

A **budget** 预算 is a financial plan for the future —a target for income or spending. Budgets help a firm plan, control money, and check performance. Two types are:

- **incremental budget** 增量预算—last year's budget changed by a small amount.
- **zero-based budget** 零基预算—every cost must be explained from zero each year.

A **variance** 差异 is the difference between the budgeted figure and the actual figure:

$$\text{variance} = \text{actual figure} - \text{budgeted figure}$$

- a **favourable variance** 有利差异 is better for profit (costs lower, or revenue higher, than planned).
- an **adverse variance** 不利差异 is worse for profit (costs higher, or revenue lower, than planned).

Studying variances shows managers where the plan went wrong, so they can act.