

### 1.3.1 Business Aims and Objectives

**KEY TERMS:**

**Market Share:** The proportion of sales in a market that are taken up by one business

**Profit:** The amount of revenue left once the costs have been deducted

**Social Objective:** Likely to be non-financial, for example to reduce carbon emissions

**Aim:** Is a goal that the business wants to achieve

**Objective:** Tasks that a business will carry out to meet an aim

The main goal (could be long term) that the business wants to achieve

SMART tasks that a business needs to carry out to meet its aim



Why do we set aims and objectives?

- Direction
- Focus for employees
- Planning
- Measurement of success



Don't forget social objectives:  
Environment, Charity

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**Financial objectives** – targets expressed in money terms, such as making a profit, earning income or building wealth.

**Non-financial objectives** – aims other than financial, why an individual runs their own business. Examples include personal satisfaction, challenge and to help others.

Will all businesses have the same aims and objectives?



### 1.3.2 Business Revenues, Costs and Profits

**Key Terms:**

**Income stream:** The source of regular income that a business receives (this could be from customers or investment).

**Viable:** Capable of working and succeeding

**Revenue:** The income that a business receives from sales

**Fixed Costs:** Costs that do not change

**Variable Costs:** Costs that change dependent on how many products or services a business sells

**Income Statement:** A financial statement showing the amount of money earned and spent in a particular period and the resulting profit or loss

**Interest:** A % of an amount borrowed that is repaid in addition to the original amount

**Break Even:** The point in which a business's costs and revenue are equal

### Formula

**Total costs**

$$TC \text{ (total cost)} = TFC \text{ (total fixed costs)} + TVC \text{ (total variable costs)}$$

<b>Geographic</b> E.g. "Customers within 10 miles of the M25"	<b>Demographic</b> E.g. "A Level & University Students"	<b>Behavioural</b> E.g. "Customers wanting a value for money impulse buy"	<b>Psychographic</b> E.g. "Customers who prefer to buy organic food"	<b>Revenue</b> Revenue = price × quantity
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- Rent and council tax
  - Salaries
  - Marketing, for example advertising, market research
  - Insurance
  - Interest repayments
  - Leased equipment charges
- FIXED**

- Raw materials and bought-in stocks and components
  - Wages based on hours worked or amount produced
  - Marketing costs based on sales
  - Agent and other commissions
- Variable cost per unit x output**
- VARIABLE COSTS**



$$\text{PROFIT} = \text{TOTAL REVENUE} - \text{TOTAL COSTS}$$

### 1.3.2 Business Revenues, Costs and Profits cont.

#### Formula

##### Net profit

Net profit = gross profit - other operating expenses and interest



##### Gross profit

Gross profit = sales revenue - cost of sales

Sales	Costs	Profit or loss?
£100,000	£75,000	£25,000 profit
£100,000	£125,000	(£25,000) loss

Note: negative figures are shown in brackets

- Total sales greater than total costs = PROFIT
- Total sales less than total costs = LOSS
- Total sales = total costs = BREAK EVEN

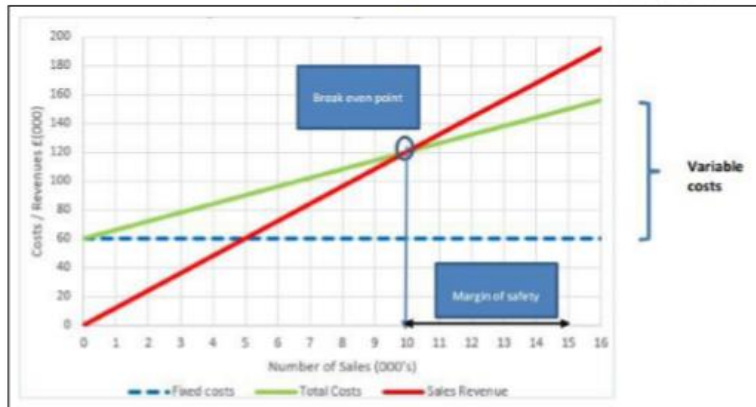


If a business borrows money from a bank they will be charged interest. Interest is calculated at the start of a loan agreement and is added on top of the loan amount.



$$\text{Interest on loans (\%)} = \frac{\text{total repayment} - \text{borrowed amount}}{\text{borrowed amount}} \times 100$$

### Break-even level of output



#### Using the contribution method

$$\text{Break even output} = \frac{\text{fixed cost}}{\text{sales price} - \text{variable cost}}$$

This will give you the number of units the business needs to produce and sell to break even

$$\text{Break-even point in costs/revenue} = \text{break-even point in units} \times \text{sales price}$$

This formula can be used to calculate the revenue (or costs!) at the breakeven level of output

**Important**

When revenue increases it is likely to have a positive impact on the business if costs remain the same.

When revenue decreases it is likely to have a negative impact on the business unless costs decrease at the same time.

When costs increase the business will still have to pay them, unless the business also increases revenue then the profit of the business will become less. The increase in costs is quite often passed onto customers through a rise in prices.

When costs decrease it can have an immediate benefit on the business. They will be making more money per unit sold. However, if customers are aware that costs have decreased then they may expect so see that saving passed on to them in the form of lower prices.

### 1.3.3 Cash and Cash Flow



#### Key Terms:

**Credit:** The amount of money that a financial institution or supplier will allow a business to borrow

**Overheads:** Fixed costs that come from running an office which are not affected by the number of specific products or services that are sold.

**Positive cash flow:** More money coming in than going out

**Negative cash flow:** More money going out than coming in

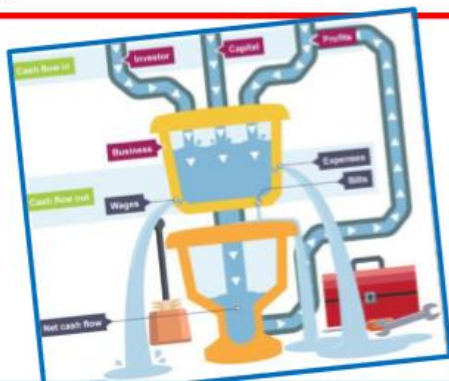
**Insolvent:** A business that is unable to pay its debts and owes more money than it is owed

**Consumables:** Items that get 'used up' such as pens, paper, staples

**Opening balance:** The amount of money in the business's bank at the start of any period

**Closing balance:** The amount of money in the business's bank at the end of the month

**Cash flow forecast:** An estimate of how much cash will come in to and leave the business over the course of a year.



**Net cash-flow = cash inflows – cash outflows for a given time period**

Cash inflows	Cash outflows
Cash sales	Payment of overheads, wages and salaries
Receipts from trade customers	Payment of suppliers, for example raw materials, inventories
Sale of spare assets	Buying equipment
Investment of share capital	Interest on bank loan or overdraft
Personal funds invested	Payment of dividends
Receipt of bank loan	Repayment of loans
Government grants	Income tax, VAT and corporation tax



#### The importance of cash to a business

The management of a business's cash flow is important. This is because a business must have enough money in the bank to pay all the money it owes. Even if a business is making a profit, if it does not have enough cash or a reliable cash flow it can still fail.

#### What causes problems?

Low profits or (worse) losses

Over-investment in capacity

Too much stock

Allowing customers too much credit

Overtrading

Seasonal demand



£'000	January	February	March	April	May	June
Cash inflows	200	250	200	150	100	250
Cash outflows	250	300	300	100	250	150
<b>Net cash-flow</b> <i>(cash inflows – cash outflows)</i>	(50)	(50)	(100)	50	(150)	100
<b>Opening balance</b> <i>(same figure as the closing balance for the previous month)</i>	250	200	150	50	100	(50)
<b>Closing balance</b> <i>(net cash-flow + opening balance)</i>	200	150	50	100	(50)	50

### 1.3.4 Sources of Finance

**Key Terms:**

- Trade Credit:** A credit arrangement that is offered to a business by its suppliers
- Overdraft:** A facility offered by a bank that allows an account holder to borrow more money at short notice
- Credit Limit:** The maximum a business can borrow with a company
- Credit Period:** The maximum amount of time a business can take to pay what it is owed
- Retrospective Discount:** A discount applied when a business has purchased a certain number of goods or spent a certain amount of money with a supplier
- Venture Capital:** Money that is invested in a business sourced from individuals or groups (dragons den)
- Return on Investment:** The amount of money that an investor will get back in return for investing in a business
- Shareholders:** Investors who are part-owners in a company
- Share Capital:** Money to invest in a business which is made from selling shares in the business
- Credit Check:** A check on the financial status of a business.
- Security:** When the lender asked the business owner to put up an asset to secure lending
- Asset:** An item of value (home, machinery, premises)
- Guarantor:** A names person who guarantees to pay repayment if the person who has the loan fails to pay
- Retained Profit:** Money that a business keeps rather than paying to share holders
- Crowdfunding:** A business obtains money from many people who each pay a small amount

Often the hardest part of starting a business is raising the money to get going.



**Questions to ask before borrowing:**

- How much finance is required?
- When and for how long the finance is needed?
- What security (if any) can be provided?
- Are you prepared to give up some control (ownership) of the start-up in return for investment?
- Whether the cost of the finance, for example the interest charged, is justified?

