BTEC First **Business**

Unit 2: Finance for Business Learning Aim C: Understand how businesses measure success and identify areas for improvement

Topic C.1 Understand how businesses measure success Topic C.2 Understand how businesses can be more successful



BTEC First **Business: Unit 2 – Finance for business**

Learning aim C: Understand how businesses measure success and identify areas for improvement

Topic C.1 Understand how businesses measure success

Making a profit – learners should:

- . Understand cost of sales
- . Understand gross profit
- . Calculate gross profit (formula will not be given in the assessment)
- Understand the impact of positive and negative gross profit on business
 Understand net profit
 Calculate net fit (formula will not be given in the assessment)
 Understand the impact of positive and negative net probusiness
 Measuring success by looking at financial structure suits learnoould:

} gross pr

revenue - cos

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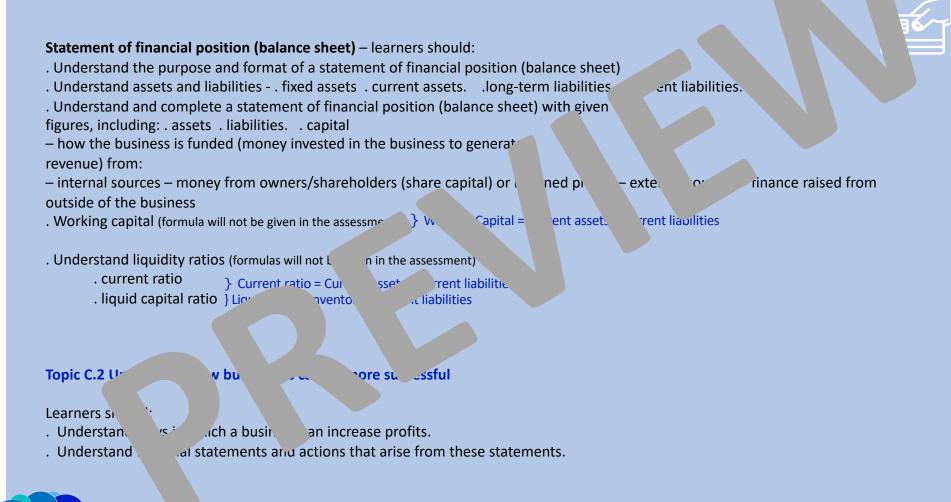
- . Understand what financial statements and pocuments that rections incial activities of a business, sometimes required by law, including income statement (profit a. as a cont) and statement (profit by law, including income statement (profit by law, including inc
- Income statement (prof , ioss a nt) le rs should . Understand the purpose n incor tatement fit is account)
 - . Understand plete of pment (p d loss account) from given figures, including:
 - statement) includes figures for revenue (turnover) & cost of sales. رو من المن من من من من من من من من من من
 - . lates the nount coss prom
 - . e ses/c leads (b section of the income statement)
 - . ca. profit.
 - . Understand tability ratios (formulas will not be given in the assessment)
 - . gross margin
 - . net provergin

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Learning aim C: Understand how businesses measure success and identify areas for improvement Topic C.1 Understand how businesses measure success



C.1 Understand how businesses measure success

Profit
Profit when revenue greater than expenditure
Profit can vary but a profit is needed to keep the business going

Example 1: Credit . Sales revenue may be high but with credit terms at 90 days the business has to wait for payments creating cash flow problems

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Example 3: Assets . A start-up business may have spent a lot of cash on buying premises, vehicles etc. leaving it short of cash

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Cash flow - Profits . All the businesses in the examples are profitable but have cash flow issues – short of cash - that cause them serious financial problems, and even insolvency (bankrupt).

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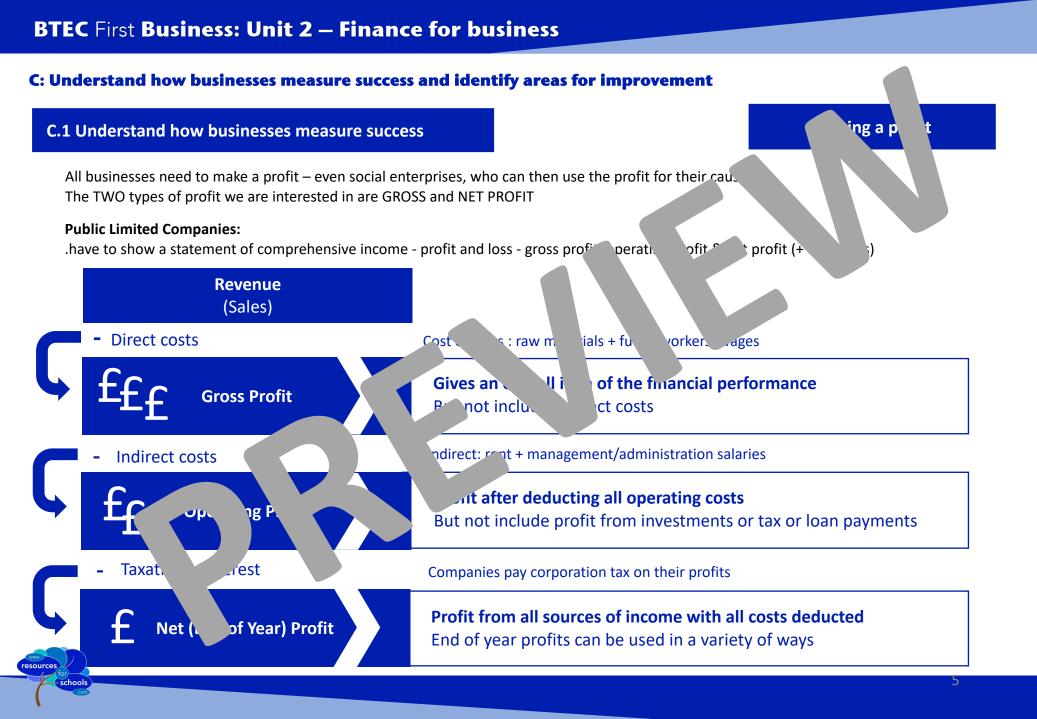
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or money in.

. Cash in to 🛌

Ultimately, **profit** needs to be made for the owners – a return on their investment

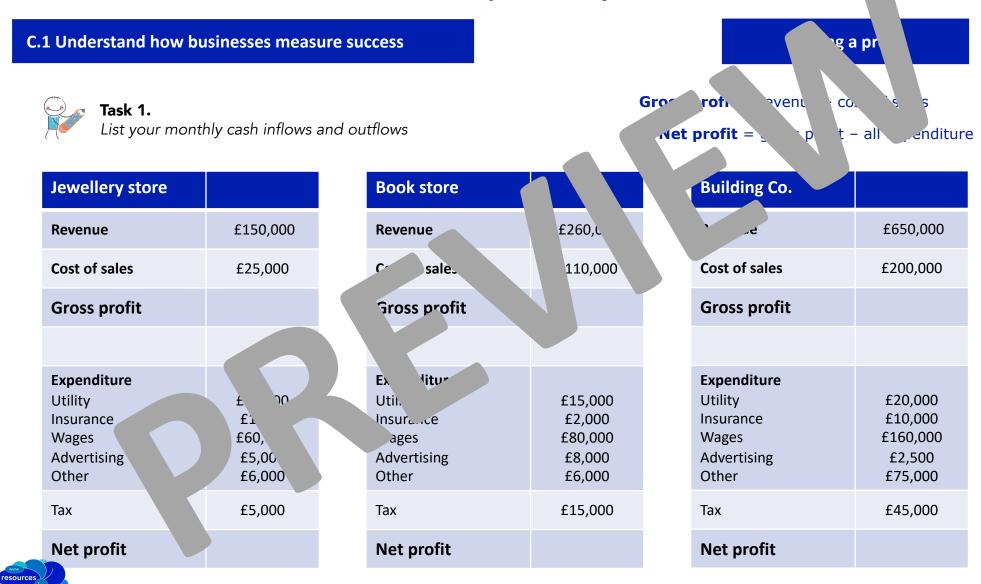
> for a sole trader, partnerships or shareholders.





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C: Understand how businesses measure success and identify areas for improvement



C.1 Understand how businesses measure success

Financial statements record the financial activities and resources of a business – require by law if a limited company.

Income statement = profit / loss account

Balance sheet = statement of financial position

Income statement (profit/loss account)

An **income statement** is a record of the strad. The last year – it we now the profit/loss for that year. It will include:

Trading account: income – exp. ture – p t/loss

Opening stock over

Purchases: sto ught c g the y

Stocktaking: value of stock x value of stock Cost of goods sold = opening stock + purchases – closing stock + closing k from one year = opening stock of new year

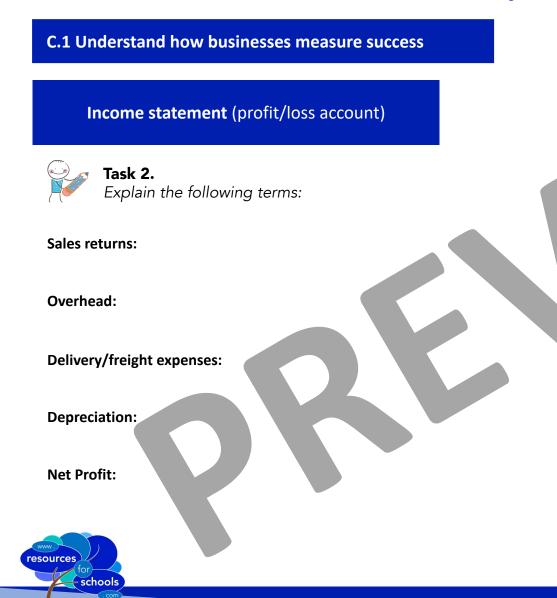
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Profit – loss account: Generalized profit + expenditure = Net profit (- tax for a limited company)

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Sample Co	
Income Sta	
For the year ended De 201	19
Revenue	
Sales	\$250,000.00
Less: Sales Returns	\$10,000.00
Less: Discount wances	\$2,000.00
Net Sales	\$238,000.00
Cr of Goods	
	\$1,000.00
Là	\$4,000.00
Ove.	\$10,000.00
Total Goods Sc	\$15,000.00
Gross P.	\$223,000.00
Operating 9s	
Wages	\$100,000.00
Payroll taxes	\$15,000.00
dvertising	\$2,000.00
pairs & Maintenance	\$1,000.00
nt/Lease	\$25,000.00
Delivery/Freight Expense	\$500.00
Utilities/Telephone Expenses	\$1,000.00
Insurance	\$800.00
Office Supplies	\$500.00
Depreciation	\$1,000.00
Meals	\$0.00
Entertainment	\$0.00
Other Expenses	\$500.00
Total Operating Expenses	\$147,300.00
Operating Income (Loss)	\$75,700.00
Less: Non-Operating Expenses	
Interest expense	\$500.00
Profit (Loss) Before Taxes	\$75,200.00
Less: Tax Expense	\$22,000.00
Net Profit (Loss)	\$53,200.00

C.1 Understand how businesses measure success Statement of financial position (balance sheet) Statement of financial position or balance sheet must be done each year for a limite. hpany. It lists what the company owns and what it owes others. It is only accurate fo roduc day Assets: what it owns and the resources it has Liabilities: what is owed to others (individuals or busined Capital: what is owed to the owners of the comp Balance sheet must balance based on ula: A Julities + capital **Example:** Machine bought for £ 70 ness pa 000 wes the supplier £5,000 Asset = £10,000 -+ 00 When the money owed is paid: Asset £10,000 – Liability £0 + Capital £10,000 Rules for balance ets – **N**: . Fixed assets shown then current assets . Current assets listed der) stock, debtors, money in the banks, cash in the business . Working capital = curr abilities – current assets . Net assets = capital in the business

C.1 Understand how businesses measure success

Statement of financial position (balance sheet)

Fixed assets: more than a year – can appear on balance sheets for several years e.g. buildings, equipment, vehicles, machinery, office equipment Shown as 'at cost' – price paid for them or 'at net value' or 'book value'. This is cost price – less depreciation.

The value falls for most assets exce premises + land. Liabilities: what is owed to other: . Current liabilities: short term de creditors (supplies) + bank overdra . Long term liabilitie e than a capital)

tal: n.used to set-up the business for premises, equipment,cetc Th.ssets har value.

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Reserves: money kept in business – profits not paid to shareholders. Known as retained profits. Reserves are often used for research & development, expansion etc

Current assets: 'quid a on a balance she, 'ev' Quicker a business More liquid = better

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a s – can rned easily into cash. Shown order of like by.
a assets into cash the more liquidity it has.
Show e.g. able to pay its debts.

Working capital: money used to pay for the day-to-day expenses Formula – working capital = current assets – current liabilities Important: pays utilities, wages & stock measures liquidity (cash flow) need enough for expenditure + emergencies

panks etc

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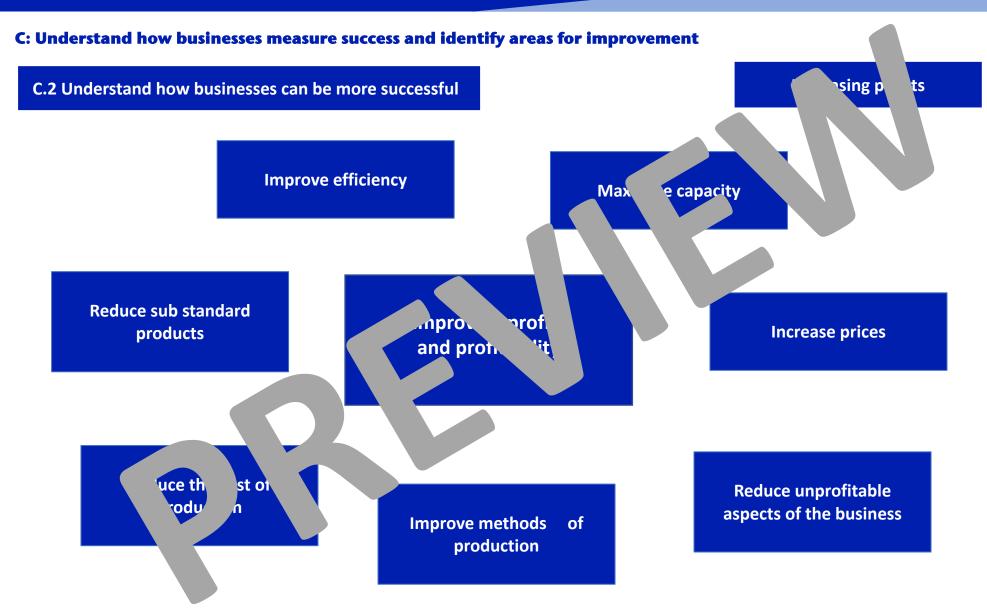
11



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C: Understand how businesses measure success and identify areas for improvement

1 Understand how businesses measure success		ing a p t
	ABC Ltd. Statement of financial position as a '2019	<u>- 1</u>
	ASSETS	
	Non-Current (fixed) Assets:	
	Land and buildings	5
	Machinery	
		1
	Current Ass	
	Inventories (s)	80
	counts rect le (debt	50
		10
		140
	TOTAL	1290
	LIABILITIE	
	Current Liabin	
	Accounts payable (creditor)	65
	overdraft	65
		130
	Non-Current (long-term) liabilities:	
	Long-term bank loan	300
	TOTAL LIABILITIES	430
	TOTAL ASSETS - TOTAL LIABILITIES	860
	Shareholders' Equity	
	Share Capital	520
	Profit and Loss Account Reserve (Retained Earnings)	340



C.2 Understand how businesses can be more successful

Improve efficiency

. There are many ways to improve efficiency in a business . Aim is to produce goods or service with minimum resources . Employee efficiency can be key

Reduce sub standard products

. Quality control in production can reduc number of sub standard ds . Each good rejected ha ations ost i . Less rejected goods = ase p hility



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. Incre ces will improve cash w and profits PUT higher prices can lead your ustomers to look elsewhere

Maximise car . Maximisin ity im⊾ fitabili an Uni price is uced, ti ore orofi+ n rise Reduce ofita the business aspeci ticularly larger ones will have aspects of its . Many businesse operation

Eliminating ti

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s less profitability or loss making will improve cashflow and profits

prove methods of production

. There are many ways to improve efficiency in a business Aim is to produce goods or service with minimum resources . Employee efficiency can be key

Reduce cost of production

. Often the first thing to assess is the cost of production . Maintaining the same quality whilst reducing costs is the challenge for businesses . Poorer quality goods can lead to a loss of customers



State an advantage and disadvantage of reducing the cost of production to improve profitability

State one consequence of increasing prices to improve pre-

State two

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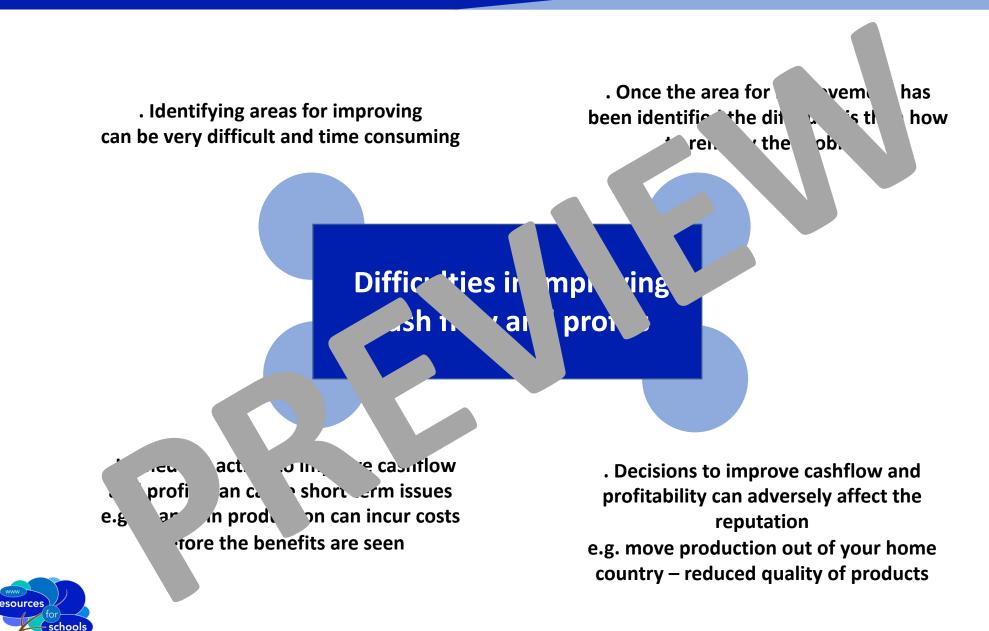
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reducing production costs to improve profits



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18