Business Costs and Revenue

Fixed costs: do not increase with output
Variable costs: increases with output.
Direct costs: can be easily identified.
Indirect costs: overheads.
Total costs: All costs combined.
Revenue: Total income
Break-even point: level of sales at which
Total cost = total revenue.

Contribution: selling price − Variable costs

Break-even (without graph) : $\frac{\text{Fixed costs}}{\text{contribution}}$.

Budget: plans for the future containing numerical or financial targets.

Cash flow

Cash inflows and outflows over a period of time.
Forecast: estimate of cashflows of a business.
Solving Cashflow problems:
→ Arrange with the bank.
→ Reduce/delay planned expenses
→ Increase forcasted cash income
→ Delay payment for some expenses.

Business Accounting

Gross profit: sales revenue − cost of sales.

Net profit: gross profit − other expenses.

Profit and Loss account: shows how net profit and retained profit are calculated.

Depreciation: fall in value of a fixed asset over time.

Balance sheet: shows the value of a business' assets and liabilities at particular times.

$$\text{Margin \%} = \frac{GP/NP}{\text{Revenue}} \times 100.$$

$$\text{Return on capital employed (ROCE)} = \frac{NP \times 100}{\text{Capital Employed}}$$

Capital Employed = shareholder's funds + Long term liabilities.

Ratios:

Current Ratio = current assets ÷ current liabilities

$$\text{Acid test ratio} = \frac{\text{current assets} - \text{stock}}{\text{current liabilities}}.$$

Both these ratios must be at least 1:1

Ideally they must be between 1.5:1 and 2:1