Costs

1	**How are total costs calculated?**	Total cost is the fixed costs plus the variable costs. For example, if the shop's fixed costs are £1000 and their variable costs are £0.20 per cupcake, their total costs when they produce 500 cupcakes will be: Fixed Costs + (Variable Cost Per Unit x Units Produced) £1000 + (£0.20 x 500) £1000 + £100 = **£1100 Total Costs**
2	**How is revenue calculated?**	Total Revenue is calculated by: Selling Price x Number of Sales
3	**How is profit/loss calculated?**	Total Profit is calculated by: Total Revenue – Total Costs

Break Even Units Formula

$$\text{Break Even Units} = \frac{\text{Fixed Costs}}{\text{SP} - \text{VC}}$$

Break Even

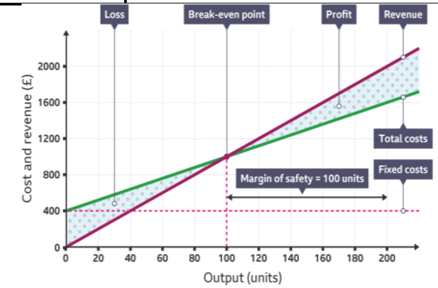
1	**Key Idea**	Break-even is the point at which a business does not make a profit or a loss – its revenue from sales and its total costs are equal. The number of products that must be produced/sold to reach this point is called the Break-even Point. Majority of the time this is not a good position for a Business to be in.
2	**Key Idea**	Break Even Analysis is carried out to identify how many products a business needs to sell in order to start making a profit.
3	**How is break even calculated?**	The formula for Break-even is: Fixed Costs Selling Price per Unit – Variable Cost per Unit
4	**Key idea**	It is an **important** figure for any business because it tells **management** how much reduction in revenue will result in break-even. A higher MOS reduces the risk of business losses.
5	**Key idea**	Increasing selling prices will lower a business's Break-even Point, they will need to produce/sell less in order to Break-even
6	**Key idea**	An increase in either Fixed or Variable Costs (or both) will result in a higher Break-even Point for a business; they will need to produce/sell more in order to Break-even.
7	**Margin of Safety**	The Actual Output (sales) – the BEP = MoS
8	**Contribution**	Selling price – variable costs
9	**Key Idea**	Break Even must **ALWAYS be rounded up** A Business can not sell half a unit 10.1 must always be rounded up to 11

Cash Flow

1	**How is Net Cash Flow calculated?**	Inflows – Outflows
2	**Opening Balance**	The Closing Balance of one month is used as the Opening Balance for the next month
3	**Cash Flow Key Idea**	Is the most important financial concept for a Business. More Businesses will fail because of lack of cash flow than any other reason.

Sources of Finance

1	**Short Term**	Overdraft – high interest rate, but quick access Trade Credit – needs to be paid or will result in no new materials Loan – pay interest on outstanding balance, quite easy to get it
2	**Long Term**	Mortgage – high interest rates Personal Savings – no interest to pay Venture Capital – Dragons Den Share Capital – New investors give money for a share of the profits (dividend) Retained Profits – no interest to pay but means no 'pot' if any unexpected costs Crowd Funding – usually done online. People give small donations towards a 'big cost' that they want to support
3	**Internal**	Finacne that comes from within the Business. Eg, retained profits
4	**External**	Sources of finace that come from outside the business. Eg, Loans



Key Vocabulary

1	**Costs**	Costs are the things businesses have to pay for in order to produce a product or provide a service.
2	**Fixed costs**	Fixed costs are things a business pays for that do not change depending on the amount of a product a business makes – so these costs stay the same no matter how many products a business produces.
3	**Variable costs**	Variable costs are the costs a business pays that change depending on how many products a business produces – these costs increase when more products are made.
4	**Revenue**	Revenue is the money generated from selling products or services. It is not profit, but the money coming in to a business from sales.
5	**Profit**	Profit is the money left over from revenue once costs have been paid – it's the money a business makes once all costs have been covered. If Costs are higher than revenue the Business will make a loss.
8	**Cash Flow**	The movement of money in to and out of the Business.
9	**Inflows**	Any money coming in to the Business
10	**Outflows**	Any money going out of the Business
11	**Interest**	The amount charged for borrowing money Also the amount of money paid to savers

Aims and Objectives

1	**Why are they needed**	They give the Business a focus and goal to work towards
2	**Financial objectives**	survival, profit, sales, market share, financial security
3	**Non-financial Objectives**	social objectives, personal satisfaction, challenge, independence and control.
4	**Why do Businesses have different Objectives**	A new business needs to focus on survival, whereas an established Businesses will want to increase their share of the market. Businesses Objectives need to be different depending on their current situation.
5	**SMART objectives**	Specific Measurable Agreed Realistic Timely