Pick A Card

Your team have a set of question-cards to answer.

1) Person 1 - ask Person 2 to "Pick a card".

2) Person 2 - pick a card and read it to Person 3.

3) Person 3 - answer the question.

4) Person 4 - praise Person 3 for their answer.
Re-cap it and say if it is right or wrong.
Mentor Person 3 if they are not correct.

5) Everyone praise Person 3.
Person 1 - give the cards to Person 2 and everyone change roles.

What is a ‘cash inflow’?

Money coming into the business. Most commonly, this is through the sale of goods to customers.

Question and Swap

1) You are given one question card with an answer on the back - stand up and raise your hand.

2) Walk around the room until you find someone else with their hand up - partner up and put your hand down.

3) Ask your partner your question. Praise their answer and coach them if needed.

4) Your partner will then do the same to you, using their question.

5) Thank each other, swap cards and raise your hand - find a new partner.

What is a ‘cash outflow’?

Money going out of a business. In other words , a **cost** to the business. For example, staff wages.

What is a 'cash flow'?

The flow of cash coming in and out of the business.

How do you calculate 'profit'?

Profit = revenue – total costs

How could a company improve its cash flow?

Increase cash coming in by:

- Increase prices.
- Reduce trade credit given to your suppliers.
- Chase late payments.
- Borrow money (bank loan/overdraft).
- Sell assets such as unused machines.

Decrease cash going out by:

- Reduce money tied up in stock.
- Ask for trade credit by asking if you can 'buy now, pay later'.
- Lease instead of buy machinery.

How do you calculate 'total costs'?

Total costs = variable costs + fixed costs

How do you calculate ‘revenue’?

Revenue = sale price x quantity sold

What is a ‘fixed cost’?

A cost that doesn’t vary with output and has to be paid regardless of the number of items you make.

E.g. If I made wooden chairs then a fixed cost for me might be the hammer. I don’t need to buy a hammer each time I make a new chair, I can simply use the same hammer and it’s cost to the business remains the same.

What is a ‘variable cost’?

A cost that changes (varies) with the amount of that product you make.

E.g. If you were making a wooden chair a variable cost would be the wood. The more chairs you make, the more wood you have to buy.

How is ‘profit’ different to ‘revenue’?

Revenue is the money coming into the business through sales.

Profit is the money left over after all the costs have been paid for.

What is a ‘cash flow forecast’?

A forecast (prediction) of the cash coming in and going out over a period of time in the future.

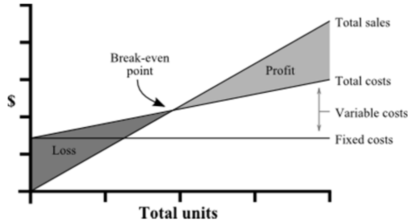
What is ‘contribution analysis’?

Contribution analysis looks at using the fixed costs, variable costs and sales revenue to calculate how much each product sold is *contributing* towards paying off either the fixed costs or contributing towards the profit.

E.g. A chair sells for £10. The variable costs to produce it are £7. We call this £3 difference **contribution, not profit.** I have factory rent of £60 to pay for before I can call it profit. We can use this £3 to find out how many chairs I need to sell to cover the £60 fixed costs by 60 / 3 = 20. **Therefore my break-even output is 20 chairs.** If I make 19 I'm making a loss and if I make 21 and can sell them then I'm making a profit.

What does the ‘break-even point’ mean’?

The point at which total revenue equals total costs.



What is ‘margin of safety’?

The amount of output between the actual level of output being produced and the break-even point.

E.g. if a company is currently producing 100 chairs a day, but needs produce and sell 70, then the margin of safety is 30.

What is a definition of 'internal sources of finance'?

Finance which is obtained within the business such as retained profit and sale of assets.

What is a definition of 'retained profit'?

Profit which is kept back in the business and used to pay for investment in the business.

What is a definition of 'external sources of finance'?

Finance which is obtained from outside the business such as bank loans and cash from the issuing of new shares.

What is a definition of 'equity or share capital'?

The monetary value of a business that belongs to the business' owners. In a company, this would be the value of their shares.

What is a definition of a 'share'?

A part ownership of the business; for example a shareholder owning 25% of the shares of a business owns a quarter of the business.

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What is a definition of 'trade credit'?

Trade credit isn't actually giving money. It is given by suppliers and it allows the business **time** to pay for the goods they receive.

E.g. This school buys on trade credit. We order text books and they arrive within a couple of days, however we will be allowed 30 days to pay for them.

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What is a definition of an 'overdraft'?

Borrowing money from a bank by drawing more money out than is actually in the account. Interest is charged on the amount overdrawn.

E.g. A business might have agreed an overdraft of £1000. Than means the balance can read -£1000. They will get charged interest on this £1000 that they owe.

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What is a definition of a 'loan'?

A loan is an amount of money borrowed normally from a bank. It will be borrowed for an agreed period of time (E.g. 5 years) and interest will be paid back on top.

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What is a 'venture capitalist'?

An individual of company which buys shares in what they hope will be a fast growing company with a long-term view of selling the shares at a profit.

E.g. Dragon's Den entrepreneurs can be seen as venture capitalists.

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What is a description of 'short-term finance'?

Sources of money for businesses that may have to be repaid either immediately or within a year.

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What is a 'dividend'?

A share of the profits of a company received by shareholders who own shares.

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What is a description of 'long-term finance'?

Sources of money for businesses that are borrowed or invested for typically longer then a year.

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Describe what ‘leasing’ is?

Renting equipment or premises instead of buying them – saving on an initial large sum of money being spent and instead paying smaller amounts every month/year. Although you very rarely own the asset, just borrow it! Is this a good idea?

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Describe what ‘leasing’ and ‘trade credit’ have in common in terms of sources of finance ?

They both **do not** involve the business being given cash like a bank loan does. Instead they are a different method of paying for assets.

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Describe what ‘leasing’ is?

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