Revenue = quantity sold x price

Fixed costs don't depend on sales: rent, insurance, salaries
Variable costs depend on how many sales are made: raw materials, factory labour &
running machinery

Total variable costs = quantity sold x cost per unit

Total costs = total variable costs + total fixed costs

Interest on borrowings: cost on top of borrowing a loan

Interest (on loans) = (total repayment - borrowed amount / borrowed amount)
x100

Profit/loss: the difference between revenues & costs over a period of time

Profit = revenue - costs

Costs are higher than revenue = business makes a loss

Break even: level of output firms need to cover
their costs (profits = losses)
Low break even point = good as business doesn't
have to sell as much to make a profit

PVC: price/item - variable costs = contribution

Break even = costs/contribution (cost/unit -
variable costs)
(Price - variable costs/item) = contribution
(Fixed costs / contribution) = break even point

Margin of safety: the gap between the current
level of output & the break even output

Margin of safety = actual sales (or budgeted
sales) - break even sales
Budgeted sales are used to forecast margins of
safety, acting as a projection of sales

Break-even diagrams show how cost & revenue
affects break-even output depending on prices &
suppliers
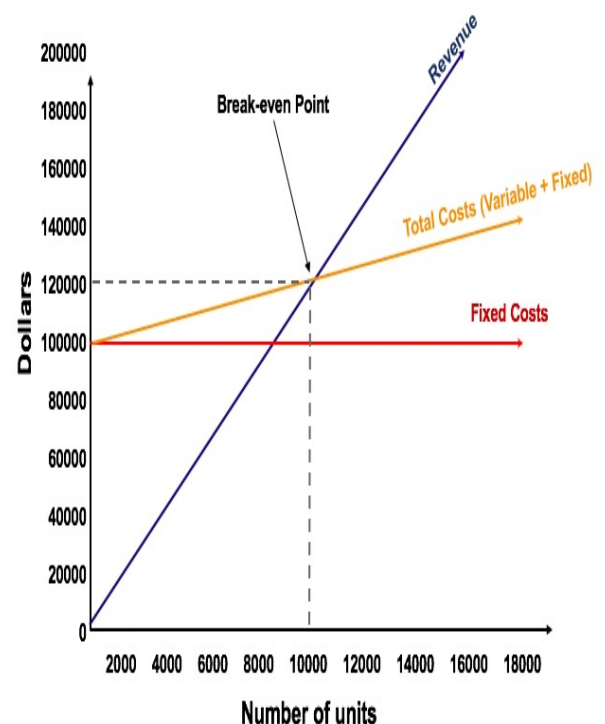
Cash flow: flow of £££ in (sales) & out (to cover fixed costs) of a business

Net cash flow = cash inflows - cash outflows for a given period of time
Positive cash flow means more inflows than outflows so can make payments on time but limits improvement opportunity via investments

Opening balance = closing balance of the last month
Closing balance = opening balance + net cash flow

Cash flow forecasts: list PREDICTED inflows & outflows that appear within the budget
Lack of cash = failing due to debt (insolvency = insufficient funds to cover costs) unless it sells its assets off, so can predict when it will need short term finance to cover costs

Cash flow statement = record of actual cash flow

Credit terms: indicate how long till after a purchase is made can a consumer pay till, affecting the timing of cash flow

When customers pay immediately, firms organise short term finance
When customers pay months later, firms arrange extra finance for longr periods of time TO COVER FIXED COSTS

Average rate of return: average return of an investment each year over its lifespan
Returns: how much the business makes as a proportion of the original investment

ARR = (average annual profit / cost of investment) x100

Gross profit: profit business makes after cost of sales (production costs) are deducted

GP = revenue - cost of sales
Gross profit margin = (gross profit / revenue) x100 : profit made after the costs of directly making a product are deducted

Net profit: profit made after all expenses are deducted

NP = gross profit - (operating expenses + interest)
Net profit margin = (net profit / revenue) x100 : profit made after all costs have been covered

Margins are improved by: increasing prices or reducing costs but to stay competitive, some businesses have low margins via a high volume pricing strategy

Data used to inform decisions:

Financial: cash flow forecasts & ARR determine if costs should be reduced
Market data: market research relative to a competitors' suppliers & performance
Marketing: indicate a change in consumer needs

Limitations to financial data:
Can't make direct comparisons
Hard to determine the cause of business performance in different years
Relies on quantitative data so no indication of changes businesses should make to appease customers