3.1 Sources of Finance

Personal funds
Retained profits
Sale of assets
Share capital
Loan Capital
Overdraft
Trade credit
Grants
Subsidiaries
Debt factoring
Leasing
Venture capital
Business Angels

3.2 Costs & Revenues

- Capital expenditure
- Fixed asset
- Revenue Expenditure
- Insolvency

3.3 Break-even Analysis

- Break-even Point & Analysis
- Selling Price, Variable Costs, Fixed Costs
- Contribution
- Margin of Safety
- Target Profit Output, Target Profit, Target Price

3.4 Final Accounts

- Interest of Stakeholders
- The 5 Principles of Accounting
- Breakdown of an Income Statement (Profit and Loss Account)
- Limitations of Income Statements
- Breakdown of a Balance Sheet
- Liabilities, Equity, Cash, Debtors, Stock, Liquidity
- Advantages & Disadvantages of Balance Sheets
- Intangible Assets, Intellectual Property, Patents, Copyrights Brand, Trademark, Depreciation, Goodwill Causes of Depreciation Straight-line Method of Depreciation
- Reducing/Declining Balance Method of Depreciation

3.5 Profitability & Liquidity Ratio Analysis

- Uses of Ratio Analysis
- Profitability Ratios
- Gross Profit Margin
- Net Profit Margin
- Return on Capital Employed
- Liquidity Ratios
- Current Ratio
- Acid Test Ratio

3.6 Efficiency Ratio Analysis (HL)

- Inventory/Stock Turnover Ratio
- Debtor Days
- Creditor Days
- Gearing Ratio

Use the hyperlinks for an easy experience!

3.7 Cashflow

- Working Capital
- Cash flow, Profit, Receivables, Payables
- The Working Capital Cycle
- Cash Flow Forecast Breakdown
- Importance of Cash Flow Forecasts
- Evaluation of Cash Flow Forecasts
- How to Improve your Cash Flow.

3.8 Investment Appraisal

- Payback Period
- Average Rate of Return
- Net Present Value

3.9 Budgets (HL)

- Future Revenues & Costs
- Zero-based Budgeting
- Differences between profit/loss account and budgeting
- Variance Analysis
- Profit & Cost Centres
- Benefits of Budgeting
- Applications of Budgeting

3.1 Sources of Finance

Source of finance	Internal/External	Brief description	Advantages	Disadvantages	Short, medium or long-term
Personal funds	Internal	This is money invested by the owner(s) of a company.	Not paid back	Limited amounts & opportunity cost	long, medium and short-term.
Retained profits	Internal	Retained profit is money a firm has left at the end of the trading year after paying all costs, expenses, dividends and taxes.	Not paid back	Opportunity cost & loss of dividends	long, medium and short-term.
Sale of assets	Internal	When a corporation is in need of some cash, it may choose to sell one of its fixed assets.	Large sum produced & not paid back.	Opportunity cost & not always available & value decreases.	Depends on the size of the asset.
Share capital	External	This is money that is raised through the issue of shares.	Not paid back with no interest	Dilution of control & loss of future dividends.	long-term
Loan Capital	External	A sum of money usually provided by a bank to be paid back with interest.	Available immediately for investments, but is only repaid in small chunks, over a period of years	Paid back with interest & require collateral	Medium and long-term
Overdraft	External	An agreement with the bank which allows the business to spend more money than in its account.	Flexibility	Very high interest rates	short-term
Trade credit	External	A company will obtain goods and services from a supplier immediately, but pay for them at a later date.	No interest paid & improves cash flow	May not be available	short-term
Grants	External	Government-provided financial support for businesses	No debt	Conditional & have to be applied for	long-term
Subsidiaries	External	many forms of funding, including direct payments, loan guarantees and special tax breaks	No debt	Restrictions	Medium and short-term
Debt factoring	External	Specialist agencies 'buy' debts of firms for immediate cash	Immediate cash	Loss of some of the debt & ruins relationships with customers	short-term
Leasing	External	Rather than buying a fixed asset a business could choose to lease the asset over an agreed period of time.	Less outflow ST, no need to pay for maintenance or storage of the equipment.	Long-term more expensive	Medium and short-term
Venture capital	External	Funding provided by a venture capitalist in return for a stake	No debt	Loss of dividends and control	long-term
Business Angels	External	Wealthy business people invest their money into exciting new	No debt	Loss of dividends and control	long-term

3.2 Capital & Revenue Expenditure

Capital expenditure is spending on a firm's fixed assets.

- It is the long-term investment in these assets.
- It is normally funded using long-term sources of finance.
- Investment in capital expenditure allows a firm to grow in the future.

Examples:

- Rolls-Royce invested US$30 million into a new facility that will be dedicated to research and development, and that is designed to test new materials for use in aircraft engine components.
- Tesla listed purchases of property and equipment for $1.3 billion in 2019.

A **fixed asset** is something a firm plans to keep for longer than one year.

Revenue expenditure is spending on a firm's general operational costs- best thought of as the day-to-day running costs of a firm.

Insolvency occurs when a firm cannot pay its revenue expenditure and has to go out of business.

Examples:

- Tesla spends on salaries and Utility bills such as gas, electricity and water.
- Google pays salaries and wages to workers as well as repays debts and mortgages.