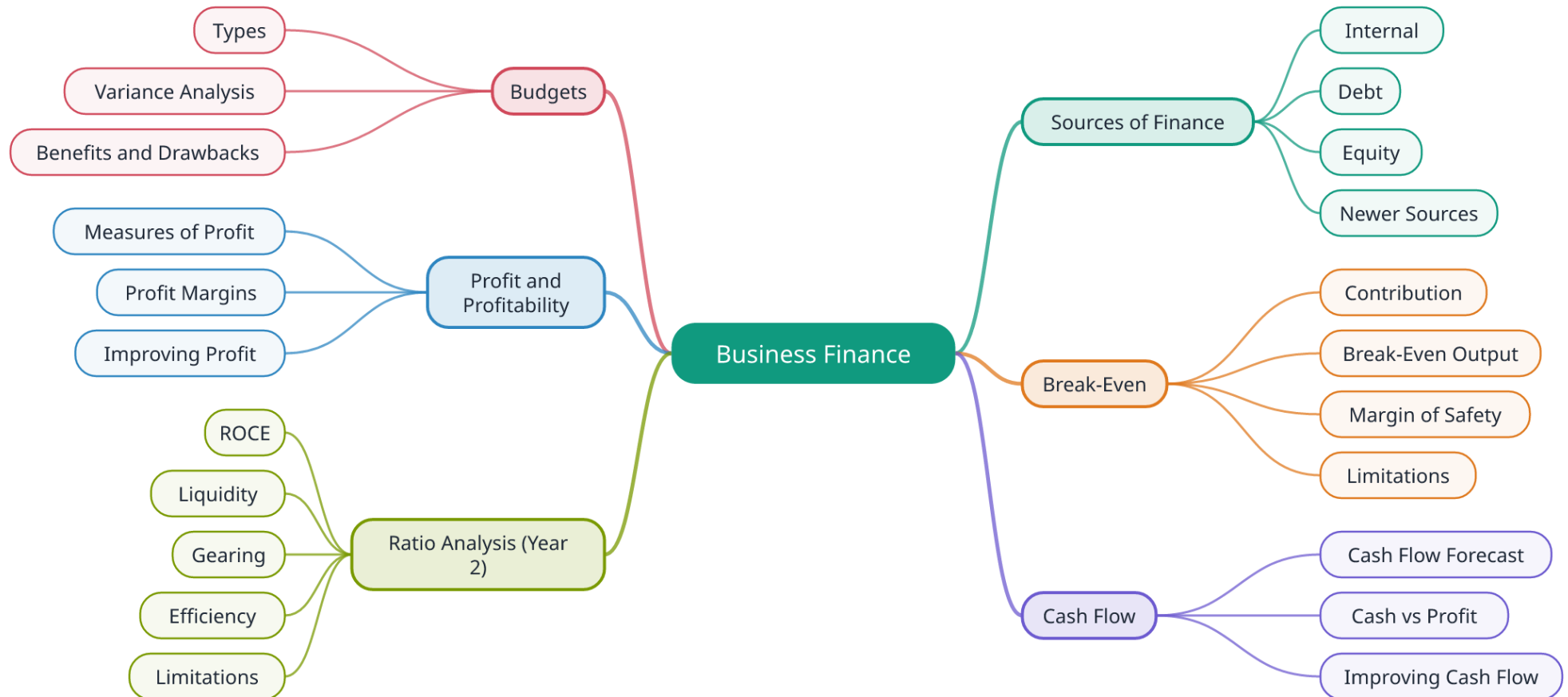


Business Finance Mind Map (A Level Business)

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Business Finance mind map explained

Sources of Finance

Where a business gets the money it needs.

Internal

Retained profit and selling assets. No interest to pay, but limited in amount.

Debt

Bank loans, overdrafts, trade credit and leasing. Keeps ownership, but must be repaid with interest.

Equity

Share capital, venture capital and business angels. No repayments, but owners give up some control and profit.

Newer Sources

Crowdfunding and peer-to-peer lending, often used by start-ups.

Break-Even

The output at which total revenue equals total costs: no profit, no loss.

Contribution

Contribution per unit = selling price - variable cost per unit. It goes towards paying fixed costs, then profit.

Break-Even Output

Break-even output = fixed costs ÷ contribution per unit.

Margin of Safety

Actual output - break-even output: how far sales can fall before the business makes a loss.

Limitations

Assumes all output is sold at one price and costs are linear, and is only as reliable as the forecasts behind it.

Cash Flow

The movement of cash into and out of a business. Running out of cash is a common cause of business failure.

Cash Flow Forecast

Predicts monthly cash inflows and outflows. Net cash flow = inflows - outflows; closing balance = opening balance + net cash flow.

Cash vs Profit

A profitable business can still run out of cash, for example if customers pay late or it buys a lot of inventory.

Improving Cash Flow

Chasing receivables, factoring, delaying payments to suppliers, overdrafts, and sale and leaseback.

Budgets

Financial plans for income and spending over a period.

Types

Income budgets, expenditure budgets and profit budgets. Budgets can be historical (based on last year) or zero-based (built from nothing).

Variance Analysis

Comparing actual results with the budget. A favourable variance improves profit; an adverse variance reduces it.

Benefits and Drawbacks

Budgets help control spending and set targets, but can be inflexible and demotivating if imposed from above.

Profit and Profitability

How much profit a business makes, and how well it turns revenue into profit.

Measures of Profit

- Gross profit = revenue - cost of sales
- Operating profit = gross profit - other operating expenses
- Profit for the year = operating profit + finance income - finance costs - tax

Profit Margins

Gross, operating and net profit margins = the profit ÷ revenue × 100. Margins allow comparison between businesses of different sizes.

Improving Profit

Raise prices, increase sales volume, or cut costs, each with possible drawbacks.

Ratio Analysis (Year 2)

Using ratios from the financial statements to judge performance.

ROCE

Return on capital employed = operating profit ÷ capital employed × 100. The higher, the better the return.

Liquidity

Current ratio = current assets ÷ current liabilities, with about 1.5 to 2 often seen as healthy. The acid test ratio leaves out inventories.

Gearing

Gearing = non-current liabilities ÷ (total equity + non-current liabilities) × 100. Above 50% is highly geared, which is riskier when interest rates rise.

Efficiency

Inventory turnover, payables days and receivables days show how efficiently the business manages its working capital.

Limitations

Ratios are based on past data, ignore qualitative factors, and need comparing with other years or competitors to mean anything.

How to revise with this mind map

1. Learn every formula, then practise until the calculations are quick and accurate. Show your working to earn method marks even if the answer slips.
2. Always interpret the number. After each calculation, say what it means for this business and what it should do.
3. Know the difference between cash and profit, and be ready to explain why a profitable business can still fail.
4. Evaluate the tools. Break-even, cash flow forecasts and ratios all rely on assumptions and past data: say how reliable they are in the case study's context.
5. Make it yours. Build your own finance map in Mindmapi from your notes, and ask the AI to check a calculation or explain a ratio. The answer is saved into that branch's notes for next time.