# Unit five

DATE

## Cash Flow Forecast

1] Starting a business: predicts cost of premises, machinery, inventory and advertising.
2] Bank Loans: Size of loan, when and for how long it is needed, when it can be repaid.
3] Runs out of cash; needs loan / overdraft: Plan and inform banks before to get low prices.
4] Managing Cash Flow: If extra cash is predicted, loans or creditors could be paid.
[actively manage cash flow]

## Break-Even Charts

1] Can easily visualise the expected profit or loss to be made at any level of output
2] Impact on profit or loss of certain business decisions can also be shown by redrawing the graph.
3] Safety Margin can be seen, which is the amount by which sales exceed the break-even point.
- Assumes costs & revenue are straight lines
- Assumes all goods produced are sold
- FC may change anytime

## USES

## Income Statements

It is a profit & loss account
↳ Used to compare business performance with previous years and other companies
↳ Helps in making decisions based on profit calculations
↳ Important part of a company's published accounts

## Balance Sheets

↳ Lists assets and liabilities at a particular time. Can be called the statement of financial position.
↳ Helps to analyse how the bs' expansion has been paid for
↳ Working capital can be calculated
↳ Total long-term and permanent capital can also be calculated.

## Accounts

1] Shareholders, Creditors and governments use it to check on company performance.
2] Managers use them for taking decisions and controlling the operations of a business.
3] Other companies use them for comparing performance
4] Banks will only lend more if the business is not at risk of becoming illiquid.
- External users cannot see all details
- Ratios are based on past data [not indicative of future]
- Data is affected by inflation; misleading comparisions b/w years
- Different companies may be using different accounting methods.

Typo

# formula sheet

DATE

## PROFITABILITY RATIOS [Always a percentage]

$$\text{Gross Profit Margin \%} = \frac{\text{Gross Profit}}{\text{Sales revenue}} \times 100$$

$$\text{Net Profit Margin\%} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

$$\text{Return on capital employed} = \frac{\text{Net Profit}}{\text{Capital employed}} \times 100\ \%$$

## LIQUIDITY RATIOS [Never a percentage]

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$ Ideal: Between 1 and 2

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$ Ideal: 1

## OTHER FORMULAE

1] Owners equity = Total Assets – Total Liabilities

2] capital employed = Shareholder's funds + Long-Term liabilities

3] Working capital = Current Assets – Current liabilities

4] Gross Profit = Sales revenue – cost of sales

5] Net Profit = Gross Profit – Expenses

6] Total costs = Fixed costs + Variable costs