IGCSE Business Studies: Financial information and decisions

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1. **Acid test ratio** — If a high proportion of current assets is held in inventory it may be difficulty to liquidate these quickly. Taking inventory away from current assets gives a better measure of liquidity. As a rule the ratio should be 1.
2. **Asking debtors to pay more quickly** — This will increase cash inflows in the short term, but debtors may change to another business that offers them more time to pay.
3. **Attracting new investors** — This will provide a business with more cash, but may affect the ownership of the business
4. **Balance sheet** — A financial statement which shows the assets, liabilities and capital of a business a particular date (what it owns and what it owes).
5. **Bank loans** — These provide a business with cash, but loans have to be repaid with interest.
6. **Bank loans** — Money can be borrowed from banks.
7. **Capital expenditure** — The money spent on fixed assets.
8. **Cash flow** — The movement of money in and out of a business.
9. **Cash flow forecast** — Shows the opening balance at the start of each month and the closing balance at the end.
10. **Cash inflow** — The money that enters the business.
11. **Cash outflow** — The money that leaves the business.
12. **Closing balance** — The cash available at the end of a month.
13. **Current assets** — Assets that are kept for less than one year.
14. **current assets - current liabilities** — [equation] Working capital
15. **(current assets / current liabilities)** — [equation] Current ratio
16. **(current assets - inventory) / current liabilities** — [equation] Acid test ratio
17. **Current liabilities** — Liabilities due to be repaid in less than one year.
18. **Current ratio** — This measure how easily a business can meet its immediate financial obligations. Should be between 1.5 and 2. If the ratio is too low the business may have difficulty paying it's debts. If it is too high then it suggests money is being tied up unprofitably.
19. **Cutting costs** — This may increase efficiency, but it may negatively impact product quality.
20. **Delaying or canceling the purchase of capital equipment** — This will decrease cash outflows in the short term, but the long-term efficiency of the business could decrease without up-to-date equipment.
21. **Delaying payments to suppliers** — This will decrease cash outflows in the short term, but suppliers could get angry and refuse to supply or reduce discounts for late payments.
22. **Developing new products** — This may attract more customers, but this could take a long time and requires investment.
23. **Factoring of debts** — Specialist agencies buy business debts - this gives the business immediate cash.
24. **Fixed assets** — Assets that are kept for longer than one year.
25. **Grants and subsidies** — Outside agencies may lend the business money.
26. **Gross profit** — How much money it is making from selling things without subtracting the cost of making the things it is selling.
27. **gross profit - fixed and variable expenses** — [equation] Net profit
28. **Gross profit margin** — This shows the percentage profit from sales which is available to pay for overheads. If the ratio is falling over time it could be due to a failure to pass on cost increases to customers or an attempt to increase market share by keeping prices down.
29. **(gross profit / sales revenue) x 100** — [equation] Gross profit margin
30. **Income statements** — These indicate to managers, business owners and other account users whether the business has made a profit or loss over a period of time.
31. **Insolvency** — Describes a situation when a profitable business is unable to pay its debts.

32.	**Issue of shares**	Shares can be issued by limited companies.
33.	**Liabilities**	Amounts owed by the business.
34.	**Liquidity**	How easily assets can be turned to cash. It can also refer to the ability of a business to pay its debts.
35.	**Long-term finance**	The type of finance includes any source of finance with a maturity of at least one year.
36.	**Long-term liabilities**	Liabilities due to be repaid over more than one year.
37.	**Net cash flow**	The difference between the total cash inflow and the total cash outflow.
38.	**Net profit**	How much money it is making from selling things after the cost of making the things it is selling is subtracted
39.	**(net profit / capital employed) x 100**	[equation] Return on capital employed
40.	**Net profit margin**	This shows the percentage profit from sales that is left over after all the business' expenses have been paid. If the ratio is falling over time it could be due to a rise in the running costs of the business or a drop in the level of productivity or efficiency of the workforce.
41.	**(net profit / sales revenue) x 100**	[equation] Net profit margin
42.	**Opening balance**	The cash available at the start of a month.
43.	**Owner's savings**	A sole trader or partnership member can put their own savings into the business.
44.	**Profit**	The extra money made by the business when a product is sold for a higher price than it took to make it.
45.	**Retained profit**	The profit kept in the business after the owners and shareholders have taken their share of the profits.
46.	**Return on capital employed**	This is also a measure of operational efficiency. If ROCE is lower than interest rates then it is unsatisfactory since it indicates the business would be better by depositing the money in the bank!
47.	**Revenue expenditure**	The money spent on day-to-day expenses.
48.	**Sale of existing assets**	Existing assets that are redundant or surplus can be sold for money.
49.	**Sale of inventories**	Inventories can be sold in order to reduce inventory levels.
50.	**sales revenue - cost of goods sold**	[equation] Gross profit
51.	**Selling debentures**	Long-term loan certificates issued by limited companies.
52.	**Short-term finance**	This type of finance includes any source of finance with a maturity of one year or less.
53.	**Start-up capital**	The initial investment of capital in a business.
54.	**Working capital**	The finance needed by a business to pay its day-to-day costs, for example, wages, raw materials and electricity.