Aims and Objectives

Aims are the long term goals that a business sets itself.

Examples include:

- To become a global business
- To become carbon neutral

Objectives are more specific short term targets that contribute to meeting the overall aim

Types of objective

1. Financial objectives

Objectives that are expressed in monetary terms

Examples include:

- Survival
- Sales and Revenue
- Profit
- Market Share
- Financial Security

2. Non-Financial objectives

Objectives that do not relate to money

Examples include:

- Personal satisfaction
- Independence and control
- Social benefits
- Challenge

SMART Objectives

S stands for **SPECIFIC**

M stands for **MEASURABLE**

A stands for **ACHIEVABLE**

R stands for **REALISTIC**

T stands for **TIMED**

e.g. to increase profit by 10% in the next year

Revenue, costs and profits

Revenue

All of the money that is coming into the business through selling goods or services

Total revenue = Price x Quantity sold

Costs

What the business has to pay to keep operating

Types of Costs

Fixed costs
Costs which do not vary with the output which is produced by the business

Examples.

- Rent
- Advertising costs
- Loan repayments
- Wages

Variable costs
Costs which change directly with the number of products made by a business

Examples.

- Raw materials
- Packaging

Total costs = Fixed Costs + Variable costs

Profit

Profit occurs when revenues of a business are greater than its total costs

Profit/Loss = Total revenue – Total costs

	June	July	August
TOTAL REVENUE	£25275	£27350	£29850
FIXED COSTS	£4800	£4800	£4800
VARIABLE COSTS	£11300	£13400	£13450
TOTAL COSTS	£16100	£18200	£18250
PROFIT/LOSS	£9175	£9150	£11600

Total costs = Fixed Costs + Variable costs

Profit/Loss = Total revenue – Total costs

Uses of Break-even

1. Understanding what has happened in the past
2. Setting and achieving future targets
3. Launching a new product
4. Starting a new business
5. Developing a Business plans

Changes to the Break even point

The Break-even will increase if .....

- Fixed Costs increase
- Variable costs increase
- Selling Price decreases

Break Even

Break-even is the point at which a business has sold enough units to cover its costs.

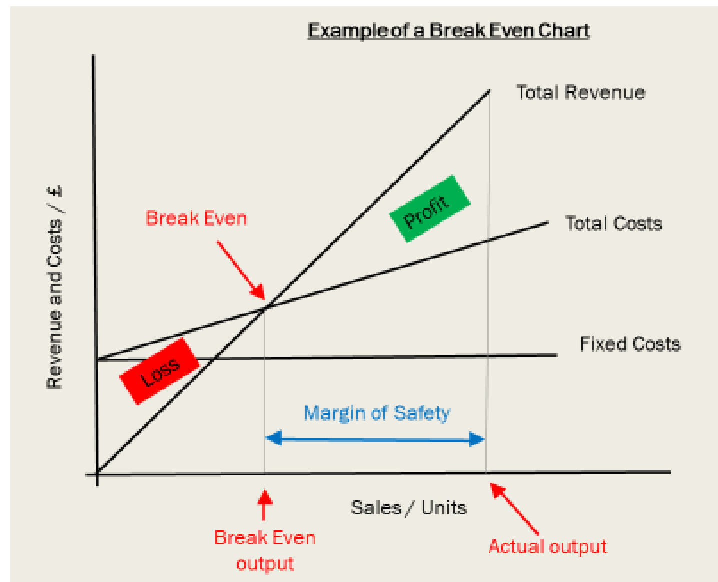
At this point the business is making no profit or loss.

Break Even = $\frac{\text{Fixed Costs}}{\text{(Selling Price – Variable Costs per unit)}}$

Margin of Safety

The number of products over the break-even point that a business has sold.

Margin of Safety = Actual output – Break-even point



Cash flow forecasts

Cash flow forecasts are tables that show predictions of cash inflows and outflows over a set period of time.

	May	June	July
Receipts (£)			
Cash Sales	20000	21500	22500
Payments (£)			
Raw Materials	8750	9850	10200
Fixed Costs	2100	2100	2100
Other Costs	5300	5750	5600
Total Payments	16150	17700	17900
Net Cash Flow	3850	3800	4600
Opening Balance	250	4100	7900
Closing Balance	4100	7900	12500

Cash flow forecasts help a business to:

- See how well they should be performing
- Make sure they have enough money to survive
- See if action is needed to avoid a cash flow crisis.
- Show the bank when applying for a loan.

Cash flow

Cash flow is the flow of money in and out of the business

Cash inflows - Money coming into the business

Examples include..

- Sales revenue
- Bank Loans
- Share capital

Cash outflows – Money going out of the business

Examples include..

- Wages
- Loan repayments
- Materials

Importance of Cash

- Business needs cash to keep trading
- Needed to pay staff and suppliers
- Lack of cash = insolvency

Calculating Cash flow

	January	February	March
Receipts (£)			
Cash Sales	14050	15340	16580
Payments (£)			
Raw Materials	6500	7200	8800
Fixed Costs	2300	2300	2300
Other Costs	3300	3660	3725
Total Payments	12100	13160	14825
Net Cash Flow	1950	2180	1755
Opening Balance	1200	3150	5330
Closing Balance	3150	5330	7085

- **Net Cash Flow = Total inflows (Receipts) – Total outflows (Total Payments)**
- **Closing balance = Net cash flow + Opening balance**
- **Opening balance = Closing balance from the previous month**

Sources of finance

Reasons for finance

- Paying for expenses
- Expanding the business
- Investing in new products and services
- Starting a new business
- Paying off unforeseen debts

Types of Finance

1. SHORT TERM FINANCE

Finance that needs to be repaid within a year

2. LONG TERM FINANCE

Finance that are usually repaid over a longer period of time – used to finance a new business or expand a business

Short Term Sources of finance

Bank Overdraft

Advantages
Allows firms to spend more than they have in their account
Allows the firm to pay off running costs
Disadvantages
The bank can demand full repayment at short notice
Needs paying off with interest

Trade Credit

Advantages
The business receives supplies and can pay for it later
Disadvantages
The bank can demand full repayment at short notice
Needs paying off with interest – often at a higher rate

Long Term Sources of finance

Personal Saving

Advantages
Doesn't need paying back
Disadvantages
May not have enough funds available

Share Capital

Advantages
Can bring in a large amount of money
Disadvantages
Owners will lose some control of the business

Loans

Advantages
Get the money when needed and pay it back over time
No loss of control
Disadvantages
Needs repaying back with interest

Venture Capital

Advantages
Can bring in a large amount of money
Venture capitalist can provide advice and expertise
Disadvantages
The owner will have to give up part of their business

Retained Profit

Advantages
Doesn't need paying back
No loss of control
Disadvantages
May not have enough money available

Crowdfunding

Advantages
Money does not need to be paid back
Disadvantages
May not receive enough support to go ahead