



# BUSINESS FINANCE BASICS

## Revenue

The income generated by a business in a set period is known as revenue. The amount of revenue generated depends on the quantity of items sold multiplied by the price of the items sold.

Revenue is also known as turnover.

## Costs

The creation and selling of a product incurs expense. These outgoings are known as costs.

Total Costs = Variable Costs + Fixed Costs

Fixed costs are also known as overheads.

## Profit

Profit is the total revenue minus the total costs.

Profit can be:

- Used to reward owners or investors
- Reinvested in the business
- Saved and put towards the business' reserves in case of a future downturn

## Loss

If the revenue does not exceed the costs of production, then the business will make a loss.

Losses can be addressed by:

- Cutting costs via reducing hours or headcount
- Increasing revenue through initiatives to boost sales

## Trading, Profit and Loss Accounts

This account shows key data relating to a business' performance in a specified time frame.

It will typically include the following statements:

- Total revenue from sales
- Total costs of sales
- Gross profit
- Other expenses
- Net profit

## Balance Sheet

The balance sheet shows the value of a business at a specific time, and will include the following:

- Assets
- Liabilities
- Net Assets & Equity

## Assets

Assets are divided into two types fixed assets and current assets. Fixed assets include things such as warehouses, production machines, vehicles and even intellectual property rights. Current assets include things such as cash and stock.

## Liabilities

Liabilities are sums that need to be settled with outside parties. Current liabilities need to be settled within the fiscal year such as tax bills. Fixed liabilities are longer term commitments such as mortgages and loans that do not need to be paid off within the fiscal year.