### 8.2.7 Calculating the Profit or Loss of a Business

The level of profit or loss can be found from a break-even chart, but it can also be calculated using a profit and loss **account**. This records:

- sales;
- cost of sales;
- gross profit;
- overheads/expenses;
- net profit.

You will need to understand the format of a profit and loss **account** and how calculations of profit or loss are made for a business activity.

Some businesses do these calculations manually, others use computer applications. You will need to understand the advantages and disadvantages of using a computer to record and calculate profit and loss statements and break-even charts.

### 8.2.8 Understanding a Balance Sheet

A balance sheet provides a snapshot of the financial position of a business on a particular date. It shows the assets and liabilities of the business at that date. The balance sheet records:

- capital or owners' funds (shareholders' funds)
- liabilities
- fixed assets
- current assets

You will need to understand the format of a balance sheet, and how calculations of assets and liabilities are made for a business activity.

### 8.2.9 The Importance of Business Accounts

Business accounts should provide an accurate picture of the financial health of a business. Different stakeholders in the business may be interested in different aspects of the profit and loss account and the balance sheet. You need to explore how these documents could be of interest to:

- shareholders;
- managers;
- employees;
- banks;
- customers.

## 8.2.10 Sources of Business Finance

A new business is likely to be financed by a mixture of the owners' funds and loans. Once underway, a business might seek to finance new developments using profits from sales. Companies with shareholders as owners can issue new shares. You need to understand why businesses may use different sources of finance for different purposes. You need to know why a business may prefer to use the following sources of finance:

- owners' funds;
- profits;
- loans;
- government grants;
- hiring and leasing;
- issuing shares;
- selling assets;
- venture capital.

## 8.2.11 Financial Planning

Like any preparation for the future, a business has to make assumptions and estimates about the months ahead. Income and spending estimates are made for both departments and for the whole business, usually for 12 months at a time. Cash-flow forecasts can help to provide a more detailed picture of what is happening or might happen from month to month.

You need to find out how such financial plans are of use to:

- business departments;
- the business as a whole;
- investors in the business;
- creditors who might lend money to the business.

You need to understand how financial documents can be used to plan for:

- an expansion of a business;
- the costs of unexpected events;
- reductions in the costs of the business.