5 Why a business needs finance – Part 1

Name: ______________ Class: __________ Date: ____________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)		
Business finance	企业资金			
capital expenditure	资本性支出			
fixed assets	固定资产			
revenue expenditure	收益性支出			
internal sources	内部来源			
external sources	外部来源			
retained profit	留存利润			
share capital	股本			
loan	贷款			
overdraft	透支			
profit	利润			
cash	现金			

Recall

Starting and running a business costs money. Bring this with you:

- You pay for things with money every day; a business does too, but on a much larger scale.
- A business that runs out of money has to stop.

At AS we study where a business gets its money (**finance**) and how it manages cash.

New ideas

1 Why finance is needed

Business finance 企业资金 is the money a firm needs to start, run and grow. Spending falls into two kinds:

- **capital expenditure** 资本性支出 — money spent on **fixed assets** 固定资产 that last a long time (machines, vehicles, buildings);
- **revenue expenditure** 收益性支出 — money spent on day-to-day running (wages, rent, raw materials).

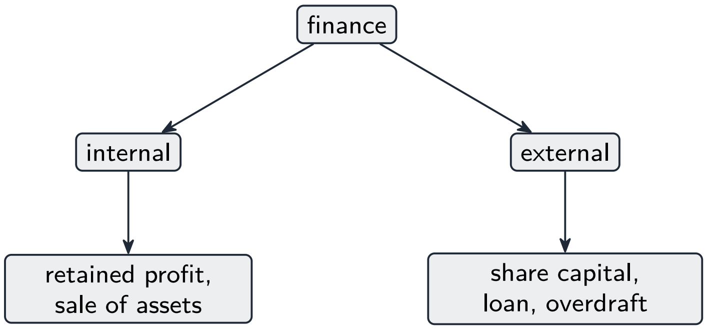
capital expenditure	revenue expenditure
fixed assets that last (machines, vehicles, buildings)	day-to-day running (wages, rent, materials)

Micro-check. Is buying a delivery van capital or revenue expenditure? [1]

2 Sources of finance

Finance comes from **inside** the business (**internal sources** 内部来源) or from **outside** (**external sources** 外部来源):

- internal: **retained profit** 留存利润 (profit kept in the business), or selling assets the firm no longer needs;
- external: **share capital** 股本 (money from selling shares), a **loan** 贷款, or an **overdraft** 透支 (the bank lets the account go below zero for a short time).



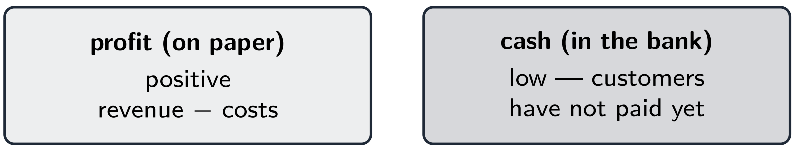
Micro-check. Is a bank loan an internal or an external source? [1]

■ 3 Cash is not the same as profit

This is a key idea:

- **profit** 利润 is what is left when total costs are taken from total revenue over a period;
- **cash** 现金 is the money the firm actually has **right now** to spend.

A firm can be **profitable** but still run out of cash — for example, if it has sold goods but customers have not paid yet. Many firms fail not from low profit, but from running out of cash.



same firm, same month

Micro-check. Can a profitable business still run out of cash? [1]

Watch out: *cash is not the same as profit* — a profitable firm can still run out of cash (e.g. customers have not paid yet). Capital expenditure buys long-lasting assets; revenue expenditure pays day-to-day costs.

Practice

5.1 State which is **capital** and which is **revenue** expenditure: (a) buying a new factory; (b) paying this month's wages. [2]

5.2 State whether each source is **internal** or **external**: (a) retained profit, (b) a bank loan, (c) selling shares. [3]

5.3 Explain how a business can be profitable yet still run out of cash. [2]

5.4 Give **one** internal and **one** external source of finance. [2]

5.5 State what an **overdraft** lets a business do. [1]

5.6 Challenge. A firm makes a healthy profit but its bank account is empty because it sells on 60-day credit. Suggest **one** way it could improve its cash without lowering its profit. [2]