

Theme 2 Key terms

Key term	Definition	Theme	Sub theme
Economic variables	Measures within the economy which have effects on business and consumers e.g. unemployment, inflation and exchange rates	2	2.1.1
Internal finance	The raising of capital/cash from within/inside the business e.g. business/owner's capital, personal savings, retained profit	2	2.1.1
Personal savings/owner's capital	A source of (internal) finance provided by the owner of a business/personal money from the owner	2	2.1.1
Retained profit	Profit is re-invested back into/kept by the business which is not paid as a dividend. It is an internal source of finance	2	2.1.1
Sale of assets	A type of internal finance, involves selling resources that belong to the business	2	2.1.1
Bank loan	An external method of finance/money borrowed from a bank paid back, with interest (over a period of time)	2	2.1.2
Business Angels	Individuals who typically may invest between £10,000 and £100,000 in exchange for a stake in the business	2	2.1.2
Crowd funding	An external source of finance where large numbers of individuals provides funding for a business or project in return for shares/free products/discounts	2	2.1.2
External finance	Money raised from outside the business	2	2.1.2
Grant	A sum of money given by a government or other organisation. It does not need to be repaid and no interest is charged	2	2.1.2
Leasing	A contract to acquire the use of resources such as property or equipment	2	2.1.2
Loan	An external source/method; amount of money borrowed, usually repayable after a fixed term of more than 12 months	2	2.1.2
Overdraft	When a business has a negative balance in their bank account because the amount withdrawn is greater than the current balance.	2	2.1.2
Peer-to-peer funding	When a person lends money to other individuals or businesses via online transactions	2	2.1.2
Share capital	The finance raised a business issuing/selling of new shares	2	2.1.2
Trade credit	Where a firm receives stock/inventory/raw materials from a supplier, which it does not have to pay for until later	2	2.1.2
Venture capital	External source of finance when the business issues shares to a small number of investor(s) in return for a capital injection into the company	2	2.1.2
Liability	Responsibility for the financial debts of the business	2	2.1.3
Limited liability	The amount of a company's losses that a shareholder is liable for is limited to the amount they have invested in the company.	2	2.1.3
Unlimited liability	A legal status which means that business owners are liable for all business debts	2	2.1.3
Business plan	A document giving details of a variety of aspects about the business in order to provide a strategic look at the business and to attract investors. It contains details such as the product, costs, revenues, cashflow forecasts	2	2.1.4
Cash flow	The movement of cash into and out of a business over a period of time.	2	2.1.4
Cash Inflow	The flow of money into a business	2	2.1.4
Cash Outflow	The flow of money out of a business	2	2.1.4
Cash-flow forecasts	The predicted flow of cash into and out of a business over a period of time	2	2.1.4
Closing balance	Money left in the account at the end of the month. Net cash flow + Opening balance	2	2.1.4
Net cashflow	The difference between the cash flowing in and out of a business over a period of time cash inflows- cash outflows	2	2.1.4

Opening balance	What is in the bank on the first day of the month	2	2.1.4
Consumer trends	Habits or behaviour of those involved in the use of goods and services	2	2.2.1
Economic uncertainty	Where firms/consumers are unable to predict their future sales/incomes.	2	2.2.1
Sales forecast	A prediction of the expected level of sales volume/revenue for a business for a future period based on past data	2	2.2.1
Average cost	The cost of producing one unit. Total costs/output	2	2.2.2
Fixed costs	Costs that do not change when output/sales changes	2	2.2.2
Revenue	The amount of income for a business generated from its sales. Selling price x quantity sold	2	2.2.2
Sales revenue	Selling price x sales volume	2	2.2.2
Total costs	Total fixed costs plus total variable costs.	2	2.2.2
Variable costs	Costs that do not change when output/sales change	2	2.2.2
Break-even	The level of output where the total revenue is equal to the total cost. Fixed costs/Unit contribution	2	2.2.3
Unit contribution	Selling price- variable cost per unit	2	2.2.3
Margin of safety	The difference between the current or planned level of output/sales and the break-even level of output	2	2.2.3
Adverse variance	Negative variance e.g. higher costs than budget	2	2.2.4
Budget	A financial plan of income and expenditure prepared/agreed in advance	2	2.2.4
Favourable variance	Positive variance e.g. lower costs than budget	2	2.2.4
Historical budgeting	A budget based upon previous financial figures	2	2.2.4
Variance analysis	Shows the difference between budgeted and actual figures and can be calculated at the end of a financial period, once actual figures are known	2	2.2.4
Zero based budget	A type of budget where no money is allocated for spending unless it has firstly been justified	2	2.2.4
Cash	Normally takes time to catch up. Cash inflows and outflows will be recorded after the respective debtor and creditor periods have elapsed	2	2.3.1
Cost of sales	Direct costs of a business	2	2.3.1
Gross profit	Revenue - cost of sales	2	2.3.1
Gross profit margin	Gross profit/Sales revenue x100	2	2.3.1
Operating profit	Gross profit- other operating expenses	2	2.3.1
Operating profit margin	Operating profit/Sales revenue x100	2	2.3.1
Profit	Is recorded straight away after sales. Total revenue -total costs	2	2.3.1
Profit for the year margin	Net profit/Sales revenue x100	2	2.3.1
Profit for the year/net profit	Operating profit- interest	2	2.3.1
Profitability	The ability of a business to generate profit from its activities	2	2.3.1
Statement of comprehensive income	A document to show income and expenditure of a business over a financial year	2	2.3.1
Tax	A charge made by governments on activities, earnings and income of individuals and businesses	2	2.3.1
Acid test ratio	Current assets-Inventory/Current liabilities	2	2.3.2

Assets	Resources that belong to a business	2	2.3.2
Capital	Money put into the business by the owner	2	2.3.2
Current assets	Liquid assets, those assets that will be converted into cash within 12 months e.g. inventories, trade receivables and cash	2	2.3.2
Current liabilities	Any money which is owed by a business that must be repaid within one year	2	2.3.2
Current ratio	Current assets/Current liabilities	2	2.3.2
Liabilities	Money owed by the business to banks and suppliers	2	2.3.2
Liquidity	The ability to pay bills in cash when they fall due or The ability to meet current liabilities with current assets	2	2.3.2
Net assets	Total assets-Total liabilities	2	2.3.2
Non current assets	Long term resources that will be used by the business for more than one year e.g. Property and equipment	2	2.3.2
Non current liabilities	Money owed by the business for more than one year e.g. Loans	2	2.3.2
Shareholders equity	The amount of money owed by the business to the shareholders	2	2.3.2
Statement of financial position/ Balance sheet	A summary at a particular point in time of the value of a firms assets, liabilities and capital	2	2.3.2
Total equity	Share capital + Retained profit	2	2.3.2
Working capital	The amount of money needed to pay for the day to day trading of a business or current assets – current liabilities.	2	2.3.2
External causes for business failure	Factors beyond the control of businesses cause for collapse e.g. competition, legislation, customer tastes and economic conditions	2	2.3.3
Financial factors for business failure	Often rising from poor cash flow management or working capital	2	2.3.3
Internal causes for business failure	Factors which a business can control	2	2.3.3
Non financial factors for business failure	Can come from inside or outside the business e.g. poor management, external shocks	2	2.3.3
Overtrading	The situation where a business does not have enough cash to support its production and sales, usually because it is growing too fast	2	2.3.3
Batch production	A manufacturing process in which components or goods are produced in groups (batches). The manufacturing of a limited number of identical products	2	2.4.1
Capital intensive	This is where output of the firm is made primarily using machinery/capital goods relative to the use of labour	2	2.4.1
Cell production	A method of manufacturing where employees are organised into multiskilled teams, with each team responsible for a particular part of the production process	2	2.4.1
Efficiency	The ability to minimise waste therefore reducing the cost of production. Making the best use of its resources	2	2.4.1
Flow production	The manufacture of an item/product in a continuous process	2	2.4.1
Job production	A method of production where the production of a single good/service is carried out one at a time that involves producing this good/service to the specific requirements of the customer	2	2.4.1

Labour-intensive production	A production method that requires a higher proportion of labour than capital	2	2.4.1
Productivity	Output per person/machine per period of time	2	2.4.1
Standardisation	Using uniform resources and activities or producing a uniform product	2	2.4.1
Capacity utilisation	The current output of a factory measured as a percentage of the total maximum potential output. Current output/maximum possible output x100	2	2.4.2
Downsizing	Involves reducing capacity, such as making employees redundant. This would reduce costs, such as wages	2	2.4.2
Full capacity	The point where a business cannot produce any more output	2	2.4.2
Over utilisation	The position where a business is running at full capacity and straining resources	2	2.4.2
Under utilisation	The position where a business is producing at less than full capacity	2	2.4.2
Buffer stocks	Stock held as protection in case of reduction in supply	2	2.4.3
Inventory	The raw materials/work-in-progress held by a business	2	2.4.3
Just in time (JIT)	A stock control system that organises operations so that items of stock arrive immediately before they are needed for production or sale	2	2.4.3
Lean production	A production method that involves using as few resources as possible in the production of a good or service. It can include concepts such as waste minimisation, Just in Time (JIT) and TQM	2	2.4.3
Re order level	The level of current stock when new orders are placed	2	2.4.3
Re order quantity	The amount of stock ordered when an order is placed	2	2.4.3
Stock	Items held by the business for future sale/processing such as raw materials/work in progress (WIP)/finished products	2	2.4.3
Stock control	The optimum quantity of goods/components a business holds for the purpose of resale/production	2	2.4.3
Stock control diagram	Shows details of inventory movements such as minimum and maximum inventory levels, reorder level and quantity and lead times	2	2.4.3
Stock rotation	The flow of stock into and out of storage	2	2.4.3
Waste minimisation	Producing goods and services at a given quality using as few resources as possible/identification of an impact of waste minimisation.	2	2.4.3
Work in progress	Partially finished goods	2	2.4.3
Kaizen/continuous improvement	A Japanese philosophy which places emphasis on making small improvements in all business processes as it tries to achieve a culture of continuous improvement; good processes bring good results	2	2.4.4
Quality	A positive feature of a product that makes it stand out from competitors	2	2.4.4
Quality assurance	A system where the product is checked/tested at each stage of the production process. It focuses on preventing faults with products during production	2	2.4.4
Quality circles	Small groups of workers who meet regularly to discuss and resolve problems in production	2	2.4.4
Quality control	A method that uses quality inspectors as a way of finding any faults. Checking that final products are of a good enough standard, capable of doing what they were intended to do	2	2.4.4
Quality management	The process of a business maintaining a desired level of excellence in a product/service by paying attention to each stage of the process	2	2.4.4
Total Quality Management/ TQM	A right first time approach ensuring that at every stage of production clothing is checked for quality, rather than a sample, which should eliminate any defects	2	2.4.4
Appreciation	The rise in price of one currency against another currency	2	2.5.1
Barriers to entry	Obstacles that make it difficult for new firms to enter the market	2	2.5.1

Boom/peak	The high point in the business cycle where GDP is growing quickly	2	2.5.1
Business cycle	Measures economic activity over time and shows stages of boom, downturn (where there is rising unemployment), recession and recovery	2	2.5.1
Consumer Prices Index	Consumer price index. The measure of average prices in an economy	2	2.5.1
Deflation	A fall in the general price level	2	2.5.1
Depreciation	A fall in the value of a currency	2	2.5.1
Downturn	A period in the economic cycle where GDP grows but slowly	2	2.5.1
Economic influences	Economic variables such as economic growth, inflation, interest rates and unemployment	2	2.5.1
Exchange rate	The price of one currency in terms of another.	2	2.5.1
Government expenditure	The amount spent by the government in its provision of public service	2	2.5.1
Inflation	The general increase in the level of prices in an economy in a year	2	2.5.1
Interest rate	The price of borrowing money/the return on saving money	2	2.5.1
Recession	When GDP falls for two or more quarters (6 months)	2	2.5.1
Recovery	A period where economic growth begins to increase again after a recession	2	2.5.1
Unemployment	The % of the working population who are without a job and actively seeking work	2	2.5.1
Consumer legislation	Legislation that is designed to protect consumers from poor-quality products and poor business practices.	2	2.5.2
Consumer protection legislation	Is legislation aimed against any business' unfair selling practices. The consumer has basic legal rights if the product/service is given a misleading description, of an unsatisfactory quality, unfit for purpose	2	2.5.2
Discrimination	Favouring one person or group over another	2	2.5.2
Employee protection legislation	Laws that a business must follow that give employees basic rights to prevent them from being exploited, e.g. minimum wages, redundancy payments, maternity leave, etc.	2	2.5.2
Environmental protection legislation	Legislation designed to reduce the impact of businesses and protect the environment	2	2.5.2
Health and safety	Measures put in place by businesses to prevent accident or injury in the workplace	2	2.5.2
Legislation	A collective name for laws and regulations used by governments to restrict certain activities	2	2.5.2
National minimum wage	A wage rate set by the government. It is illegal to pay below this	2	2.5.2
Market structure	The characteristics of a market, such as the size of the barriers to entry to the market, the number of businesses in the market, which determines the behaviour of businesses within the market	2	2.5.3