

Theme 2 key terms

Key term	Definition	Theme	Sub theme
Economic variables	Features of an 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
	The raising of capital/cash from within/inside the business		
Personal savings/owners' 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 invest in a business in exchange for a stake in the business (shares)	2	2.1.2
Crowd funding	An external source of finance where a large number of individuals provide funding for a business or project in return for shares/free products/discounts	2	2.1.2
	Where large number of individuals can provide direct funding for a business or project which is administered by a website such as www.crowdfunder.co.uk		
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Overdraft	When a business has a negative balance in their bank account because the amount withdrawn is greater than the current balance	2	2.1.2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
	Involves issuing shares to a small number of investor(s) in return for a capital injection into the company.		
Liability	A liability is an obligation to pay another person/lender/supplier	2	2.1.3
Limited liability	The obligation of a shareholder for the debts of a business is limited to the value of their investment.	2	2.1.3
	The most a shareholder/investor can lose (1) of the original amount they invested in the business		
Unlimited liability	The obligation of a business owner to cover all the debts of the business.	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

	A document which details how the business is going to develop over a period of time. It includes elements like a forecast of cash flow and profit		
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 cash into a business	2	2.1.4
Cash Outflow	The flow of cash 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	Cash 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	Cash 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 and costs	2	2.2.1
Sales forecast	A prediction of the expected level of sales volume/revenue for a business for a future period	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
	Price multiplied by quantity sold		
Total costs	Total fixed costs plus total variable costs.	2	2.2.2
Variable costs	Costs that vary according to the level of output	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
	The level of output where the total revenue is equal to the total cost		
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	An asset of a business which can come from investors, lenders or customers.	2	2.3.1
Cost of sales	the cost of inventory bought or produced.	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	Profit as a proportion of sales.	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	Valuable things that a business can use.	2	2.3.2
Capital	Cash 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	Debts 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	Debts owed by a business to lenders 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	Debts owed by the business for more than one year e.g. Loans	2	2.3.2
Shareholders equity	The value of the shareholders' investment in a business.	2	2.3.2
Statement of financial position/ Balance sheet	A summary at a particular point in time of the value of a firm's assets, liabilities and equity	2	2.3.2
Total equity	Share capital + Retained profit or, owner's capital + retained profit less drawings	2	2.3.2
Working capital	The amount of cash available to pay for the day to day trading of a business or current assets – current liabilities.	2	2.3.2
	Working capital is the difference between the current assets and current liabilities of the business. It gives some indication of the liquidity level within the business		
External causes for business failure	The factors outside the control of a business which might cause it to fail, e.g. competition, legislation, customer tastes and economic conditions	2	2.3.3
Financial factors for business failure	Factors which may contribute to a business running out of cash, e.g. late payments, inability to borrow	2	2.3.3
Internal causes for business failure	Factors which a business can control e.g. poor decision-making, loss of key staff	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
	Involves the manufacture of a limited number of identical products		
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
	The ability to minimise waste therefore reducing the cost of production		
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. $\text{Current output}/\text{maximum possible output} \times 100$	2	2.4.2
	Current output as a proportion/percentage of maximum possible output		
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
	Buffer stock is the minimum level of stock held by a business		
	Buffer stock is the minimum level of stock that is held in reserve to protect against surges in demand or late delivery by suppliers		
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
	Involves holding no buffer stocks with supplies arriving just before they are required		
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
	An efficient form of production that focuses on waste minimisation. It can include concepts such as Total Quality Management (TQM) and Just in Time (JIT)		
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 practice 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
	Continuous improvement		
Quality	A positive feature of a product that has no defects	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
	A system where the product is checked/tested at each stage of the production process		
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 products are checked for quality, rather than a sample, which should eliminate any defects	2	2.4.4
Appreciation	The rise in the 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	A measure which shows changes in average prices over time.	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 services and welfare benefits	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