Unit 3 - Effective Financial Management

Key term	Definition
Bonds	A long term loan where interest is paid at regular intervals like a year and the loan is repaid at the end of the life of the bond. Bonds are traded on stock markets
Break even point	The level of output where total costs equals total revenue. Neither a profit or loss is being made
Cash flow	The flow of cash into and out of a business
De-stocking	Reducing the level of stocks in a business
Fixed costs	Costs which do not vary with the amount produced eg rent
Margin of safety	The difference between the actual output level and the break even level.
Overdraft	Borrowing money from the bank by drawing out more than is in the account. Interest is charged on the amount overdrawn
Profit	The money left over once costs have been taken away from revenue. It is calculated by total costs – total revenue
Revenue	The money made from sales
Retained profit	Profit which is kept back in the business and used to pay for further investment in the business
Share capital	Money invested in a business through the purchase of shares.
Total Costs	All the costs of a business. It is fixed costs plus variable costs
Total Revenue	The revenue made from selling goods and services. It is calculated by selling price X quantity sold

Trade credit	Where a supplier gives customers a period of time to pay for the goods and services they have bought
Variable costs	Costs which change directly with the number of products being made eg raw material costs