

Qualification  
Accredited

**GCSE (9–1)**

*Teachers' guide*

# ***BUSINESS***

**J204**

For first teaching in 2017

## **A guide to finance calculations**

Version 1

# A guide to finance calculations for GCSE (9–1) Business (J204)

The following guidance has been prepared to assist centres with the finance calculations for the GCSE (9–1) Business specification (J204).

General calculations including percentages and averages plus the interpretation and use of quantitative data are not covered in this document. Please see appendix 5c for further details of the quantitative skills requirement for the qualification .

Centres do need to be aware that although this guidance is quite comprehensive, it is not necessarily exhaustive and OCR reserves the right to consider other appropriate calculations in a business context. It is designed as a guide only and does not replace the specification which is the definitive document for OCR GCSE (9–1) Business.

## Cash flow forecasting

	July	August	September
	£	£	£
<b>Cash inflow:</b>			
Revenue	13 055	12 000	12 945
Loan received		3 500	
<b>Total inflow</b>	13 055	15 500	12 945
<b>Cash outflow:</b>			
Materials	4 200	4 240	3 900
Wages	3 100	3 250	4 200
Equipment		3 000	
Overheads	5 500	5 500	5 500
Loan repayment			250
<b>Total outflow</b>	12 800	15 990	13850
<b>Net cash flow</b>	255	-490	-905
<b>Opening balance</b>	1 760	2 015	1 525
<b>Closing balance</b>	2 015	1 525	620

The example format above is for illustration only. It does not provide an exhaustive list of items that may be included in the document. For example other cash inflows and outflows may be included, balances may be negative and alternative time periods may be used , e.g. weekly, yearly.

Term	Definition	Formulae
Net cash flow	The difference between all the cash entering the business and all of the cash leaving the business in a time period	Total inflow – total outflow
Opening balance	The cash that was left in the business at the end of the last time period (i.e. the previous time period's closing balance)	
Closing balance	The net cash flow added to the opening balance for the time period	Net cash flow + opening balance

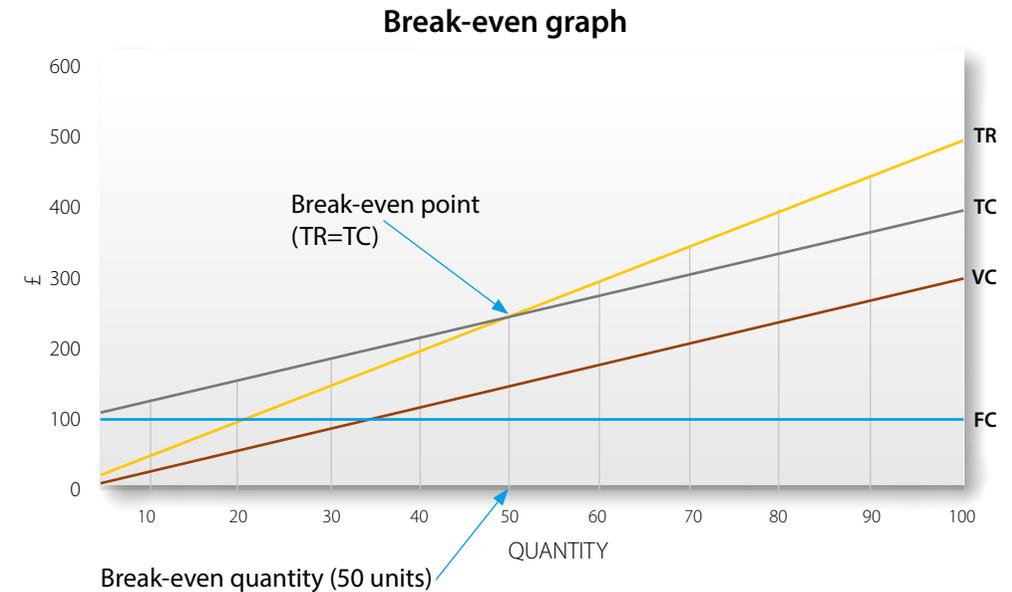
## Revenue costs and profit/loss

Term	Formulae
(Total) sales revenue	Price x quantity
(Total) variable costs	Variable costs per unit x quantity
Variable costs (per unit)	$\frac{\text{Total variable costs}}{\text{quantity}}$
(Total) fixed costs	Sum of all the fixed costs
Average fixed costs	$\frac{(\text{Total}) \text{ Fixed costs}}{\text{quantity}}$
Total costs	(Total) variable costs + (total) fixed costs
Profit/loss	Total revenue – total costs
Gross profit	Total revenue – cost of sales
Gross profit margin	$\frac{\text{Gross profit}}{\text{Total revenue}} \times 100$
Net profit	Total revenue – cost of sales - expenses
Net profit margin	$\frac{\text{Net profit}}{\text{Total revenue}} \times 100$

Total revenue, total costs and profits are calculated over a period of time. For many businesses this period is one year.

## Break-even

Candidates will not be asked to draw a break-even graph, but can be asked to interpret information from any graph (specification appendix 5c. quantitative skills requirement).



Term	Definition
Break-even	The point where all the total costs are covered by the total revenue Occurs where total revenue = total costs
Break-even quantity	The number of units a business needs to sell to cover total costs with the total revenue. $\frac{\text{Fixed costs}}{\text{Price} - \text{variable cost (per unit)}}$

## Average rate of return (ARR)

Unless the average return for the investment is already known, the following three stepped approach is needed to calculate the ARR:

1. Calculate the **total profit from an investment** over its lifetime.
2. Calculate the **average profit from an investment** per year.
3. Calculate the **average rate of return from an investment**.

Term	Formulae
Total profit from the investment	Total income received from an investment over a given period of time – cost of the investment
Average profit from the investment	$\frac{\text{Total profit from the investment}}{\text{Number of years}}$
Average rate of return	$\frac{\text{Average profit from the investment}}{\text{Cost of the investment}} \times 100$

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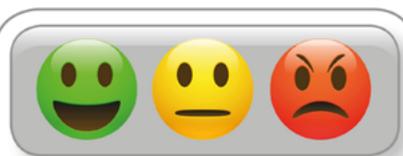


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