



A293

**Production, Finance and External
Business Environment**

**Formulas and
Key words**

Formulas

Fixed costs – costs that do not change when the business changes the amount it produces

Variable costs – costs that do change when the business changes the amount produces.

$$\text{Variable costs} = \text{Quantity sold} \times \text{variable cost per unit}$$

Total costs – adding together the total for all its fixed and variable costs.

$$\text{Total costs} = \text{fixed costs} + \text{variable costs}$$

Average costs -The cost for each unit of a product that a business sells

$$\text{Average cost} = \text{total cost} \div \text{amount sold}$$

Break even - When the costs of production are equal to its sales revenue. This means that the business does not make any profit, nor does it make a loss

$$\text{Break even} = \frac{\text{Total fixed cost}}{\text{Selling price} - \text{Variable cost}}$$

Margin of safety- The amount by which his actual sales are greater than the level of sales he needs to break even

$$\text{Margin of safety} = \text{Actual sales} - \text{break even sales}$$

Sales revenue – the money a business receives for selling the goods or services it produces.

$$\text{Sales revenue} = \text{Quantity sold} \times \text{selling price}$$

Gross profit - The amount of profit made by a business, as a result of buying and selling goods and services, but without paying for the day to day or other expenses of running a business.

$$\text{Gross profit} = \text{Selling price} - \text{the buying price}$$

Profit margin - normally calculated as a percentage

$$\text{Profit margin} = \frac{\text{gross profit}}{\text{Buying price} \times 100}$$

Net profit - takes into account the profit made as a result of buying and selling goods or services but also takes into account the costs involved in running the business e.g. wages, telephone calls

$$\text{Net profit} = \text{Gross profit} - \text{costs for running the business}$$

A293 - Key terms

Added value -The process of ensuring sales revenue is greater than the costs of production

Job production - the methods of production when products are made individually

Batch production - the method of production where one type of product is made and then production is switched to make a different product

Process production – usually an automated process suited to the large scale manufacture of products

Flow production –production of one product takes place continuously using a production or assembly line. This is sometimes called ‘mass production’

Division of labour- the organisation of production into a number of specialised ‘simple; repetitive processes

Specialisation - occurs in production process where workers specialise in carrying out one or several related, but simple, production tasks

Mechanisation – Machines, controlled by workers, are introduced into the production process

Automation – Machine, controlled by computer are introduced into the production process

Productivity – a means of measuring the efficiency with which a business produces goods

Lean production – A production system which helps ensure that’s waste is kept to a minimum

Quality Assurance- a system of ensuring that quality standards are met throughout the production process

Just-in-time (JIT) – Stocks of materials and components are not stored but are used immediately when they arrive at the factory

Quality control – A system of checking the quality of finished goods

Total quality management (TQM)– the process when all workers are responsible for quality throughout the process of production

Sales revenue or sales turnover – the amount of money that a business receives from selling what it produces or provides

Price elasticity of demand – A measure of the change in the level of demand caused by a change in price

Fixed costs – the costs that do not change as a business changes the amount it produces

Variable costs – those costs that rise as the business increases production and fall when it reduces production

Total costs – the fixed and variable costs of a particular production added together

Average costs – the cost of each unit produced or provided

Short run – a period of time approx. 12 month in length

Fixed assets – items owned by the business that tend to have a high value. The value of the asset does not normally change on a daily basis and is used in the long term

Long run – a period of time usually in excess of two years

Capacity – the amount that a manufacturing plant is designed to produce

Above capacity – A business is said to have excess capacity when its level of production is more than its capacity

Excess capacity – a business is said to have excess capacity when its level of production is less than its capacity

Economies or large-scale production - these occur when a business increases its scale of production, which leads to a fall in the average cost of production

Diseconomies of scale – when the average cost of production rises as the scale of production is increased

Break-even level of output – the level or output at which a business neither makes a profit or loss

Break-even forecast – A prediction about the break-even level of output based on the estimates of future sales revenues and costs

Margin of safety – the amount by which a business' actual output is greater than its break0even output

Business Sponsor – a business which pays money to another organisation

Opportunity cost – the cost of missing out on something else. This doesn't need to be financial

Internal finance – finance obtained from within the business

External finance – finance obtained from outside the business

Interest – an amount of money that has to be paid on borrowed money

Asset – an item of value owned by the business

Security – something of value which is offered to a lender as a form or guarantee of payment

Time period – the length of time for which the finance is required

Profit – money left over from sales after all costs have been paid

Sales revenue – the amount of money which a business receives from selling what it produces or provides

Gross profit – sales revenue minus cost of sales

Profit margin – the difference between selling price and the cost of an item. This is sometimes expressed as a percentage

Net profit – gross profit minus expenses

Mark up – the amount added to the purchase price of a product to give the selling price. H=this is sometimes shown as a percentage

Return on investment- the amount that a person or business received for providing finance to business

Reward for taking risks – the finance returns a business gets for undertaking business activity/ better returns are normally expected from activities that have a high degree of risk

Dividends – the park of a company profit paid out to shareholders of limited companies

Shareholders – owners of limited companies who have invested money into a business

Drawings – business profits paid by the owners of a sole proprietor or partnership

Retained profit – profit which is kept by the business for it own use

Trading profit and loss account – a financial document prepared by accountant which details the costs and revenue of the business in order to calculate the amount of profit

Income – money which the business received

Expenditure- money which the business pays out

Cash flow forecast – a statement showing the expected flow of money into and out of a business over a period of time

Balance carried forward- the amount of cash left over at the end of the money. It is taken forward and used at the beginning of the next month and becomes the balance brought forward. It is sometime called the closing balance

Balance brought forward – the amount of cash available at the beginning of the month which was left over from the previous month

Perfect competition – a market in which there are a large number of sellers

Monopoly – a market dominated by one seller

Patents- the right to the use of an invention for a number of years

Market share- the percentage of the total sales in a market accounted for by a firm

Monopolist - a firm that accounts for at least 25% of the sales in a market

Privatisation - when organisations owned by the state are sold off to private owners

Cartel – a group of firms that work together to fix prices

Child Labour – this is the use of young children in order to achieve low-cost production

Ethics- this is what is morally correct and morally wrong

Human rights – people should have basic rights and freedoms such as liberty, freedom of speech, equality in law, right to food, education and to work

Sweat shops – these are factories where people are worked very hard, often in poor conditions , and paid a low wage

Pirating – illegally copying films and music

Ethical businesses – businesses that behave in a morally correct way

Non-renewable resources - resources that can only be used once, such as oil.

Carbon emissions - carbon dioxide that is put into the atmosphere

Global warming - the rise in average temperatures that scientists say is taking place

Green - describes customers and businesses that act to make production sustainable

Renewable resources -resources that can be used more than once, such as the wind or that can be recreated such as crops

Sustainable production – production that involves the use of renewable resources and recycled resources. It also minimises waste and the use of energy

Carbon permits – permits under the European Union Emission Trading scheme which allow businesses to produce a certain amount of carbon

Recycling – when resources are re-used to produce something

Economic growth – A period of rising consumer incomes, demand and output

Demand – the total amount of good and service that all customers want to buy

Recession – a period of falling consumer incomes, demand and output

Unemployment - the number of people who are out of work

Interest rate- the charge made to people and businesses for lending money. Also the reward to people and business for saving money

Bank of England – the organisation that sets the basic rate of interest, which included the interest rates that the banks charge. It changes interest rates to control inflation

Government spending- money spent by central government or local government to provide good and services, to help poorer people in the community and to help businesses

Multiplier effect- the amount by which an increase or decrease in spending on a specific item is multiplied in its effect on total spending in the economy

Taxation – charges made by the government to people and businesses. Taxes may be on income or spending

Take-home pay – the amount of income a person receives after deductions from their pay for income tax and National insurance contributions.

Globalisation – the process by which business activities in different countries are becoming more and more connected to each other

Outsourcing - when a business pay another business to do part of its work for it, such as producing goods, keeping accounts or marketing its produce

Multi-national corporations – companies that operate in different countries

Global branding - where a product become a brand name and is sold worldwide

Inward investment – this is when foreign businesses set up factories and offices in the UK

Protectionism – the name given to methods used to protect business from the problems that international trade might cause

Stable exchange rate – an exchange rate that does not change greatly over a period of time

Developed countries – countries that have strong economies, where most workers earn high wages and living standards are high.

Developing economies – poorer countries that are starting to grow, usually expanding production of primary and manufactured goods but also possibly services

Exports – the goods and services a country sells to other countries

Imports – the goods and services a country buys from other countries

Innovation – developing new products and new ways of making products

Productivity- the amount each person produced. Increasing productivity reduces business costs

Value added – the difference between the cost of raw materials and the value of the product when its produced

Infrastructure – Roads, railways, ports and airports in an area or country

Immigration – the movement of people from abroad to live the UK

Ageing population - the increase in the proportion of the population over the age of 65

European Union (EU) - the collection of 27 countries in Europe which trade together and aim for closer inspection

Tariffs – taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods

Quotas – limits of the amount of a good or service that can be imported, this restricts competition from firing firms

Social charter – measures to protect workers in the EU from unfair working practices

Minimum wage – part of the social charter which guarantees certain wage levels for workers

Eurozone - a name given to the countries in the EU which use the Euro

The Euro – currency used by 15 of the EU countries