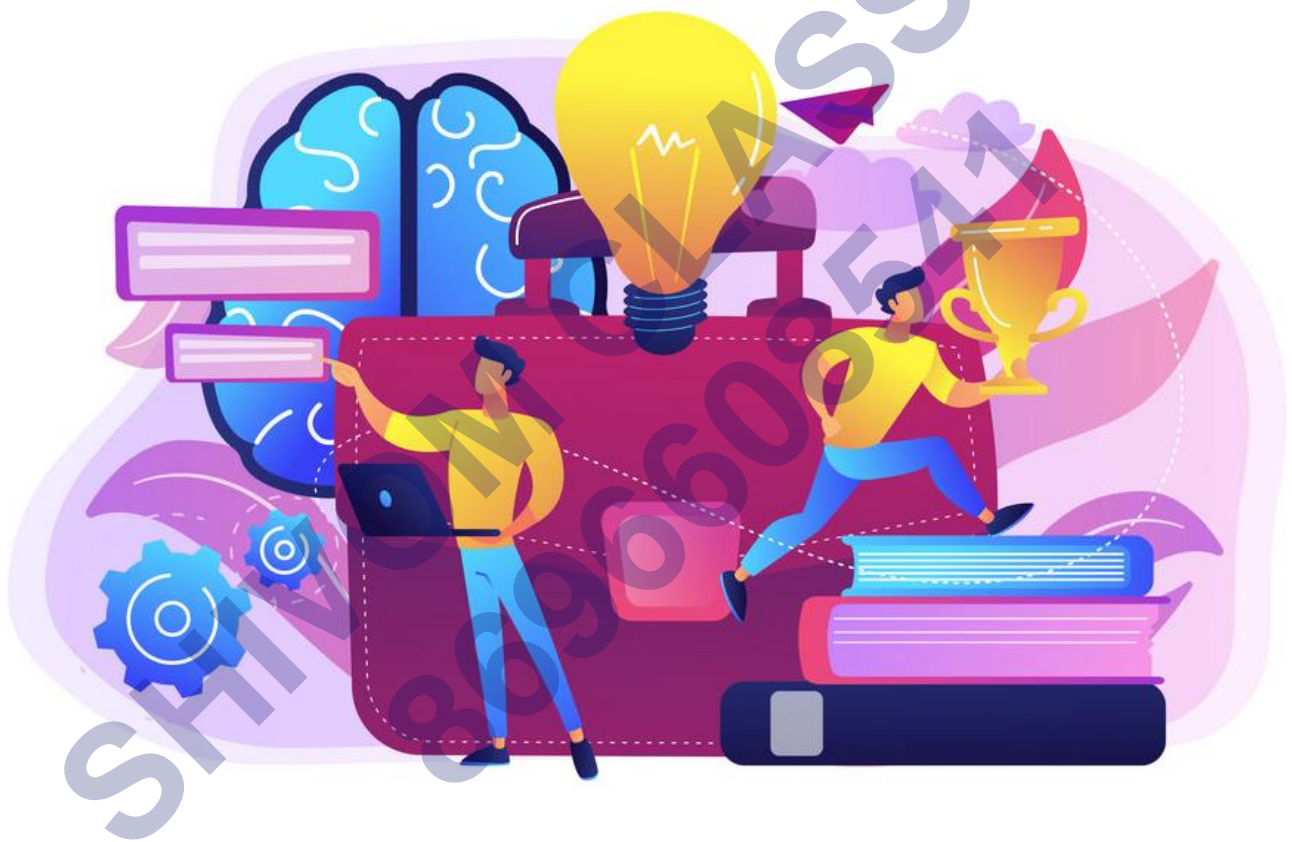


ENTREPRENEURSHIP

Chapter 6: BUSINESS FINANCE AND ARITHMETIC



BUSINESS FINANCE AND ARITHMETIC

FACTS THAT MATTER -

- ❖ **Transactions** are of two categories: Cash and Credit transactions.
- ❖ **Type of Cost** are Start up Cost, Fixed Cost and Variable Cost.
- ❖ **Cash Register:** It is a book in which all cash transactions are to be recorded. Cash Register records cash and bank transactions.
- ❖ **Inflow** is receipts of money in a business referred as inflow.
- ❖ **Outflow** is payments made in the business referred as outflow.
- ❖ **Direct Taxes** are taxes paid directly by the person to the government (The entrepreneur may be collection agent).
- ❖ **Indirect Taxes:** It is the amount paid indirectly by the person to the government like while purchasing a product, etc.
- ❖ **Depreciation:** Reduction in the balance of fixed asset (except land) due to wear and tear and obsolescence.
- ❖ **Credit Transactions** are Credit Sales and Credit Purchases.
- ❖ **Credit Sales:** When products are sold on credit which means that the buyer does not pay the money immediately.
- ❖ **Credit Purchases:** When products are purchased on credit and the amount will be paid at a later date.
- ❖ **Unit of Sale:** It is defined as the measure of what products are sold.
- ❖ **Unit cost:** Cost of unit can be defined as the cost incurred by a company to produce, store and sell one unit of sale of a particular product or service.
- ❖ **Unit Price** is the price at which one unit of sale is sold.
- ❖ **Gross Profit.**
- ❖ **Excess of Unit Price** over Unit Cost is known as the Unit Gross Profit or Unit Gross Margin.
- ❖ **Gross profit** per unit = unit price – unit cost,
- ❖ **Expenses:** An expense is the value of the resource that was used up, or was necessary in order to earn the revenues during the time period.
- ❖ **Start-up cost:** It is the cost which is incurred initially a business is started.

- ❖ **Operational Costs:** These costs are for carrying out the day-to-day operations of the business or enterprise.
- ❖ **Fixed costs** are the ones which has to incur by virtue of the fact that one has started a business and are operating it.
- ❖ **Variable costs** are those which vary as a total cost to the organization when output (number of items-goods or services-produced) varies.
- ❖ **Profit** is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity.
- ❖ **Profit** = Total Sales Revenue — Total Sales Expense
- ❖ **Gross Profit** = Total Sales — Total Cost of goods sold
- ❖ **Profit before tax** = Gross Profit — Fixed Expenses
- ❖ **Cash Flow:** Cash flow refers to the movement of money in and out of a business during a specific period of time.
- ❖ **Cash Flow Projection:** It shows how cash is expected to flow in and out of your business.
- ❖ **Gestation Period:** It is the period of not making any profit.
- ❖ **Break-even point:** It is a neutral point where there is no profit nor loss occurs. Break-even point is expressed as quantity for a period (day, week, month, etc.)
- ❖ **Direct tax:** It is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (legal or natural) on whom it is imposed.
- ❖ **Income tax** is an annual tax on income (profit). Rates and other details vary from person to person based on whether sole proprietor, partnership or corporation, income statement.
- ❖ **Corporation tax** is a tax levied on the Income (Profit) of the Domestic Company or Foreign.
- ❖ **Property tax or house tax:** If tax is levied on the price of a goods or service, then it is called an indirect tax, like service tax, sales tax or VAT, central excise tax, custom duty, etc.