IB Business Management HL

3.1 Introduction to Finance

YOUR NOTES

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Role of Finance for Businesses

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The Importance of Finance

- **Entrepreneurs** need finance to **cover initial setup costs** when starting a new business
    - These initial costs may include acquiring equipment, renting or purchasing premises, conducting market research, hiring staff and developing a marketing strategy

- **Businesses** often require finance to fuel their **expansion and growth** plans
    - These plans could involve opening new locations, entering new markets, launching new products or services, and increasing production capacity

Diagram Explaining Different Reasons why Businesses Require Finance

Businesses need finance for capital and revenue expenditure, for marketing and for growth

Capital expenditure

- Businesses require finance for **capital expenditure** such as purchasing machinery, technology, vehicles, and infrastructure
    - These investments enable businesses to enhance productivity, expand operations and improve efficiency

Working capital

- Working Capital is necessary to manage the **day-to-day operations of a business**
    - It helps cover expenses such as p**urchasing inventory**, paying suppliers, **meeting payroll obligations** and funding overhead costs like rent and utilities
    - Sufficient working capital ensures that a business can **operate smoothly without facing cash flow issues**

Research & development

- Businesses require finance for **research and development** (R&D)
  - Money is needed to invest in technical research and product development
  - This investment helps them to stay ahead of the competition and create **new revenue streams**

Marketing

- Effective **marketing and advertising** requires finance to develop and execute marketing campaigns, create advertising materials, conduct market research and build brand awareness
  - Investing in marketing helps attract customers, increase sales, and generate revenue

Risk management

- Businesses need finance to **manage risks** and protect against unforeseen events
  - This includes paying for insurance coverage, contingency funds and implementing risk management strategies

Debt servicing

- Many businesses need to **service debts** such as loans or credit facilities
  - These debts, including interest, must be repaid over the agreed-upon period

Business performance

- Finance provides a metric to **measure business performance**
  - Business success is often judged by the level of profits it makes and the stability of a business can be determined by the level of working capital or liquid assets available

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Capital Expenditure

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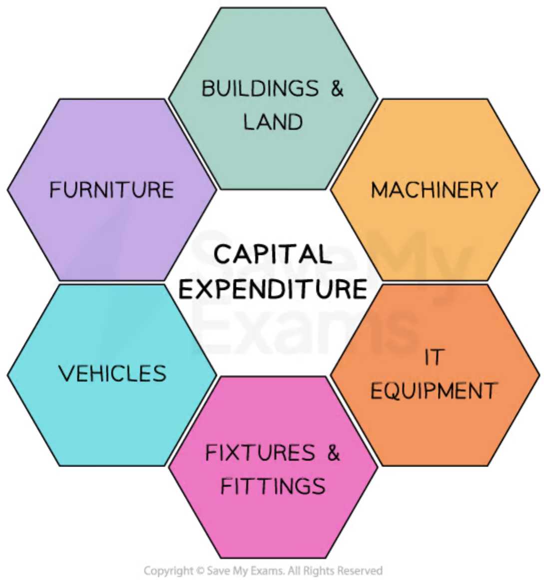
- **Capital expenditure** is business **spending on** non-current assets
  - These are assets which will be **used many times** and **for more than one year**
  - Examples of non current assets for which capital expenditure is required include



Examples of current assets for which capital expenditure is required

Revenue Expenditure

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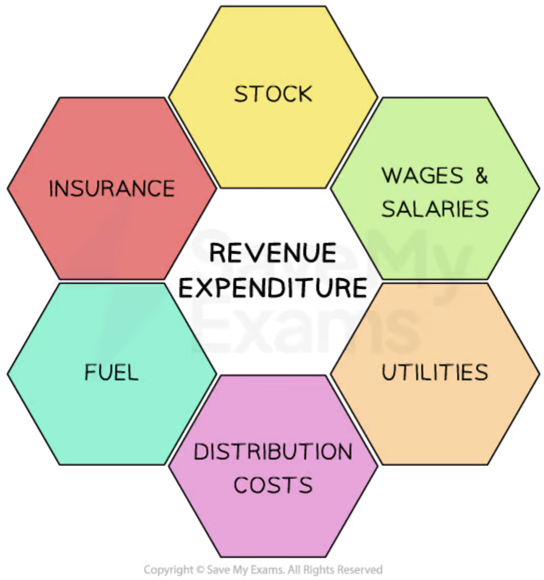
- **Revenue expenditure** is spending on goods and services that a business **uses in the short-term** as part of its **normal trading activities**

- Common examples of **current assets** for which revenue expenditure is required include



Examples of day to day costs for which revenue expenditure is required