

**Start-Up Workshop**

**Programme**

Business Start-Up - Finance

Workshop Workbook

# Workshop objectives

To be able to understand and manage:

* a profit and loss account
* a cashflow statement
* working capital

To be aware of the main sources of finance

To be aware of the different legal structures of a business

## Exercise 1

# Why bother getting the finances right ?

List your top three reasons for getting the finances right in your business

1.

2.

3.

## Exercise 2

# What will you be spending your money on ?

In your group, list as many areas as possible that you will be spending money on in your business

# Financial statements

## Profit and loss account

* Summarises the trading activity of the business for an agreed period of trading (month, year, etc.)
* Summarises the total sales, and expenditure, transactions in the period
* Does not take into account when cash is received or paid
* A profit and loss forecast is an estimate of the sales and expenditure and is a key part of your business plan

## Cash flow statement

* Summarises the cash movements of the business for an agreed period of trading (month, year, etc.)
* Records when the cash is received by the business
* Records when payments are made by the business
* A cashflow forecast is an estimate of the cash movements
* A key part in your business plan

# Cash is not profit

# and

# Profit is not cash

## Balance sheet

* Records the assets and liabilities of a business at the end of a period of trading
* Summarises how the capital is employed in the business

# Value Added Tax (VAT)

* Registration – annual threshold
* Added to value of (some) sales and paid to the government when collected from customers
* Included in the price paid for (some) purchases and reclaimed from the government when paid to suppliers

Note:

This can be a highly technical area of business. Make sure you get the correct advice to avoid having to make corrections, and possibly pay penalties, later.

A useful source of information is the HM Revenue & Customs website [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

# Case study

# The Top Table Company Limited

John Gateway has just negotiated a contract to sell 100 tables to a major hotel chain. This is the break he has been waiting for and he has decided to start the business he has been planning for months now – The Top Table Company Limited.

The hotel has agreed to pay £500 for each of the tables and want them all delivered next month. He has agreed to give them until the end of the second month to pay but suspects that the cheque will not arrive until month 3.

He has sourced a supplier who will supply the tables, part finished, for £300 each. He is hopeful that the hotel will ask for more tables in the near future. As he is a new customer the supplier is unwilling to give him any credit and he will be required to pay for the tables when they are delivered.

He will need a piece of equipment to allow him to finish the tables before they are delivered to the hotel. He has seen a new machine at a recent trade show at a cost of £6,000. He will need to pay for this machine when it is delivered in month 1.

The business plan shows that the monthly overheads of the new business will be £2,000.

To make sure he and his family have enough to live on, John will pay himself a monthly salary of £2,000.

He has £10,000 saved up that he will pay into the business bank account in month 1 to get the business started.

## Exercise 3

# How profitable will the business be ?

1. Based on the information given in the case study, how profitable will the Top Table Company Limited be in its first four months of trading?

£

Price x Volume

Sales

Cost X Volume

Cost of sales

Gross profit

Gross margin (Gross profit / by sales) % %

Overheads Months @

Salary Months @

Net profit Gross profit less overheads, depreciation and salary

Net profit

1. What have you learned in this exercise that you could apply to your own profit and loss account forecasts?

## Exercise 4

# How can you make the business more profitable ?

1. What could John do to increase his net profit ?

£

Price x Volume

Sales

Cost X Volume

Cost of sales

Gross profit

Gross margin %

Overheads Months @

Salary Months @

Net profit

Net profit

1. What have you learned in this exercise that you could apply to make your own business more profitable ?

## Exercise 5

# How would you create a cashflow forecast ?

How much additional investment will John need for his business ?

1 2 3 4 Total

**Cash inflow**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Sales

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Own capital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash inflow

**Cash outflow**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Purchases

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Equipment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Overheads

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Salary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash outflow

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Net cash movement**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Closing balance**

## Exercise 6

# How will you manage your cashflow ?

How can John reduce the investment he needs ?

1 2 3 4 Total

**Cash inflow**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Sales

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Own capital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash inflow

**Cash outflow**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Purchases

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Equipment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Overheads

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Salary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash outflow

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Net cash movement**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Closing balance**

## Exercise 7

# How will you control your working capital ?

Working capital is the money available for the day to day operations of the business. What could this business do to reduce its reliance on bank borrowings?

|  |  |  |
| --- | --- | --- |
|  | Original |  |
| Stock | 60,000 | 3 months held |
| Debtors | 75,000 | 3 months old |
| Creditors | (5,000) | Paid in 2 weeks |
| Bank | (75,000) | Overdrawn |
| Working capital | 55,000 |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Original | Changes | Amended |  |
| Stock | 60,000 | 3 months held |  |  |
| Debtors | 75,000 | 3 months old |  |  |
| Creditors | (5,000) | Paid in 2 weeks |  |  |
| Bank | (75,000) | Overdrawn |  |  |
| Working capital | 55,000 |  |  |  |

# Make sure you get the right funding

## Debt

* Overdraft
* Loans

## Equity / Capital

* Self
* Investors

# Choose the right legal structure

Sole Trader

Partnership

Limited Company

Other

# Workshop review

To be able to understand and manage,

* a profit and loss account
* a cashflow statement
* working capital

To be aware of the main sources of finance

To be aware of the different legal structures of a business

# How can Business Gateway help?

* Seminars
* Workshops
* Networking
* Business Advisors
* Information Advisors
* Materials
* Business Information
* www.bgateway.com
* 0845 6096611

## HM Revenue and Customs

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

# Resource Planning and Management

## Action Plan

|  |  |  |
| --- | --- | --- |
|  | What you need to do | By when |
| 1 |  |  |
| 2 |  |  |
| 3 |  |  |
| 4 |  |  |
| 5 |  |  |
| 6 |  |  |
| 7 |  |  |
| 8 |  |  |
| 9 |  |  |
| 10 |  |  |

## Appendix 1

## Exercise 3

# How profitable will the business be ?

1. Based on the information given in the case study, how profitable will the Top Table Company Limited be in its first four months of trading?

Price x Volume

£50,000

100

£500

Sales

Cost X Volume

£30,000

100

£300

Cost of sales

£20,000

Gross profit

Gross margin (Gross profit / by sales) %

40%

£8,000

£2,000

4

Overheads Months @

£8,000

£2,000

4

Salary Months @

Net profit

£4,000

Net profit

## Appendix 2

## Exercise 4

# How can you make the business more profitable ?

1. What could John do to increase his net profit ?

Price x Volume

£57,750

110

£525

Sales

Cost X Volume

£31,350

110

£285

Cost of sales

£26,400

Gross profit

Gross margin (Gross profit / by sales) %

46%

£7,600

£1,900

4

Overheads Months @

£8,000

£2,000

4

Salary Months @

Net profit

£10,800

Net profit

Adjustments made :

1. Increase prices by 5%
2. Sell 10% more tables
3. Reduce costs by 5%
4. Reduce overheads by 5%

Net effect is to increase net profit from £4,000 to £10,800

## Appendix 3

## Exercise 5

# How would you create a cashflow forecast ?

How much additional investment will John need for his business ?

1 2 3 4 Total

**Cash inflow**

50,000

50,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Sales

10,000

10,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Own capital

60,000

0

50,000

0

10,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash inflow

**Cash outflow**

30,000

30,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Purchases

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Equipment

6,000

6,000

2,000

2,000

2,000

2,000

8,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Overheads

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Salary

8,000

2,000

2,000

2,000

2,000

**52,000**

**4,000**

**4,000**

**4,000**

**40,000**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash outflow

**(4,000)**

(**30,000)**

**(4,000)**

**46,000**

**8,000**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Net cash movement**

**8,000**

**8,000**

**12,000**

**(30,000)**

**(34,000)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Closing balance**

## Appendix 4

## Exercise 6

# How will you manage your cashflow ?

How can John reduce the investment he needs ?

1 2 3 4 Total

**Cash inflow**

37,500

12,500

50,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Sales

10,000

10,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Own capital

0

37,500

60,000

0

22,500

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash inflow

**Cash outflow**

15,000

30,000

15,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Purchases

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Equipment

2,400

2,400

2,000

2,000

2,000

2,000

8,000

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Overheads

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

Salary

8,000

2,000

2,000

2,000

2,000

**19,000**

**48,400**

**4,000**

**4,000**

**21,400**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

## Total cash outflow

**1,100**

**11,600**

**(4,000)**

**(4,000)**

**18,500**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Net cash movement**

**19,600**

**1,100**

**11,600**

**11,600**

**15,600**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**Closing balance**

## Appendix 5

# Glossary of terms

Listed below are a few of the financial terms used during the workshop. These are only meant as short explanations of the terms and are not technical, accounting definitions. Add any other words used that were not clear and spend some time finding out what they mean.

## Profit and Loss account

Sales (Turnover) The total amount invoiced in the period of goods and services supplied by the business

Cost of sales All materials and expenses directly relating to the provision of the goods and services included in sales for the period

Gross profit Sales less cost of goods sold. The amount generated by the business that can be used to fund the running costs and other overheads

Gross margin Gross profit as a percentage of sales

Overheads Operating expenses that cannot to directly allocated to producing the goods and services for sale

Depreciation The amount by which the book value of a fixed asset has fallen during the period

Net profit The amount retained by the business after all expenses and overheads have been deducted

## Cash flow statement

Cash inflow Cash received by the business

Cash outflow Cash paid out by the business

## Balance sheet

Asset Anything of value that the business owns or is owed

Liability Money, goods or services owed by a business

Stock Raw materials, work in progress and goods ready for sale

Debtor Someone who owes money, goods or services to the business

Creditor Someone the business owes money, goods or services to

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