# Managing the Money

## Workbook

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## Introduction to finance

### Bank Accounts

The choice of who you bank with is yours, so do your market research and check out what the banks are offering you as a new business. The main four banks will all have offers on and it is a case of deciding who you can build a relationship with.
Once you have opened your bank account ensure that you keep up to date with your financial position. This is very easy to do with internet banking if you are happy to sign up for this. You can check your financial position 24 hours a day 7 days a week.

If you foresee a cash flow problem, make sure that you talk to the Bank prior to going overdrawn. An unauthorized overdraft can be very costly and if the bank sees the need to return cheques drawn on your account it can be a very slippery downward slope.

If you need an overdraft or a loan make an appointment to discuss your requirements and take with you a copy of your accounts (if you have them) or at least your books so that the bank manager can see an up to date list of your debtors and creditors (INS & outs).

If you require a loan they will probably ask for a business plan. Complete this as far as possible prior to your visit to the bank.

### Financial Definitions

**Book Keeping** - records all money in and out. Use a simple system, (books, and computers) as long as you do it regularly. This forms the basis of all other forms of financial management and may well reduce your accountancy and/or tax bill.

**Cash flow** - Forecast and Actual - cash flow shows the money in and out of your business. A cash flow forecast is a financial representation of your business plan, which shows you in advance how much cash you will need for your business to run.
The first time you write a forecast is the hardest, as the figures are mostly guess work.

**Profit and Loss** - simply tells you how much profit you should make over the year.

**Balance sheet** – is a summary of your business at any point representing both assets and liabilities.

**Breakeven point** - tells you how many items you need to sell to cover expenses (fixed costs not direct costs). This is very useful if you need to work out how much you need to sell to cover premises rental or the cost of employing staff.

**Fixed costs** - these costs do not vary (or hardly vary) with the level of activity/turnover of the business. Typical fixed costs would include; rent, rates, insurance (employers liability, product liability etc.). This is not a complete list of fixed costs, just a starting point.

**Capital costs** - these are the assets purchased for the business which will not be sold in the normal course of business activity, for example plant machinery, office equipment etc. Because these will need to be replaced sometime in the future, the business is allowed to provide for the cost of doing so by including the cost of depreciation (i.e. their loss of value over time) as part of the business expenses.

**Start-up costs**
One of the challenges of planning and getting a new business off the ground is to work out what your starts up costs are going to be. Your research will give you some factual figures, others you may need to estimate. It is wise to obtain as many realistic figures as possible so that you can start your new venture with your eyes open. Being accurate on your initial costs will also help you to focus on the items that are essential and help you choose which things you can delay until your cash flow looks more positive.

**Personal Survival Budget**
This does not need to be in the public domain and therefore is not a compulsory part of your written plan. However you should consider the amount of money you personally need to earn when developing the financial forecasts.

**Basic Bookkeeping for your Business**
Keeping accurate records of your business transactions is required by law but the process of keeping your business books up-to-date, whether you use a paper or computer-based book-keeping system, can help you get a better understanding of your sales and cash flow, which will ultimately help you manage your business more effectively.

Managing your business finances in an efficient way, tells both you and your accountant exactly what is going on in terms of income into the business and outgoings from it which, in turn, allows you to have a clear picture of where the business is heading (plus it makes life a lot easier when you come to completing your tax self-assessment!).
Your accountant will be able to tell you the full list of records and documents you need to retain – this will generally include things like your bank account cheque and paying-in books, bank statements, credit/debit card statements, payroll records (if you have employees) and VAT records (if you are registered).

All money coming in to your business (income) and going out of your business (outgoings) must be recorded means you must keep a record of every sale and purchase you make.

**To keep Sales Records:**
Set up a sales invoices PAID file and sales invoices UNPAID file. When you make a sale, issue an invoice with an original invoice number, take a copy and put it in the sales unpaid file.

When you receive payment for an invoice, bank the cheque and write the invoice number, payment date and the amount on the paying-in slip counterfoil
Take the corresponding invoice from the sales unpaid file, write 'PAID' and the date payment was received in the top right-hand corner of the invoice, then place that invoice in the sales paid file (putting the most recently paid invoice on the top of the pile)
Non-sales income such as grants, tax rebates etc. should be entered in your cash book underneath sales income.

**Cash Sales:**
Don't get into the habit of using cash received from sales to pay wages or other expenses – it is very easy to lose track of your accounts which may make the tax and VAT offices suspicious.

**Keep your accounting simple by:**
Using till rolls and Epos (electronic point of sale) cash summaries as sales invoices Keeping accurate records of money Going in and out of the till and balance these records daily Keeping all receipts for any purchases you may make using money from the till; making sure that at the end of every month you reconcile your cash book balance and your bank statement, correcting any errors at the time.

**Purchases**
You must keep receipts or invoices for all purchases you make, including cash purchases. Keep a cash book and record all cash purchases you make and keep receipts for any cash purchases in a separate file labelled 'Petty Cash' or on a desk spike.
Your accountant will be able to guide you on suitable headings to use in your cash book, which should record all monies going into and out of your bank account.
Your cash book can be kept as a hard copy or as a computerised file.

**Records - what to keep**
Record all sales made and other business receipts as they come in. Keep copies of any sales and other business receipts as they come in.
Separately record any money from the sale of any business assets Record all purchases of stock
Separately record the cost of any business assets (i.e. machinery etc.)
Retain all bank records of deposits/ withdrawals including cheque stubs and paying in books
Record all 'wages' (payments to employees) and amounts drawn out for personal use
Record all amounts paid into the business from personal funds
Keep all business bills, invoices & bank statements
Keep a separate mileage record
Be sure you can separate your business transactions from any personal transactions. It is helpful to have a separate business bank account

**Motor Expenses**
Motoring expenses are a legitimate cost to your business and HMRC allows you to claim these expenses by one of two methods.

**Forecast Profit & Loss Account**
Once you have an idea of the costs involved and how much net profit you need to make as a minimum to cover your own personal expenses you can work out what the required annual sales figure needs to be (bottom up approach).
This can be very useful when working out a forecast cash flow. Forecast Cash Flow
The forecast cash flow shows the 'flow' of money in and out of your business for at least one year ahead. It should be used as a tool to predict your business viability and to predict the sales targets based on the most realistic figures you can obtain. Many of your figures will be based on your financial research.

Nb. Once you have started trading you can put in your actual figures and you will be able to see immediately if you are achieving your targets, over achieving or under achieving. By monitoring your cash flow 'actual against your forecast you will be able to tell whether you need to take action to prevent a negative cash flow situation before it occurs.

Assumptions
The **cash flow** assumptions are a very important part of your plan. They are statements about the figures on your cash flow based on the rest of the information in your plan. Essentially they draw together the spread sheets and the narrative.