



Managing your finances

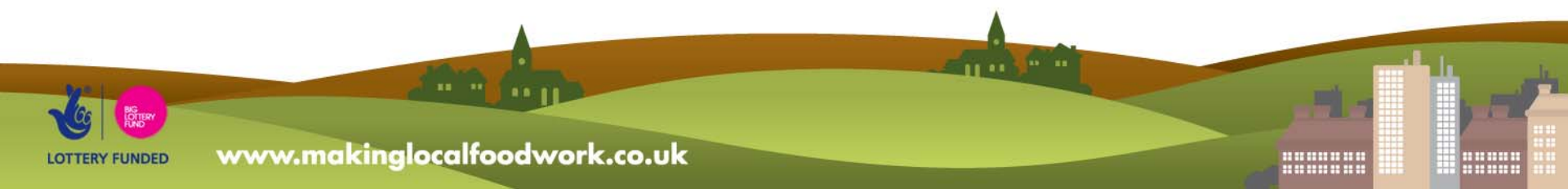
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Making Local Food Work programme



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Objectives for today

- Demystify finance
- Flag up things that are relevant and important
- Provide you with practical advice and tips that help decision making



Topics we will cover

- Why good financial management is essential
- Key financial reports and their purpose
- Measuring and managing financial performance
- Preparing a budget
- Some specific points of interest

“Money isn’t everything but it sure keeps you in touch with your children”

J. Paul Getty



The business needs

1. To manage the flow of money in and out of the business effectively and efficiently
2. To manage the day-to-day business and monitor performance
3. To provide information for the control and governance of the organisation
4. To meet the obligations as an employer
5. To meet the other legal, tax and reporting obligations



The flow of money



Money in

From customer sales, grants, loans and capital from stakeholders in the business.

Objective: Get the money into the bank account in a timely manner without losing any of it on the way.



Money out

The payment of bills for supplies, wages and overheads, as well as loan repayments, tax, NI.

Objective: Ensure that the right amount is paid at the right time to the right people.



Key financial reports

Profit & Loss account

- Shows total revenue generated less total expenses incurred in generating that revenue
- Excludes capital receipts or payments
- Excludes VAT
- Two distinct calculations of profit:
 - **Gross profit:** the total amount of profit on all sales (and other) income after deduction of the direct costs of buying or making the stock that was sold.
 - **Net profit:** the net figure after the other costs (the Overheads) have been deducted from the Gross profit.



How costs behave?

When volume changes

- Those that stay the same when changes occur to the volume of activity or product

Fixed costs

- Those that vary according to the volume of activity or product

Variable costs



Vale Community Store

Monthly Profit and Loss account

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
Total Sales	10,000	11,000	11,000	11,500	12,000	12,000	12,500	13,000	13,500	14,000	14,500	15,000	150,000
Less Cost of sales	7,500	8,250	8,250	8,625	9,000	9,000	9,375	9,750	10,125	10,500	10,875	11,250	112,500
Gross Profit	2,500	2,750	2,750	2,875	3,000	3,000	3,125	3,250	3,375	3,500	3,625	3,750	37,500
Overheads													
Wages and salaries	1,583	1,583	1,583	1,583	1,583	1,583	1,662	1,662	1,662	1,662	1,662	1,662	19,470
Stationery	20	20	20	20	20	20	20	20	20	20	20	20	240
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	360
Advertising/PR	75	75	75	75	75	75	75	75	75	75	75	75	900
Maintenance	80	80	80	80	80	80	80	80	80	80	80	80	960
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	180
Rent & Rates	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Insurance	50	50	50	50	50	50	50	50	50	50	50	50	600
Water, heat & light	50	50	50	50	50	50	50	50	50	50	50	50	600
Loan Interest	25	25	25	25	25	25	25	25	25	25	25	25	300
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	480
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	240
Bookkeeping	75	75	75	75	75	75	75	75	75	75	75	75	900
Audit fees	50	50	50	50	50	50	50	50	50	50	50	50	600
Total Overheads	2,413	2,413	2,413	2,413	2,413	2,413	2,492	2,492	2,492	2,492	2,492	2,492	29,430
Profit Before Depreciation	87	337	337	462	587	587	633	758	883	1,008	1,133	1,258	8,070
Depreciation	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Net Profit	-213	37	37	162	287	287	333	458	583	708	833	958	4,470



LOTTERY FUNDED



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Key financial reports

Cash flow forecast

- An analysis of the money that will flow in and out, where it will come from and go to and when it will happen
- When it will happen is critical!
- Calculations must include:
 - All income into the business, including sales revenue (with VAT), loans, grants and any capital invested by stakeholders.
 - All payments including to suppliers, for overheads and Government commitments such as NI, PAYE tax, VAT and Corporation tax.
- Remember that VAT income is not your money!
- Plan for any Corporation tax liability



Vale Community Store

Cashflow Forecast

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
Inflows													
Sales receipts (including VAT)	10,200	11,220	11,220	11,730	12,240	12,240	12,750	13,260	13,770	14,280	14,790	15,300	153,000
Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Grant Funding	0	0	0	0	0	0	0	0	0	0	0	0	0
Donations	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	10,200	11,220	11,220	11,730	12,240	12,240	12,750	13,260	13,770	14,280	14,790	15,300	153,000
Outflows													
Trade Creditors	7,500	8,250	8,250	8,625	9,000	9,000	9,375	9,750	10,125	10,500	10,875	11,250	112,500
Wages, Salaries & PAYE	1,300	1,300	2,150	1,300	1,300	2,150	1,380	1,380	2,225	1,380	1,380	2,225	19,470
Stationery	141	0	0	0	0	0	141	0	0	0	0	0	282
Telephone	0	106	0	0	106	0	0	106	0	0	106	0	424
Advertising/PR	0	0	0	0	0	0	1,058	0	0	0	0	0	1,058
Maintenance	0	0	0	0	588	0	0	0	0	540	0	0	1,128
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	180
Rent & Rates	0	0	1,000	0	0	1,000	0	0	1,000	0	0	1,000	4,000
Insurance	600	0	0	0	0	0	0	0	0	0	0	0	600
Water, heat & light	150	0	0	150	0	0	150	0	0	150	0	0	600
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	480
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	240
Book keeping	75	75	75	75	75	75	75	75	75	75	75	75	900
Audit fees	705	0	0	0	0	0	0	0	0	0	0	0	705
Capital Expenditure	0	0	2,500	2,500	0	0	0	0	0	0	0	0	5,000
Loan Repayments (incl interest)	225	225	225	225	225	225	225	225	225	225	225	225	2,700
VAT	515	0	0	515	0	0	516	0	0	517	0	0	2,063
Total payments	11,286	10,031	14,275	13,465	11,369	12,525	12,995	11,611	13,725	13,462	12,736	14,850	152,330
NET MOVEMENT	-1,086	1,189	-3,055	-1,735	871	-285	-245	1,649	45	818	2,054	450	670
Opening Bank/(Overdraft)	25,000	23,914	25,103	22,048	20,313	21,184	20,899	20,654	22,303	22,348	23,166	25,220	
Closing Bank/(Overdraft)	23,914	25,103	22,048	20,313	21,184	20,899	20,654	22,303	22,348	23,166	25,220	25,670	



Key financial reports

Balance sheet

- A balance sheet sets out the financial position of the business at a particular point in time.
 - It is a snapshot of the business' overall worth.
 - Shows how the business is funded
 - How the funds are being used.
 - Shows the assets and the claims against the business.
- It can provide useful insights into the financial position.
 - e.g. **Liquidity**. The ability of the business to meet its short-term obligations from its liquid (cash or near-cash) assets.
 - Low liquidity may present a problem.



Vale Community Store Balance Sheet

	31-Oct
Fixed Assets	
Tangible assets (Net book value)	12,500
Current Assets	
Stock	11,250
Debtors	500
Cash at bank and in hand	<u>26,170</u>
	37,920
Current Liabilities	
Trade Creditors	11,500
Other Creditors	<u>3,000</u>
	14,500
Net Current Assets	23,420
Total Assets less Current liabilities	35,920
Long-term liabilities	
Loan	10,000
Lease	<u>5,000</u>
	15,000
Net Assets	<u><u>20,920</u></u>
Capital	
Issued Share Capital	1,000
Reserves	15,450
Profit & Loss Account	<u>4,470</u>
	<u><u>20,920</u></u>



Measuring and managing performance

- Look at things regularly and involve others
- Develop trading and market measures relevant to you e.g. Year-on-year weekly sales figures
- Develop a set of Management accounts



Management accounts

- A set of financial reports that you consider to be sufficiently accurate to help you:
 - Understand your trading position
 - Make decisions
- Could include analysis of Cash flow, difference between actual and budget for sales, costs and margin
- There are no rules on what format is used
- Usually prepared monthly or quarterly
- Your book-keeper should be able to prepare them



Vale Community Store

Management accounts: Monthly P&L

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Forecast Total	Budget Total	Difference %	
	Actual	Actual	Actual	Actual	Actual	Actual										
Total Sales	10,000	10,500	11,000	11,500	11,750	11,750	12,500	13,000	13,500	14,000	14,500	15,000	149,000	150,000	-1,000	-0.7%
Less Cost of sales	7,500	7,875	8,250	8,625	8,813	8,813	9,375	9,750	10,125	10,500	10,875	11,250	111,750	112,500	-750	-0.7%
Gross Profit	2,500	2,625	2,750	2,875	2,938	2,938	3,125	3,250	3,375	3,500	3,625	3,750	37,250	37,500	-250	-0.7%
Overheads																
Wages and salaries	1,583	1,583	1,583	1,583	1,583	1,583	1,662	1,662	1,662	1,662	1,662	1,662	19,470	19,470	0	0.0%
Stationery	20	20	20	20	20	20	20	20	20	20	20	20	240	240	0	0.0%
Telephone	30	30	30	30	30	30	30	30	30	30	30	30	360	360	0	0.0%
Advertising/PR	75	75	75	75	75	75	75	75	75	75	75	75	900	900	0	0.0%
Maintenance	80	80	80	80	80	80	80	80	80	80	80	80	960	960	0	0.0%
Staff Travel	15	15	15	15	15	15	15	15	15	15	15	15	180	180	0	0.0%
Rent & Rates	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	0	0.0%
Insurance	100	100	100	100	100	100	100	100	100	100	100	100	1,200	600	600	50.0%
Water, heat & light	50	50	50	50	50	50	50	50	50	50	50	50	600	600	0	0.0%
Loan Interest	25	25	25	25	25	25	25	25	25	25	25	25	300	300	0	0.0%
Credit Card Charges	40	40	40	40	40	40	40	40	40	40	40	40	480	480	0	0.0%
Bank charges	20	20	20	20	20	20	20	20	20	20	20	20	240	240	0	0.0%
Bookkeeping	75	75	75	75	75	75	75	75	75	75	75	75	900	900	0	0.0%
Audit fees	50	50	50	50	50	50	50	50	50	50	50	50	600	600	0	0.0%
Total Overheads	2,463	2,463	2,463	2,463	2,463	2,463	2,542	2,542	2,542	2,542	2,542	2,542	30,030	29,430	600	2.0%
Profit Before Depreciation	37	162	287	412	475	475	583	708	833	958	1,083	1,208	7,220	8,070	-850	-11.8%
Depreciation	300	300	300	300	300	300	300	300	300	300	300	300	3,600	3,600	0	0.0%
Net Profit	-263	-138	-13	112	175	175	283	408	533	658	783	908	3,620	4,470	-850	-23.5%



Your obligations

- Pay staff in a timely and accurate manner
- Under the PAYE system, the business acts like an agent of HMRC:
 - Required to pass NI and tax retained to HMRC
 - There may be Employers NI contribution as well
- Compliance with basic legal requirements:
 - Provide timely and accurate annual accounts (?)
 - Pay VAT and corporation tax as required
 - Keep PAYE records for all paid employees
 - Retain financial records (for six years)



Specific topics of interest

“My problem lies in reconciling my gross habits with my net income”

Errol Flynn



Specific topics we'll cover

- Is ***Profit*** a dirty word!
- Preparing a budget
- Getting organised
- The right price
- Informed decision making
- What funders want!



Is *Profit* a dirty word!

- Do you want a viable and sustainable enterprise?
- What is the right mindset for your enterprise?
'Not for profit', 'Social profit', 'More than profit'
- What to do with any surplus?
- Do you need financial reserves?



Reserves

- Reserves are useful:
 - Essential for a rainy day
 - To build a fund for future investment or expansion
- There is no magic formula for the right level of reserves
- Get Management committee agreement on a policy
- Some things to consider:
 - A rush to repay loans may not be prudent.
 - Grant funding may not be available in the future.



Preparing a budget

- One of the most important activities in any organisation
- A step in the planning process that should reflect the purpose and objectives of the organisation.
- A budget is different to a forecast: it's a **planned outcome**, not a prediction.
- It will help you to control and manage finances.



Steps to create a budget

1. Think about the fit with your business plan
2. Start with sales: what, how much, to whom, what price?
3. Work out the cost of growing (or buying) the produce you sell (your Direct costs)
4. Work out your staff and other costs (your Overheads)
5. Think about any investment required and source of funding



Getting organised!

Policies and procedures

- Put clear policies, procedures and controls in place
- Must be easy to understand and share:
 - Embed activities into the regular routine
 - Give individuals 'ownership' of specific activities.



Getting organised!

Get the most from your people

- Make key relationships work
- Don't be over-dependent on a few individuals
- Have a formal induction process covering the basic financial procedures
- Use simple communication tools e.g. laminated instruction sheets
- Give ownership of tasks to individuals



The right price

Some things to consider

- What is the role of price in what you do?
- Remember that cheap and value are not the same thing: price is only part of the offer
- Take margin where there is the opportunity
- What will be the optimum price for you and your customer?



The right price

Different approaches to how you price

- Value to the customer
- What the market will bear
- Competitor price
- Cost of supply plus
- Cost of supply



Informed decision making

Breakeven point

- A calculation of the point where the income from sales exactly equals all the costs incurred
- Helpful when making decisions on volume
- You need to know your fixed costs, variable costs and the likely selling price
- The calculation is:

$$\frac{\text{Fixed Costs}}{\text{Selling Price} - \text{variable cost per unit}}$$



Informed decision making

Payback period

- A calculation of how long it will take to earn back the money invested in something
- Helpful when choosing what to spend money on when funds are limited
- You will need to know the investment cost and the annual net return expected in the future
- Typically shorter payback periods are desirable
- However, it can be an over-simplistic calculation



What funders want!

- A clear idea of your idea and how it will work...and
- Their role in making it happen
- Confidence that the loan will be paid back...or
- That the social outcomes you committed to when you apply for a grant will happen
- They like long term sustainability
- They appraise the people as well as the figures
- Cashflow is key: will you have enough money at the key times?
- Managed risk (A simple life!)





Thank you!

“Whoever said money can't buy happiness simply didn't know where to go shopping.”

Bo Derek



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