GET-UP Lesson Plan for Masterclass

Module 7: Managing the Money

Unit 2 – Introduction to Financial Management

Learning Outcomes: On completion of this workshop, green entrepreneurs (learners) will be able to:

- Understand key financial terms and jargon
- Understand keeping good records
- Understand the difference between 'cash' and 'profit'
- Examine financial management tools that are suitable for their business i.e. budgets, balance sheets, profit and loss, and bank reconciliations
- Understand how to monitor profit and loss for a business

Content and Instruction Method	Timing (minutes)	Materials/ Equipment Required	Assessment/ Evaluation
Introduction and Group Discussion: ❖ Using the PowerPoint, the trainer introduces some key terms used in financial management, including: ❖ Investment; Sales/Revenue; Expenses; Break-even Point; Cash Flow Forecast; Profit and Loss Account; Return on Investment. ❖ Trainer introduces the idea of keeping good records and the importance of this ❖ Trainer also takes this opportunity to distribute copies of the '***Financial Glossary'*** to all learners.	*15 minutes*	❖ Flipchart with key terms and definitions written on it; ❖ Markers; ❖ Pens and note-taking equipment for learners; ❖ Copies of the '***Financial Glossary***' (see Annex 1) for all learners.	❖ Learners will take notes of financial terminology which is not familiar to them. They will need to be familiar with these terms when working with financial institutions.

Case Study: ❖ Using the case study example - ***I'm Making a Profit. So Why Am I Running out of Money? -*** The trainer introduces the group to the difference between cash and profit. ❖ Learners will read through the case study and will discuss the cash-flow mistakes presented.	*15 minutes*	❖ Pens and note-taking equipment for learners; ❖ Copies of the case study '***I'm Making a Profit. So Why Am I Running out of Money'*** (see Annex 2) for all learners.	❖ Learners will engage fully in the discussion on the case study and will take notes to support their learning.
Trainer presentation: ❖ Using PowerPoint slides, the trainer introduces some of the most common financial management tools used by start-ups and micro-enterprises in the green economy, i.e. budgets, income and expenditure, balance sheets, and bank reconciliations. ❖ Trainer asks learners to focus on their own business and idea and to reflect on the tools presented and discuss how these tools and resources will be most useful for their own business. ❖ Using Excel, the trainer will present how to track income and expenditure for a start-up or micro-enterprise, using a simple template. ❖ Through this exercise, the trainer will help learners to understand where they get the figures from to construct the '***Income and Expenditure'*** template.	*25 minutes*	❖ PowerPoint Slides; ❖ Projector and screen; ❖ Laptop; ❖ Copies of the '***Income and Expenditure'*** (see Annex 3) Excel template for all learners; ❖ Pens and note-taking materials for learners.	❖ Learners will reflect on all of the financial management tools presented and will identify which tools are most applicable to their business idea. ❖ Using the tools presented, learners will be encouraged to practice using their selected financial management tools for their business as part of their self-directed learning. ❖ Learners will get a copy of the 'income and expenditure' Excel template from trainer to complete as part of their self-directed learning.

<u>*Trainer presentation:*</u> ❖ Using PowerPoint slides, the trainer presents an introduction to Profit and Loss for businesses. ❖ Next, the trainer presents a sample ***'Profit and Loss'*** statement. ❖ Using this sample, the trainer explains to the group how they should read a ***'Profit and Loss'*** statement and how they can use this to monitor the finances of their business going forward.	<u>*20 minutes*</u>	❖ PowerPoint Slides; ❖ Projector and screen; ❖ Laptop; ❖ Copies of ***'Profit and Loss'*** (see Annex 4) template for all learners; ❖ Pens and note-taking materials for learners.	❖ Learners will take notes to support their learning. ❖ Learners will complete the 'profit and loss' template for their business idea as part of their self-directed learning. ❖ Learners will use the template to better understand how they can improve the financial management structures of their business.
<u>*Group Discussion and Brainstorm:*</u> ❖ Trainer begins this activity by explaining to the group for those learners who lack the competences and confidence to manage their own finances by highlighting the range of services available to them. ❖ Trainer explains the role of accountants in managing the finances of SMEs and start-ups. ❖ Trainer leads the group in a short brainstorming activity to identify external financial service providers who can help start-up enterprises to manage their finances. ❖ Trainer takes note of these services on a flipchart and invites learners to take note of suitable supports they have access to. ❖	<u>*10 minutes*</u>	❖ Flipchart and markers; ❖ Pens and note-taking equipment for learners;	❖ Learners will take notes to support their learning.
<u>*Closing Session and Evaluation*</u> ❖ Trainer will distribute copies of the workshop evaluation form to learners and asks them to complete it.	<u>*5 minutes*</u>	❖ Pens and note-taking materials for learners; ❖ Flip-chart and markers for verbal feedback	❖ Learners will engage fully in the evaluation and feedback activities and will complete the evaluation form.
Total Time	**90 minutes**		

Annex 1 - Financial Glossary

- **Accounting**: The process of recording, classifying and summarising business transactions with the aim of providing useful financial information for a number of users.
- **Accounts**: Usually annual financial records of a business or organisation that provide information about its financial circumstances.
- **Audit**: An annual check carried out on all companies by an auditor to check the accuracy of financial records.
- **Average Cost or Unit Cost**: The cost of producing one unit, calculated by dividing the total cost by output.
- **Average Rate of Return or Accounting Rate of Return**: A method of investment appraisal, which measures the net return per annum as a percentage of the initial spending.
- **Bootstrapping**: Getting a business under way with a minimum of finance through the utilization of one's own resources.
- **Break Even Point**: The point at which total revenue equals total costs.
- **Budget**: An estimate or quantitative plan of the income and expenses for a future period of time, usually within one year.
- **Business Angel**: An individual who invests in businesses, especially start-up businesses.
- **Capital Asset**: An asset that is difficult to sell quickly, i.e. premises.
- **Capital Expenditure**: Spending on business resources that can be used repeatedly over a period of time.
- **Capital Gain**: The profit gained by selling a share for more than it was bought for.
- **Cash Flow Cycle**: The continuous movement of cash in and out of a business.
- **Cash Flow Forecast**: A projection of money going into and out of a business, usually over a period of 12 months.
- **Cash Flow Statement**: A documented detail of cash inflows and cash out flows in a trading period of the business.
- **Cash Flow**: The difference between total cash coming in and going out of the business over a period of time.
- **Cost-Benefits Analysis**: Used to analyse and determine the feasibility of business decisions or projects. The benefits are weighed against the costs associated with that decision or project.
- **Creditors**: These are people, or companies, that lend money to businesses or entrepreneurs.
- **Debtors**: These are people or companies that owe you money.
- **Early-stage or seed financing**: One of the first financings obtained by the business.
- **Fixed Assets**: Recorded in the balance sheet at cost – land, buildings, equipment, company car –
- **Fixed Costs**: Costs of production (running costs or overheads) which do not vary with the amount produced
- **Interest Rates**: The charge or price of borrowing.
- **Internal Rate of Return (IRR)**: This is an investment and valuation tool that helps businesses decide whether they should make an investment (rate of return at which the net present value is zero).

- **Letter of Credit**: A financial document issued by a bank at the request of the consignee, guaranteeing payment to the shipper, for cargo, if certain terms and conditions are fulfilled.
- **Liabilities**: Claims or debts against a business, such as loans and equity, which provide a source of funds.
- **Liquidity**: The ability of a business to meet its financial responsibilities. The ease with which, assets can be converted into cash without loss.
- **Loan Capital**: Finance loaned to a business for a specified period of time at a fixed or varied rate of interest that must be paid irrespective of the performance of the business.
- **Loss**: Loss is the excess of expenditures over income for a period or activity.
- **Net Assets**: The amount by which the value of a company's assets exceeds its liabilities
- **Net Cash Balance**: The amount of cash that is on hand.
- **Net Cash Flow**: The earnings, income or revenue from an investment less the operating costs.
- **Net Loss:** The amount of expenses paid over revenues generated.
- **Net Margin**: The percentage of revenues that is profit.
- **Net Profit Margin**: Shows the ability of a business to control overheads, and expresses net profit before tax as a percentage of turnover.
- **Net Profit**: Profit on ordinary activities before taxation – it is calculated by deducting all expenses (running costs, fixed costs or indirect costs) of the business from the gross profit.
- **Operating Costs (also known as Overhead Costs)**: Expenditures arising out of current business activities. The costs incurred to do business such as salaries, electricity, and rental.
- **Overdraft**: Used to finance working capital. Occurs when withdrawals from a bank account exceeds the money available in the account. The account will now have a negative balance.
- **Overhead**: Also known as fixed costs, indirect costs or running costs. Costs incurred in the running of your business such as rent, electricity, heat, light, vehicles.
- **Payback Period**: Refers to the time it takes a business to recover the cost of an investment project. The shorter the payback period, the better the investment.
- **Pricing Strategies**: The pricing policies or methods of pricing adopted by businesses.
- **Profit and Loss Account**: Shows net profit after tax by subtracting business expenses and taxation from operating profit.
- **Profit**: Financial gain, returns over expenditures. Not necessarily an increase in cash.
- **Return on Investment (ROI)**: Refers to the amount of money made on an investment compared to the amount of money initially invested.

- **Share/Stock**: One of the equal parts into which the ownership of a business is divided. A 'share' represents part ownership in a business.
- **Shareholders**: People, other companies or businesses who have bought shares in a company or organisation and are therefore part owners.
- **Variable Costs**: Costs such as labour and raw materials that 'vary directly' according to the number of items being manufactured.
- **Venture Capital**: Money used to finance new companies or projects, especially those with high earning potential and high risk.
- **Venture Capitalists**: Providers of funds for small or medium sized companies that may be considered too risky by other investors.

Annex 2 - Case Study: I'm making a profit. So why am I running out of money?

Source: https://www.inc.com/magazine/201402/jill-hamburg-coplan/cash-flow-squeeze-growth-companies.html

Alan Knitowski treats cash flow like a religion at Phunware, his mobile apps company. But it took two liquidity nightmares at previous companies to show him the way. In the 1990s, Knitowski co-founded his first company, communication software provider VoViDa, with just six months of funding. In those days, Knitowski explains, it took much longer to develop software, and VoViDa was plowing large amounts of cash into paying programmers. "We were burning money constantly, faster than was sustainable, until we became a buffalo charging off a cliff," Knitowski recalls. Fortunately, he and his team raised enough equity funding to stay alive until Cisco Systems acquired the Silicon Valley business, less than two years after it was founded.

Cash-flow problems were even worse at Caneum, the IT outsourcing company where Knitowski was an investor and member of the board of directors from 2003 to 2009. When California failed to pass a state budget one year, one of Caneum's major clients, the Los Angeles Unified School District, was unable to pay its $660,000 bill. Caneum was also struggling to collect a $750,000 payment from another client that was undergoing personnel shuffling. Then, the global credit crisis hit in late 2008, leaving the business without access to cash. The company went bankrupt the following year, and Knitowski took a huge hit on his investment.

When sales and profits are surging, it's easy to assume that your business is bulletproof. But companies can turn a profit right to the brink of bankruptcy. How? The quick answer is that when companies grow, they become more complex. When you have a handful of customers, tracking down payments is easy. As your client base grows, staying on top of accounts receivable becomes more time consuming. New customers may insist on paying in, say, 60 days, even though rent, payroll, and other bills are due in 30.

Meanwhile, more cash is flying out the door to cover inventory, higher taxes, government-compliance expenses, and debt. "As sales go up, cash can go down," says William Lenhart, a business-restructuring consultant with BDO Consulting in New York City. "Every growing business has that problem." But, Lenhart says, many businesses fail to focus on liquidity. That could be because entrepreneurs are focused on selling and satisfying their customers. But if you don't make cash-flow management a priority, Lenhart says, "you could be in big trouble in a short period of time."

Knitowski says the experiences at VoViDa and Caneum taught him a valuable lesson: To survive, business owners have to view cash as their lifeline. When Knitowski co-founded Phunware in 2008, he decided to make cash-flow management a central focus at the company, which develops and hosts mobile apps for clients such as the NFL and Nascar. Every Friday afternoon, Phunware's controller emails an overview of the company's financials to the management team, including data on key metrics such as cash on hand, obligations, and the quick ratio, which the company derives from dividing cash plus receivables by current liabilities. "We don't let one week go by," Knitowski says.

The team dissects the data and tracks trends over time. If cash is trending down, it could be owing to seasonality. Or Phunware may be spending too much--making too many investments in technology, say, or hiring too many people. (The company now has 160 employees and generated roughly $22 million in sales last year.) These days, the company is particularly focused on accounts receivable, which are hovering around $5.5 million. The team asks a lot of questions: Are companies paying us too slowly? Which customers haven't paid us, and how delinquent are they? What action should we take?

Knitowski has also adopted a color-coded system: If Phunware has more than 18 months of cash on hand, it's a green light. Twelve to 18 months of cash is a yellow light, and less than a year of cash is a flashing red light. When the light turns yellow, Phunware turns to a working capital line of credit, asset-backed loans, bridge financing, or equity funding. Thankfully, the light has never turned red.

Phunware also pushes back when negotiating contracts with clients, refusing to accept payments later than 30 days after delivering a product. The company asks some clients to put 50 percent down when signing a contract. And the business is structured so that a portion of revenue comes from semiannual subscriptions, which produce predictable, recurring income.

Phunware isn't shy about hunting down delinquent customers. Nine times out of 10, Knitowski says, those clients wind up paying. He assumes the remaining 10 percent have financial problems they're refusing to disclose. The hard-nosed approach has cost Phunware some customers, but that's a price Knitowski is willing to pay. "I always assume nuclear winter, which makes me conservative and diligent," he says. "That way, things will never be so bad again."

Lenhart applauds Phunware's weekly cash-flow analysis. He also likes the fact that a portion of the company's revenue comes from subscriptions. As the business continues to grow, he says, it will be crucial for Phunware to have the right billing department in place. After all, the department that handled billing when Phunware was a $1 million company may not be up to the task when it's a $30 million company. He also recommends that Phunware adjust its line of credit with the bank at least once a year, to reflect rising sales.

If certain clients are keeping Knitowski up nights, but Phunware wants to keep them around, he could take out credit insurance. He could also ask clients to set up a standby letter of credit that Phunware could draw on if the client fails to pay. The key takeaway for other companies, Lenhart says, is to "look beyond just sales numbers, because they're not the full story."

Annex 3 – Template – Income and Expenditure

Date	Description	Debit	Credit	Balance

Annex 4 – Template – Profit and Loss

				Jan - Dec 17
	Income			
		Type A		0.00
		Type B		0.00
		Type C		0.00
	Total Income			0.00
	Expense			
			Bank Charges	0.00
			Meeting Expenses	0.00
			Cleaning & Refuse Collection	0.00
			Heat & Light	0.00
			Insurance	0.00
			Office Supplies	0.00
			Postage	0.00
			Printing/Stationery	0.00
			Rent	0.00
			Repairs & Maintenance (General)	0.00
			Salaries	0.00
			Telephone	0.00
	Total Expense			0.00
Profit for the Year				**0.00**
(Total Income - Total Expense)				