

# *Module 7 – Managing the Money*

## Unit 2– Introduction to Financial Management

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## *Introduction to Financial Management*

The purpose of this unit is 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 your business i.e. budgets, income and expenditure, balance sheets, and bank reconciliations
- ◆ Understand how to monitor profit and loss for a business



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## *Key Financial Terms*

- ◆ Investment; The sum of money or capital you put into your business during start up
- ◆ Sales/Revenue; The total amount of money earned from sales or the provision of services over a specified period of time
- ◆ Expenses; Costs associated with running your business for example rent, utilities, repairs etc
- ◆ Break-even Point; The point at which total revenue equals total costs



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## *Key Financial Terms*

- ◆ Cash Flow Forecast; A projection of money going into and out of a business, usually over a period of 12 months
- ◆ Profit and Loss Account; Shows net profit after tax by subtracting business expenses and taxation from operating profit
- ◆ Return on Investment: Refers to the amount of money made on an investment compared to the amount of money initially invested



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## *Keeping Good Records*

***Without good records it is simply impossible to determine the financial condition or profitability of your business.***

### **Keeping Records**

Complete and accurate financial record keeping will be crucial to a business for the following reasons: -

- To provide financial data that will help a business to operate more efficiently, thus increasing profitability
- To identify all the business assets, liabilities, income and expenses.
- Good records are essential for the preparation of the end of year returns and financial statements. These statements are critical for maintaining good relations with the bank.



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## *Keeping Good Records*

### **What Good Records Tell You**

- The specific records a business will need depends on a number of factors such as:
  - The type of enterprise
  - The company goals
  - Your management needs
  
- Based on the relevant factors, an accountant can help you determine what records to keep and what information they should provide.
  
- All records must be kept for seven years under Company law and be available for inspection by the relevant tax authority.



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## *Keeping Good Records*

### **Basic Record Keeping Systems**

Your record keeping system, whether on paper or on a computer, should be

- Simple to use
- Easy to understand
- Reliable
- Accurate
- Consistent
- Designed to provide information on a timely basis

## *Keeping Good Records*

### ◆ **Basic Record Keeping Systems**

◆ *The following are a list of basic requirements for any accounting system: -*

- **Cheque Journal / Day Book:** A list of all payments made from your bank account. This will be required for each bank account.
- **Receipts Journal / Day Book:** This is a list of all cash received and an explanation of where the funds have come from, for example debtors, loan, etc. Again, this is required for each bank account.
- **Sales Journal / Day Book:** This is a list of all sales invoices. The Sales Day Book should split the sales between the VAT element and the different types of product that you sell. This analysis can be simple or more complex depending on the information you require about your different products or services.
- **Purchases Journal / Day Book:** This is a list for all purchases invoices. These again need to be analysed into the cost of sales expenses and administration expenses. In addition the VAT element must be shown separately.
- **Debtors Records:** These books will show at any time what you are owed from your customers.



## *Keeping Good Records*

- **Creditors Records:** These books will show what money is owed to your suppliers at any given time.
- **Payroll:** Records must also be kept regarding the salaries you are paying to your staff. Information must be maintained on how the tax is calculated and any additional refunds of expenses. Separate expenses claim forms must also be retained for these payments.
- **Sales Invoices:** A copy of all sales invoices must be maintained.
- **Purchases Invoices:** A copy of all invoices listed in your day books must be retained.
- **Stock Record:** The type of records retained here depends on your business. This may be an area that should be discussed with your accountant.
- **Bank Statements:** All bank statements from all your accounts should be maintained.



## *“Cash” and “Profit”*

### Cash flow

- **Cash flow** is the movement of money into or out of a business.
- Sales Receipts – Cash In
- Purchases & Expenses Paid – Cash Out
- Cash In less Cash Out = Available Cash



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## *“Cash” and “Profit”*

- **PROFIT – Sales less Expenses**
- Profit & Cash flow are **NOT** the Same
- You can make a profit but have no Cash in the Bank – **Debtors** Outstanding
- You can make a loss but have loads of Cash in the Bank – **Creditors/Bills** Outstanding



## *“Cash” and “Profit”*

### ***Cash flow Management***

- Cash is to your business what fuel is to an aeroplane.
- Just as the pilot accurately projects his fuel requirements,  
it's important for a business to know its cash requirements
- Running out of fuel can be a problem for the aeroplane -  
equally running out of cash can be a problem for a  
business
- Making money is not the same as having money
- You can be making a profit and still go out of business  
by running out of cash





## *“Cash” and “Profit”*

### **Cash Flow Management**

- Cash is the lifeblood of a business
- It is central to the operating cycle of the business because all operations generate or use cash
- A simple method of estimating what is the stream of money into and out of your business
- It can help project future needs for cash before the needs arise thereby helping in the planning and managing of cash receipts and payments.
- Cash deficits are more problematic than cash surpluses, however if a cash deficit is only short term this will be disclosed in the cash budget
- Being able to show the cash deficit is related to seasonal increases in stocks or debtors, may persuade a bank manager to extend overdraft facilities
- If not it may require cutting stocks, renegotiating credit terms, deferring projects or capital expenditure to level out peak cash outflows





## *Cash flow Statement*

### ***A Simple Cash Flow Statement***

➤ The basic elements of cash flow are:

- **Starting cash**      This is your starting balance, what you have on hand at the beginning of each month.
  
- **Cash in**              This is all cash received from any source for the month, such as cash sales, paid receivables, or from sales of assets or stock.
  
- **Cash out**             This is all cash paid from the business in the month. It includes all fixed and variable expenses, such as loan repayments, payment of salaries and wages, payments for raw materials.
  
- **Ending cash**        This is the closing balance, what you have on hand at the end of each month.



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6 Month Cashflow						
Operational Income	Jan	Feb	March	April	May	June
Start Up	0.00	0.00	0.00	0.00	0.00	0.00
Income	0.00	0.00	0.00	0.00	0.00	0.00
Carryover from previous months	0.00	0.00	0.00	0.00	0.00	0.00
<b>Operating Income</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Operational Expenditure						
Salaries (inc. P30 & Pension)	0.00	0.00	0.00	0.00	0.00	0.00
Travel & Subsistence	0.00	0.00	0.00	0.00	0.00	0.00
Rent & Security	0.00	0.00	0.00	0.00	0.00	0.00
Heat & Light	0.00	0.00	0.00	0.00	0.00	0.00
Telephone	0.00	0.00	0.00	0.00	0.00	0.00
Postage, Printing and Stationery	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.00	0.00	0.00	0.00
Office Equipment	0.00	0.00	0.00	0.00	0.00	0.00
Repairs & Maintenance	0.00	0.00	0.00	0.00	0.00	0.00
Cleaning and Canteen	0.00	0.00	0.00	0.00	0.00	0.00
Audit/Legal/Professional Fees	0.00	0.00	0.00	0.00	0.00	0.00
Bank Charges	0.00	0.00	0.00	0.00	0.00	0.00
<b>Operational Expenditure</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Operational Balance</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>



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## *Financial Management Tools*

### Budget

- ◆ An estimate or quantitative plan of the income and expenses for a future period of time, usually within one year
- ◆ It ensures that you will have the finance available to cover operating costs and business needs
- ◆ It highlights situations where money may be available to reinvest into the company



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	BUDGET	ACTUAL	UNDER/OVER
<b>INCOME</b>			
<b>OPERATING INCOME</b>			
Category 1	\$ 6,000.00	\$ 6,000.00	\$ -
Category 2	\$ 200.00	\$ 150.00	\$ (50.00)
Category 3	\$ 100.00	\$ 100.00	\$ -
Category 4	\$ 55.00	\$ 20.00	\$ (35.00)
Category 5	\$ 500.00	\$ 500.00	\$ -
Category 6	\$ 300.00	\$ 200.00	\$ (100.00)
Category 7	\$ 115.00	\$ 50.00	\$ (65.00)
<b>TOTAL</b>	<b>\$ 7,270.00</b>	<b>\$ 7,020.00</b>	
<b>EXPENSES</b>			
<b>OPERATING EXPENSE</b>			
Accounting & Legal	\$ 2,250.00	\$ 2,250.00	\$ -
Advertising	\$ 25.00		\$ (25.00)
Depreciation	\$ 40.00		\$ (40.00)
Dues & Subscriptions	\$ 44.00		\$ (44.00)
Insurance	\$ 20.00		\$ (20.00)
Interest Expense	\$ 15.00		\$ (15.00)
Maintenance/Improvements			\$ -
Taxes & Licenses	\$ 29.00		\$ (29.00)
Telephone			\$ -
Travel			\$ -
Utilities			\$ -
Web Hosting & Domains			\$ -
	\$ 2,423.00	\$ 2,250.00	
<b>PAYROLL</b>			



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## *Financial Management Tools*

### Income and Expenditure

- ❖ An income and expenditure spreadsheet will allow you to keep track of money coming in and money going out of your business.
- ❖ When income is received it is credited to your account, when an expense is paid the amount is debited from your account
- ❖ All transactions should be listed in an “income and expenditure” spreadsheet, allowing you to see money available to you at any given time





## *Financial Management Tools*

### Balance Sheets

◆ A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders.

◆ The balance sheet adheres to the following formula:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$





## *Financial Management Tools*

### **Bank Reconciliation**

- It is rare that the balance shown on the business records is the same as that shown on the banks records
- Due to timing differences, the bank may not have recorded certain transactions shown on the business records and certain transactions made by the bank may not appear on the business records
- A bank reconciliation is a means of identifying the differences between the balance appearing on the statement received from the bank and the balance that is on the business records.
- It tests the accuracy of the business records and the banks records in relation to receipts and payments



## *Bank Reconciliation*

### **How to do a Bank Reconciliation:**

1. Take the balance per the Bank Statement
2. Add lodgements not yet credited
3. Deduct payments not yet cashed
4. To give the Reconciled Balance

Lodgements made  
not yet on the bank  
statement

Payments made not  
yet on the bank  
statement





## *Bank Reconciliation*

### ***How to do a Bank Reconciliation:***

1. Compare all entries on the bank statement with the entries in the cash receipts and cheque payments book, marking off each item in the business records and the bank statements where the items correspond exactly.
2. Locate all items, both in the business's books and on the bank statements that have not been marked off.
3. Taking the balance per the bank statement, add any outstanding lodgements and deduct any outstanding cheques and adjust for any errors.





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## *Profit & Loss*

A profit and loss statement (P&L) is a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a year. These records provide information about a company's ability to generate profit by increasing revenue, reducing costs, or both.

The P&L statement is also referred to as "statement of profit and loss", "income statement," "statement of operations," "statement of financial results," and "income and expense statement."



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## *Profit & Loss Template*

	Jan - Dec 17
<b>Income</b>	
Type A	0.00
Type B	0.00
Type C	0.00
<b>Total Income</b>	<b>0.00</b>
<b>Expense</b>	
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
Travel and Subsistence	0.00
TUS Subsistence	0.00
<b>Total Expense</b>	<b>0.00</b>
<b>Profit for the Year</b>	<b>0.00</b>
<i>(Total Income - Total Expense)</i>	



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