Managing money and making a profit

Hull Training

enterpRISE

jobcentreplus

Department for Work and Pensions

For your information

How to get the most from today's workshop

- Ask questions
- Participate
- Worksheets
- Action Plan

Notes

Today's objectives

- To help you gain a greater understanding about financial matters
- To help you develop greater confidence in cashflow forecasting, making a profit and managing your money

Notes

Key learning points

- Research all your costs
- Get clear on your financial position
- Consider testing your idea before making significant investment
- Follow the law and pay the correct amount of taxes
- Get organised with a simple bookkeeping system

Notes

Introductions

- About Youth Enterprise
- ‘Starting a Business’ journey

Over to you

- Your name
- Nature of your business idea
- Your expectations of today

Notes

An inescapable truth ...

Turnover is Vanity

Profit is Sanity

Cash is Reality

Notes

The confidence factor

- On a scale of 0 – 10 how confident are you about financial planning?
- How soon will you need to earn an income from your business?

Notes

What do you need to consider?

How do you decide whether your business idea is financially viable or not?

Notes

How much will it cost you to start up?

Capital expenditure

- Van, equipment, computer, printer, shop fittings/display, till, office furniture, telephone system etc

Other start up costs

- Insurance, stationery, marketing, rent in advance, professional services, web site etc

Notes

Be resourceful - bootstrap

- Resist the temptation of the ‘shiny kit syndrome’
- Could you lease or rent instead? Or buy second hand?
- Everything is negotiable
- Barter your services with others that you can help

Notes

Determine your current financial situation

- Can you guarantee it will make money straight away?
- Your financial reserves
- Your personal survival budget
- Full time/part time?

Notes

Sales forecasting

- Your projected revenue is based on your sales forecast
- You need to know 2 things:

  i) how much you expect to sell

  ii) how much you will charge
- Your sales forecast is likely to be the most important business prediction you will ever make

Notes

Month	No of sales	Ave spend per sale	Revenue £
Sept 2010	**12**	**£80**	**960**
Oct 2010	**20**	**£80**	**1600**
Nov 2010	**20**	**£80**	**1600**
Dec 2010	**15**	**£80**	**1200**
Jan 2011	**12**	**£80**	**960**
Feb 2011	**15**	**£80**	**1200**
Mar 2011	**20**	**£80**	**1600**
Apr 2011	**20**	**£80**	**1600**
May 2011	**20**	**£80**	**1600**
Jun 2011	**20**	**£80**	**1600**
Jul 2011	**16**	**£80**	**1280**
Aug 2011	**20**	**£80**	**1600**
Total sales for the year			**£16,800**

Notes

Sales forecasting

- A sandwich shop overestimates amount of sandwiches it will sell - left with unsold food that will perish
- A toy shop underestimates popularity of latest Christmas toys - lost sales

Notes

What about running costs?

Costs of sale (direct, variable)

- These relate directly to your sales – raw materials, packaging, sub contract labour

Overhead expenses (indirect, fixed)

- These are expenses that have to be paid regardless of how many sales you have made – rent, rates, phones, petty cash etc

Notes

Cash versus profit

- **Cash Flow Forecast**

  Shows the actual amounts of money coming in and going out each month and consequently shows what cash the business actually has

- **Profit Forecast**

  Shows anticipated income and expenditure in the months earned or incurred without consideration of when actually received or paid

Notes

The cash flow forecast

- Shows what will happen to actual CASH in and out of the bank account
- Is not a profit and loss forecast
- All actual income and payments are included regardless of source or destination
- Transactions are shown in the month they are expected to happen
- **It is a prediction of your bank statement!**

Notes

The profit and loss forecast

- Profit is trading income invoiced less expenses incurred – regardless of whether paid or not
- Sales and expenses exclude VAT <u>if</u> VAT registered
- Expenses include VAT if <u>not</u> VAT registered
- Does not include capital introduced by yourself or other funders (eg loans)
- Does not include capital expenditure on fixed assets or loan repayments
- BUT includes interest on loans and depreciation of fixed assets

Notes

Projected profit and loss account

Sales	60,000
Direct costs	24,000 (40%)
Gross profit	36,000 (60%)
Overheads	10,000
Net profit	26,000

Sales forecast produced from assumptions, market research, marketing plan, pricing policy

Direct costs produced from suppliers' prices, unit costs assumptions

Overheads produced from suppliers' prices, unit costs assumptions

Notes

Just to make a little more sense ...

		£
Sales (say 200 units at £300 each)		60,000
Direct costs (say 200 units at £120 each)		24,000 (40%)
Gross profit (say 200 units at £180 each)		36,000 (60%)
Overheads		
light/heat	500	
marketing	1,500	
insurance	250	
phone/internet	500	
stationery	500	
rent & rates	6,750	10,000
Net profit		26,000

Notes

Gross profit calculation

Gross profit

Sales – direct costs = Gross profit

ie 60,000 - 24,000 = £36,000

Gross profit margin

$$\frac{\text{Sales – direct costs}}{\text{sales}} \times 100 = \text{GP\%}$$

$$\frac{\text{ie } 60{,}000 - 24{,}000}{60{,}000} \times 100 = 60\%$$

So for every unit you sell at £300 you make a gross profit of £180 which is a gross profit margin of 60%

Notes

Break even

Is the point at which sales revenue and expenditure (including your survival/desired income) is equal: there is no net loss or gain.

Break even revenue

$$\frac{\text{Overheads + Desired income}}{\text{Gross Profit Margin}} \times 100$$

For example:

$$\frac{10{,}000 + 26{,}000}{60} \times 100$$

Break even revenue = £60,000

Break even units

$$\frac{\text{Overheads + Desired income + Direct Costs}}{\text{Price per unit}}$$

For example:

$$\frac{10{,}000 + 26{,}000 + 24{,}000}{300}$$

Break even units = 200 units

Notes

Mary's wedding cake exercise

- Mary's assumptions
- Mary's projected profit and loss
- Gross profit
- Break even
- Tax and national insurance (sole trader)

Notes

Tax - Sole traders and partners

- Should always prepare a full Profit & Loss account
- Sales of less than the current limit means you need only enter ‘simple three line accounts’ in tax return – sales, expenses, profit or loss
- NI Class 2
- Small earnings exception
- NI Class 4
- Must register with HMRC as soon as you start trading

Notes

Tax - Limited companies

- Must prepare accounts including Profit & Loss Account, Balance Sheet and Directors' report
- Submit both sets of documents to HMRC and Companies House
- Produce a Company (Corporation) Tax Return
- The director takes wages and pays tax and NIC through PAYE
- Completes a tax return
- The Company pays Corporation tax on its profits.

Notes

VAT

- Must register for VAT if your turnover for the previous 12 months is over a certain limit
- Can register voluntarily
- Business to business – status & credibility
- Business to consumer – higher cost to customer

Notes

Key learning points from this workshop

- Research all your costs
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Notes

What records do you have to keep?

- Evidence to support all cash, bank & credit transactions
- All expense receipts
- All sales invoices
- Bank statements
- All cash transactions
- Cheque book stubs
- Paying in books
- Loan/overdraft agreements
- Inland Revenue documentation

Notes

Records continued ...

- NI receipts
- Copy VAT returns
- Fuel mileage log book
- Expenses sheets
- PAYE records
- Business credit card statements
- Drawings/dividends
- By law – keep records for 6 years

Notes

What are the main financial records?

- Four basic sets of financial records
  - Cash book
  - Record of sales
  - Record of purchases/ expenses
  - The wages book
- Spreadsheets much more effective

Notes

Getting paid

What will you do to ensure you get paid?

Notes

Terms of trade

What will you include in your terms of trade?

Notes

Seeking an accountant or book-keeper

Accountant

- PAYE
- VAT
- Annual tax
- Help grow your business
- Other advice and help
- Charge by the hour or by the job?

- Consider a book keeper instead or in addition
- Better kept records means cheaper accountancy fee
- Consider your strengths, weakness and value
- Avoid penalties

Notes

Financing your business

- Self financing (personal funds, family, friends)
- Bank finance – loans, overdrafts
- Enterprise Allowance
- Business Angels – usually invest in proven businesses
- Factoring, Invoice Discounting
- John Cracknell Youth Enterprise Bank (under 21)
- Princes Trust (under 30)
- Acorn Fund (Loans)
- Sirius (Funds)

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Your action plan

What do you need to do next to help you complete unfinished sections of your business plan?

To do	By when?

Notes

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