

Unit 8 Managing Finance in a Business (If you choose to use this don't forget your FRONT PAGE)

Learning Outcome

1. Understand the principles of financial management for a business

1.11 PROFIT

When judging the success of a business whether we would wish to sell it or buy one a clear indication of judging business success is PROFIT. In your own words explain the meaning of PROFIT below:

And to really know what you are talking about write down the **definition** of PROFIT below.

Attach the PROFIT & LOSS ACCOUNT that you did for Young Enterprise and explain how the additional trade stand costs and VAT impacted on the NET PROFIT

1.12 REVENUE (often known as SALES or TURNOVER)

If Team Inspire attended a trade show and sold products and not advertising space i.e. 150 gloves at £1.10 a pair, 20 Jell Candles at £4 each along with 30 hand warmers at £1 each what would their revenue be for a day at the trade show ?

In the same business context explain in your own words the meaning of revenue below

1. **CASHFLOW**

Explain the meaning of cash flow forecasting

1.2 Why is cash-flow forecasting so important in a small business

Using the Team Inspire example, explain why cash flow forecasting is so important to a small or new business.

1.3 Financial planning why is it so important in the running of your business

What is the main life blood of a business?

What could happen if we run out of this ?

We may commit too much cash to start up activities and we may not see the money coming in at a quick enough rate to pay our fixed and variable costs. Any additional start up costs may also use up all the available cash that we have at our disposal. If our cash-flow forecast is wrong and we do not achieve our cash in flow predictions what could happen to our new business venture?

However if our cash-flow is accurate and the bank is confident in our financial planning what could we ask the bank for at the onset of our business start up if our predictions of negative net cash-flows are correct three months into trading?

Learning Outcome

2 Understand the importance of keeping basic financial records

2.1 Describe the financial records that your business should keep

All business's should keep records to show where their cash revenue has come from and where their cash commitments are going to. Legally you can start a business with very few permissions however within a few months you will be required to register with the following TWO organisations – Inland Revenue & Customs & Excise. Why might you need to do this?

Once you have carried out these registrations you will need to keep financial records relating to THREE TAXES that need to be collected on behalf of the Government. What are they?

What financial records should is your Young Enterprise business keeping?

If we fail to keep such financial records we cannot maintain accurate details with regard to our employees PAY, TAX & National Insurance Contributions. This will have a devastating impact on the employees ability to claim benefits should they be out of work in the future but what impact will it have on the business should it be investigated?

So why can't we pay our employees CASH IN HAND ?

What does VAT stand for?

What is the current rate of VAT ?

How does the Government collect this TAX?

Using the Oxford Inspire Magazine example below calculate the VAT PAYABLE to Young Enterprise based on their current trading position as at 30th January 2010

Using real data from the YE website or the example below what VAT is due by Oxford Inspire Magazine

What is it and how does the Government collect this TAX ???

Sales = OUTPUT VAT	500 cards * £1 =	£500
	104 cards * £1.61=	£167.44
	TOTAL	£667.66
	less VAT	£99.41
	ex VAT	£568.03

Costs = INPUT VAT	VAT on invoice 1	£44.08
	VAT on invoice 2	£10.35
	Total VAT to reclaim	£54.43

OUTPUT VAT – INPUT VAT = _____ - _____ =

VAT DUE TO YE

Calculated by: _____

Signed by: _____

2.2 Explain the reasons for keeping financial records

We have discussed PAYE, VAT, National Insurance Contributions but we have not mentioned anything about personal tax. A self employed person will need to complete a TAX RETURN once a year. <http://www.hmrc.gov.uk>

What is a TAX RETURN ?

If you want the tax office to complete this for you will need to have all your records with them by the 31st September every year.

If you decide to complete the form yourself or submit it online when does this have to be submitted by?

With all this financial data flying around a business based on what revenue you have coming in and the costs going out why is it important that you keep accurate financial records?

2.3 Describe different methods of keeping financial records

Can you explain at least two methods of keeping financial records?

If you had a business which method would you prefer to use?

Using the internet search for the name of a financial record keeping software brand

Choose a product that you would use to operate a business with less than 30 employees
