



Business Financial Planning

PETER MURPHY

WISE AGE LTD


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Learning Outcomes

This presentation covers the following topics:

Know what cash flow forecasts are

Know what profit and loss accounts are

Understand the difference between the two

See how they fit into the overall business finance planning and monitoring

Have made a draft Personal Survival Budget

Business Financial Planning

Key documents used in business financial planning and reporting are:

Balance Sheet – summary of what the business owns and what it owes
– requirement for limited companies and partnerships

Profit and Loss Accounts – summarises transactions over a given period
– e.g. Over a year, broken down into months. Shows bottom line, whether the business made a profit or a loss, month by month and overall

Cash Flow Forecast - an estimate of the amount of money you expect to flow in and out of your business in e.g.. The coming year, broken down month by month and overall.

Why you need a Cash Flow Forecast

The **Cash Flow Forecast** is: your key tool for you to understand:

How much you expect to **earn** from sales, services etc you invoice for

How much you expect to have to **pay** to suppliers, staff, yourself, etc

Whether there are likely to be any months where you **run out of money**

The **causes** of any deficit– e.g. New equipment, extra staff, - or is it that your incidental spending is just getting **out of control**?

What you will **do** if you do find you will **go into the red** at a given period (e.g. Inject cash personally from savings, family loan, bank loan – or can you e.g. reduce credit terms offered to customers?)

Why you need Profit and Loss Accounts

The **Profit and Loss Accounts** are: your key tool for you to:

See how your business has actually performed over a given period

Monitor taxable income, less allowable business expenses

Produce your annual return, self-assessment etc

Key Differences Between Cash Flow and P&L

A cash flow forecast **will include all items of income and expenditure**, allowing you to set goals, plan ahead, and evaluate and review your business's actual performance. If things aren't going to plan, you revise the plan!

If your forecast is too pessimistic, you can try to repeat the successful strategies which caused that to happen. Or if the business did not perform as well as forecast, you can remedy the problems. You will be able to see what times of the year you have spare cash for e.g. Buying new equipment.

Key Differences Between Cash Flow and P&L

Profit and Loss accounts **do not include all items of income and expenditure**. They concentrate solely on your business's income and allowable expenditure – are you making a profit or not from your sales of good and/or services?.

Things like money you put into the business yourself to invest, protect against lack of cash etc are not included. If you take money out of your business for personal use, that is also not included.

Personal Survival Budget

How much money do you need to live on

Include yourself and any dependents

Think carefully

Use handout – there is space to add additional items if necessary

Remember this is your personal money, not your business's money – so e.g. You home insurance should be included, but not business insurance.

You need to be secure in the knowledge that you can pay yourself what you need from your business and still run a business which is successful on its own terms.

Business Finance

Other Considerations

Banks Statements – reconciliation

Accounts – allocation of all transactions to correct cost/income centre

Invoicing and statements

Credit Control -

Managing suppliers as well as customers (paying your bills!)

VAT – yes or no? Threshold £85,000 for 2 years from April 2018

Questions to Think About

Is it possible for a business to be making a profit and still go bankrupt?

What could cause this to happen?