
Professional Issues: Finance

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Overview

- The role of money in enterprises
- Different perspectives on finance in enterprises

Start-ups

- **Reasons:** for a very wide range of purposes (e.g. wages, premises, equipment, advertising, marketing, travel, paying interest on loans) to let you effectively make, market and sell your initial product range
- What do you need? **A business plan:**
 - What you are planning to sell, feasibility of the project
 - Assessment of the Market size and how much you are likely to capture
 - Financial predictions: projected budgets, cash flows, profit and loss accounts and balance sheets
- **Sources:** Grants, Loans, Equity capital
- **Issues:** Gearing of the company — relationship between equity capital and loans — undesirable to be too highly geared.

Financial Accounting

- The balance sheet, profit/loss statement and cash flow statement are the three key documents in financial accounting for a company
- **The balance sheet** provides a snapshot of the assets and liabilities of the company on an annual basis
- **The profit/loss account** shows the dynamics of trading across the year
- **The cash flow statement** shows us all the other flows that are not income and expenditure: profit/loss, depreciation, return on investments, changes in long term loans, capital investment, taxation, acquisitions/disposals, dividends, interest on loans, issue of new shares

Summary

- All companies need money — even start-ups
- Financial accounting is aimed at making financial operations of companies transparent (even though some companies want to obscure their operations).
- The balance sheet, profit/loss statement and cash flow statement are the key elements of the financial statement
- This form of accounting is a reporting tool, not a management tool

Required Readings

- Textbook (Bott)
 - Chapter 5 on Financing a start-up company
 - Chapter 6 on Financial accounting
 - Chapter 7 on Management accounting

Activity 5

- Imagine you want to create a start-up company — try to fix on something reasonably concrete — then answer the following questions (write down the answers):
 1. For what purposes might your company need working capital?
 2. What would you need to convince people to give you money?
 3. What sources of funding do you think would be relevant?
 4. What are the advantages and disadvantages of different sources?
- Share your answers with others
- Revise your answers in the light of discussion
- Discuss or question any relevant aspect in the course wiki

Activity 6

- Considering the account case study
 1. What does a balance sheet tell you?
 2. What is an intangible asset?
 3. What is the difference between current and non-current assets?
 4. What line gets changed to make the sheet balance?
 5. If the balance sheet did not include an Equity section what kind of company would we be looking at?
- Assess how well you think the company is doing — write down a short justification for your assessment.
- Discuss or question any relevant aspect in the course wiki

Activity 7

- **Profit, Loss/Income and Expense** — Look at the tables on p. 53 of the case study and answer the following questions:
 - Do you think 2008 was a good year for the company? Justify your answer.
 - If you were a shareholder what would you think about this year's profit and loss statement?
 - What do you think note 3 refers to?
- **Cash Flows** — Find one line in the statement of cash flows which is reasonably large and significantly different between 2008 and 2007
 - Try to provide an explanation for the difference
 - Do you think this is a good or a bad sign for the company?
- Discuss or question any relevant aspect in the course wiki