



# Finance



# Summary

- Material in this slide set is closely based on the following chapters in Bott (you should read these chapters):
  - Ch 5: Financing a start-up
  - Ch 6: Financial Accounting
  - Ch 7: Management Accounting
- The goal of the session is to explore:
  - The role of money in enterprises
  - Different perspectives on finance in enterprises

# The role of capital in startups

- Activity: Get into a group of 4
  - Imagine you want to create a startup company - try to fix on something reasonably concrete. The answer the following questions (write down the answers):
    - For what purposes might your company need working capital?
    - What would you need to convince people to give you money?
    - What sources of funding do you think would be relevant?
    - What are the advantages and disadvantages of different sources?
  - Share your answers with another group of four
  - Revise your answers in the light of your discussion

# Startups

- 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 - see the handout.
- What 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 – Balance Sheets

- Activity: in your group of 4 people (you can ask any questions about the accounts you are looking at and I'll try to answer):
  - What does a balance sheet tell you?
  - What is an intangible asset?
  - What is the difference between current and non-current assets?
  - What line gets changed to make the sheet balance?
  - If the balance sheet did not include an Equity section what kind of company would we be looking at?
  - Take 5 minutes to assess how well you think the company is doing - write down a short justification for your assessment.

# Financial Accounting: Profit and Loss/Income and Expense



- Activity, in your groups of four, look at the tables on p. 53 and answer the following questions:
  - Do you think 2008 was a good year for the company? Justify your answer.
  - What do you think note 3 refers to?
  - If you were a shareholder what would you think about this year's profit and loss statement.

# Financial Accounting: Cash Flows

- Activity, in your group of 4, 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?
  - Write down your answers

# 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 startups
- 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.
- Next time we consider Management Accounting, Investment Appraisal and Project management.