

Financial Planning & Control

Working Capital & Tax

Lecture material substantially prepared by Massey University
Centre of SME Research

Financial Planning & Control

- **Appropriate financial systems**
- **Used effectively**

A number of different financial statements are used in the day to day operation of the business and in the longer term management of the business

Financial Statements

- Cashflow
- Balance Sheet
- Profit and Loss

Cashflow

- Is prepared in advance
- Used to record forecasts of cash coming into the business and cash going out of the business
- Is a key element in the business plan. Essential to the daily running of the business

Balance Sheet

- Also called a statement of financial position
- Used to record the business's position at the end of a financial period (eg end of the year)
- Is a key element in the business plan. An essential tool for the long-term management of the business

Profit and Loss

- Also called a statement of financial performance
- A forecast profit and Loss statement can be prepared in advance of the business operation. Often used to record performance at the end of a financial period (eg end of year)
- Is a key element in the business plan. An essential tool for the long-term management of the business

Preparing a Cashflow

A cashflow forecast involves:

- Taking into consideration cash items month by month
- Then calculating the impact they will have on your overall cash position each period

A forecast is made by **estimating**:

- Cash sales **\$\$ in**
- Cash receipts from debtors (credit sales **\$\$ to come -not paid yet**)
- Expenses **\$\$ out**

Steps in preparing a cashflow

- Calculate the net cashflow: subtract the total money going out from the total money coming in
- The nett cashflow is added or subtracted from the bank balance at the start of the period to give the bank balance at the end of the period

A cashflow forecast template

<http://www.business.govt.nz/tools-and-templates/online-training/finance/financial-forecasts>

Cash flow forecast.

Select a month to start	Apr		May		June		July		Aug		Sept		Oct		Expected
	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected	Actual	
RECEIPTS.															
Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(A) Total Receipts.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LESS PAYMENTS															
Wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Drawings	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Overheads (rent, power, etc)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Repayment of loans	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GST payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income tax payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Materials & stock	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(B) Total cash payments.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(C) NET CASHFLOW (A-B)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(D) Opening bank balance.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Closing bank balance. (D+C)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Disclaimer:

This is a guide only and should not replace competent advice. It is strongly advised that you seek professional advice before making any decision that could affect the financial health of your business.

Cashflow Headings

- Opening bank balance
- Receipts: cash from sales, cash from debtors, GST, other receipts, sale of assets, capital
- Payments: payment to suppliers, cash purchases, wages/drawings, PAYE/ACC, GST payments, tax payments, rent, rates, heating/lighting, phone, professional fees, general expenses, capital expenditure, bank interest & charges, other payments
- Closing bank balance

Objectives of cashflow forecasting

Allows the business owner to:

- Estimate the business's ability to generate positive cashflows**
- Assess the management of working capital**
- Assess the business's ability to meet obligations (debt) and pay dividends**
- Construct significant ratios and make comparisons**

Use the cashflow forecast to:

- Slow down cash outflows
- Make cash work for you (eg by earning interest)
- Control receipts and payments (cash can be misappropriated)
- Help decide when to use your overdraft
- Speed up cash coming in (factoring or invoice discounting)

Use the cashflow forecast to:

- To know how much cash you will need
- To know how much cash you have

Working Capital and Tax

- **Working Capital is the amount of money needed by the business to continue in operation on a day to day basis**

Solvency Test

- **Must be able to pay bills as they fall due**
- **The value of the company's assets is greater than the value of its liabilities, including contingent liabilities**

Managing Working Capital

Establish good systems of credit control:

- Avoid poor payers
- Offer appropriate payment/credit terms
- Do an 'aged debtor' analysis
- Chase up money owed
- Do an aged analysis of suppliers

Causes of business failure:

- Manager takes no advice
- Ineffective division of management roles(eg managing director and chairman are the same person)
- Board of Directors do not take an active interest
- Skills of the business are unbalanced
- No strong financial person
- No budget, cashflow or costing system

Business failure warning signs:

- Failure to pay suppliers
- Inability to pay bills as they fall due
- Not collecting bills owed to your firm
- Cashflow not forecast and monitored
- Unable to raise more funds
- Losing reputation with the bank or with suppliers

Keeping good records

Accurate records need to be kept for business survival:

- Is the business profitable, what is the return, what is the cash position?**
- Needed by law if a limited liability company, and by IRD for all businesses**
- Records include: assets and liabilities, income and expenses, and capital**
- Large companies have to be audited. Small companies, partnerships and sole traders don't**

How the accounting system helps

An effective accounting system consists of:

- Weekly reports**
- Monthly reports – actual against budgeted**
- Accurate financial statements**

All records must be kept up to date

Calculating tax

- Tax is payable on the profits a business makes (income less expenses)

As the business owner you need to consider

- How to pay yourself (drawings or salary)
- GST – a business must register for GST if it generates more than \$60,000.00 sales per annum. If less than this registering is optional

Tax and the owner manager

- **Must calculate tax correctly – penalties**
- **Seek advice from a professional tax expert**
- **Provisional tax payments**

Summary

- Develop budgets that are consistent with your business plan
- Keep good records
- Compare actual results to budgeted results regularly (eg monthly)
- Take corrective action on variances
- Control working capital