

GOOD FINANCIAL PLANNING AND MAINTENANCE FOR SOCIAL ENTERPRISES WORKSHOP

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Agenda Overview

What is financial projections?

Why we need them?

Cashflow

P&L

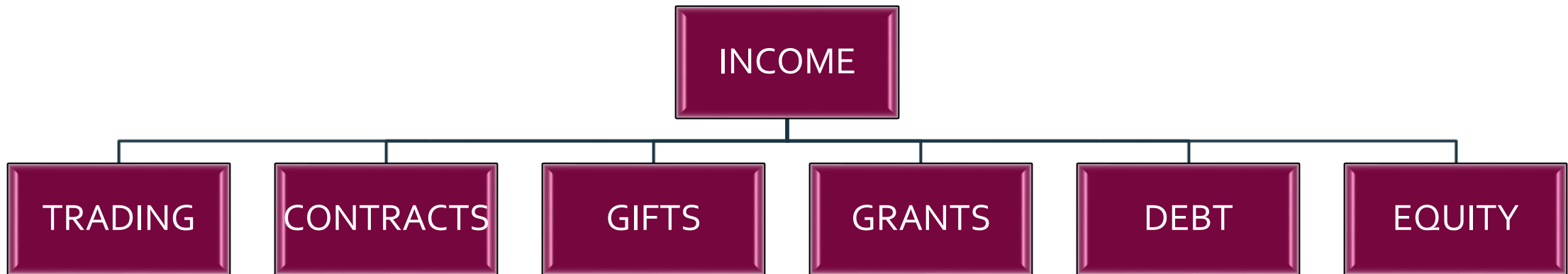
Income and Expenditure (Budget)

Balance sheet

Interactivate session

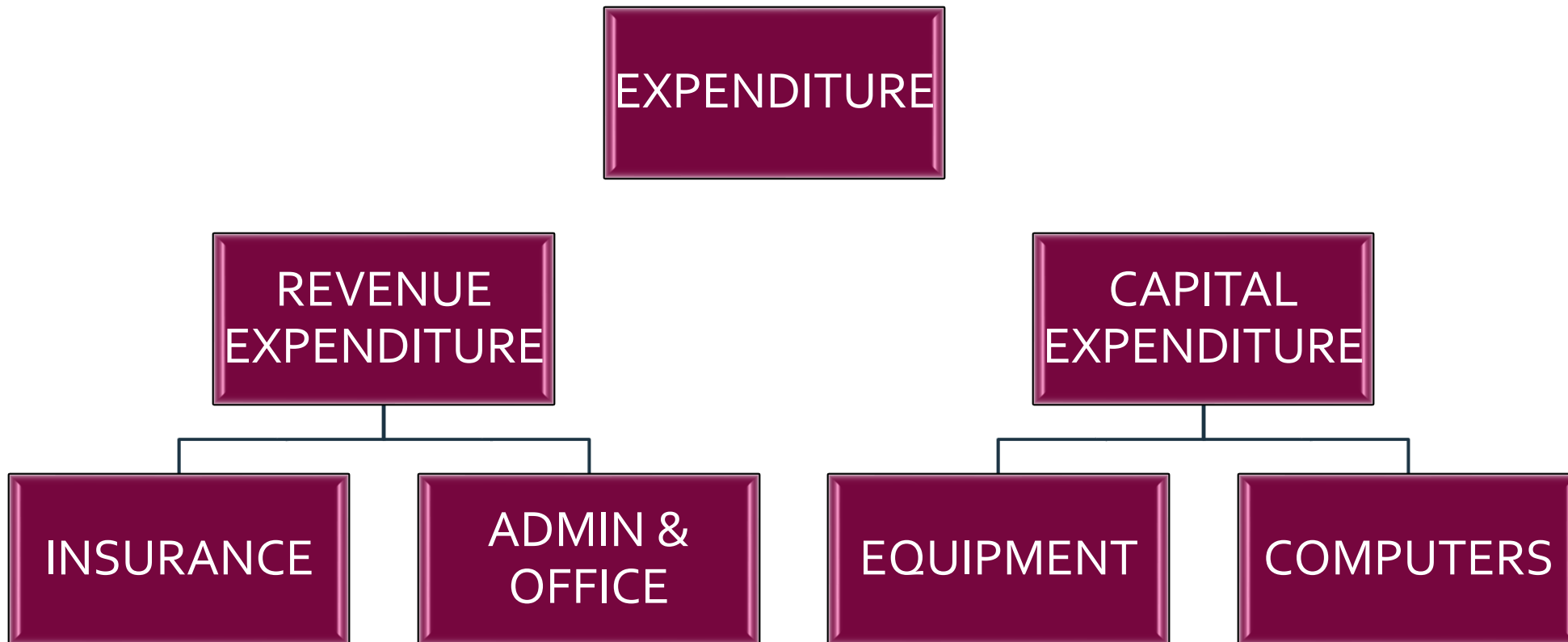
Templates

Types of Income



For more examples refer to Module Four Financial planning Section 3

Types of Expenditure



For more examples refer to Module Four Financial planning Section 4.2

Things to consider before forecasting:

- Asset transfer agreement
 - Terms and conditions of asset agreement could impact on sourcing income. (e.g. not allowing sub letting)
- VAT and taxation
 - Consider the implications of VAT and taxation. (Register for VAT? Tax liability?)
- Legal and regulatory issues:
 - Laws, standards and codes of practice that place restrictions on income sources (Charitable trading & Fundraising)
- Insurance implications
 - Increased insurance cover (Contracts)
- Financial risks
 - Loosing an asset that's been used as security for a loan
- People and skills
 - Accessing alternative sources of finance will have implications for staffing (time / developing new skills)
- Balancing financial and social objectives
 - Some third sector organisations fear social objectives will be compromised in pursuit of sustainability.
- Financial stakeholder relationship management
 - Build and manage meaningful stakeholder relationships
- Opportunity costs
 - Consider the opportunity costs of accessing new sources of finance
- Accounting, governance and reporting
 - Need to implement new / revised accounting systems, financial governance and reporting measures
- Financial planning:
 - Important to carry out robust financial planning – ensures the income source(s) is a viable option

Financial Projections

A crucial part of financial planning is the preparation of financial projections. The main types of financial projections are:

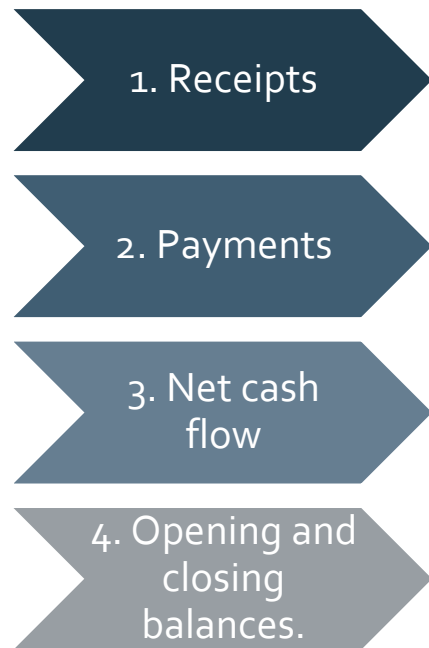
- **Cash flow forecast:** a projection of receipts, payments and cash flow for a given period, usually 12 months.
- **Profit and loss account:** a projection of the profit (or loss) for a specific period of time, usually one year.
- **Income and expenditure account:** a projection of the surplus (or deficit) for a specific period of time, usually one year.
- **Balance sheet:** a projection of the financial position of an organisation at a particular date.

The most suitable financial projections depend on the organisation circumstance, e.g. a profit and loss account can be used if there is trading activity. Financial projections can be prepared for the asset transfer project in its entirety. However, it may be appropriate to prepare separate financial projections for individual projects within the SE, e.g. a café that is located in the asset but is part of the overall project. Budgets can also be used in financial planning.

Cash Flows

A cash flow forecast is a **projection** of the receipts, payments and cash flow for a given period of time, usually 12 months. It is prepared to estimate the flow of money that will flow into and out of a project, therefore determining the cash flow balance each month.

A cash flow forecast is normally divided into four key parts:



Cash Flows

Step 2: estimate the monthly expenditure (e.g. asset operating costs) and add them together.

EXPENDITURE

Revenue Expenditure

Letting fees	£428	£1,238	£1,725	£2,070	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£2,355	£24,300
Premises overheads	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£200	£2,400
Utilities	£75	£75	£200	£75	£75	£250	£75	£75	£300	£75	£75	£400	£1,750
Staffing	£1,500	£1,000	£1,000	£1,000	£1,000	£1,800	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000	£13,300
Admin and office	£250	£100	£250	£100	£100	£250	£100	£100	£250	£100	£100	£400	£2,100
Marketing	£800	£200	£100	£50	£50	£50	£50	£50	£50	£50	£50	£50	£1,550
Insurance	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£175	£2,100
Professional fees / management	£300	£300	£1,000	£300	£300	£1,200	£300	£300	£1,400	£300	£300	£1,400	£7,400
Maintenance / cleaning	£2,000	£800	£950	£800	£800	£950	£800	£800	£950	£800	£800	£1,600	£12,050
Finance charges	£100	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30	£430
Misc	£200	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£50	£750
Loan repayments	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
TOTAL	£6,028	£4,168	£5,680	£4,850	£5,135	£7,310	£5,135	£5,135	£6,760	£5,135	£5,135	£7,660	£68,130

Capital Expenditure

Equipment	£2,500	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,500
Fixtures and fittings	£40,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£40,000
Computer	£3,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£3,000
TOTAL	£45,500	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£45,500

TOTAL EXPENDITURE	£51,528	£4,168	£5,680	£4,850	£5,135	£7,310	£5,135	£5,135	£6,760	£5,135	£5,135	£7,660	£113,630
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Cash Flows

Step 3: calculate the net monthly cash flow by subtracting the total monthly payments from the total monthly receipts.

Step 4: calculate the opening and closing balances.

Net monthly cash flow	£9,897	-£43	£70	£2,050	£2,715	£540	£2,715	£2,715	£1,090	£2,715	£2,715	£190	£27,370
Opening bank balance	£0	£9,898	£9,855	£9,925	£11,975	£14,690	£15,230	£17,945	£20,660	£21,750	£24,465	£27,180	
CLOSING BANK BALANCE	£9,897	£9,855	£9,925	£11,975	£14,690	£15,230	£17,945	£20,660	£21,750	£24,465	£27,180	£27,370	

P&L

A profit and loss account is a statement of the profit or loss for a specific period of time, usually one year. It shows both the gross profit and net profit (or loss). The gross profit is the difference between sales and the cost of sales (or cost of goods sold).

Year 1: profit and loss account		
ABC Enterprises		
TURNOVER / SALES		£82,000
Less cost of sales		
Opening stock	£0	
Add purchases	<u>£24,600</u>	
	£24,600	
Less closing Stock	£0	
		£24,600
GROSS PROFIT		£57,400

Sales (also known as turnover and revenue) is the money received from customers from the sale of goods or services for the period of trading. In a profit and loss, sales may include money that is owed for the trading period, i.e. debtors.

Gross profit is the difference between sales and cost of sales. It is calculated as follows:

Sales
- cost of sales
gross profit

P&L

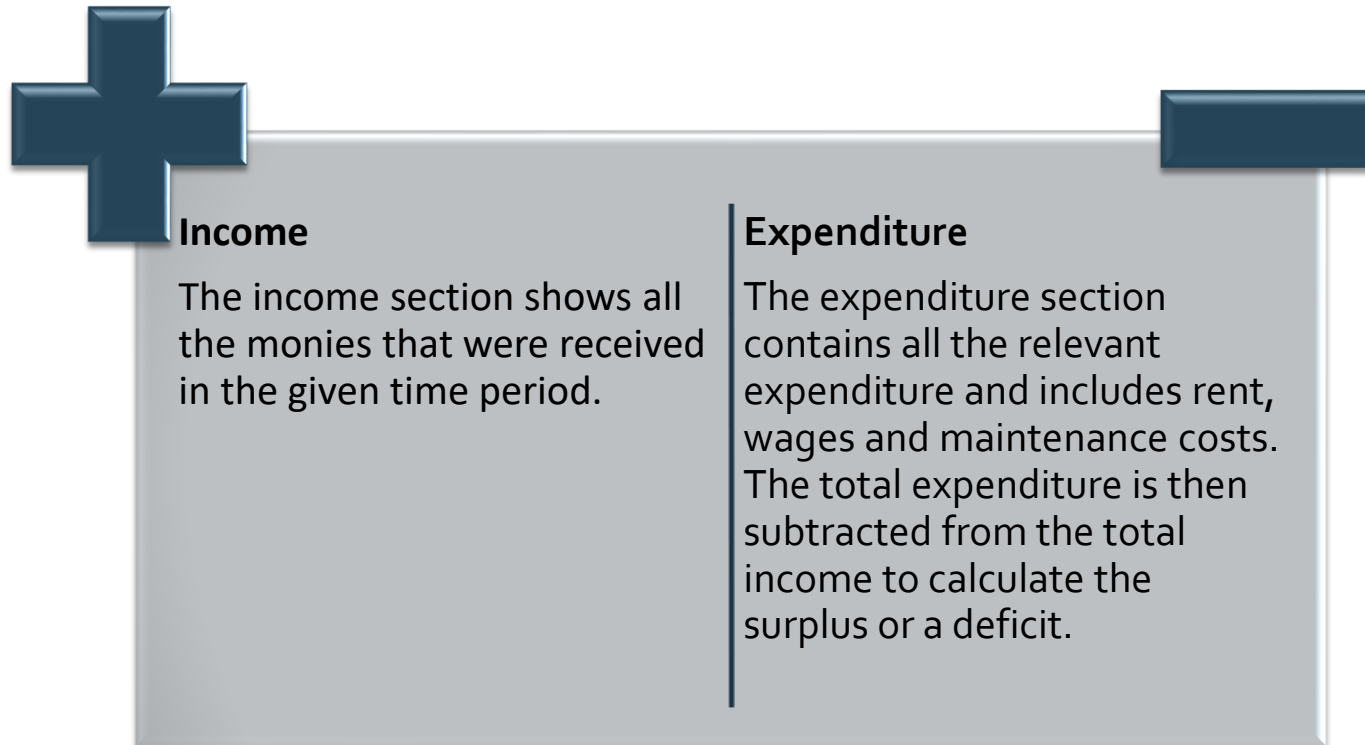
Less expenses		
Premises overheads	£2,400	
Utilities	£1,750	
Staffing	£13,300	
Admin and office	£2,100	
Marketing	£1,550	
Insurance	£2,100	
Professional fees / management	£7,400	
Maintenance / cleaning	£12,050	
Finance charges	£430	
Misc	£750	
Loan interest	£0	
Depreciation	£11,375	£55,205
NET PROFIT / LOSS		£2,195

Net profit is the amount remaining after the expenses have been deducted from the gross profit. It is calculated as follows:

gross profit
-expenses
net profit

Income and Expenditure (Budget)

An income and expenditure account is an accounting document that shows all the monies paid into and out of an organisation over a specified period of time, usually one year. It is used by organisations that are considered 'not for profit', such as voluntary organisations and clubs. If applicable, it may be useful to take into account apportionment when preparing a projected income and expenditure account. An income and expenditure account is generally divided into two sections.



Example Income and Expenditure (Budget)

Y 1 - income and expenditure accounts XYZ Club		
Income		
Annual Subscriptions		£30,000
Profit from annual dinner dance		£1,200
Grant		£3,000
Total		£34,200
Expenditure		
Rent	£5,000	
Heat and light	£1,000	
Office and admin	£2,000	
Wages	£15,000	
Maintenance	£1,000	
Finance fees	£350	£24,350
Surplus		£9,850

Balance Sheet

The balance sheet is a statement of the financial position of an organisation at a particular date. A balance sheet is normally split into two parts which should balance:

A statement of the assets and liabilities of the organisation (net assets)

A statement showing how the organisation has been financed

Fixed assets	Cost	Depreciation	Net
Equipment	£2,500	£625	£1,875
Fixtures and fittings	£10,000	£10,000	£30,000
Computers	£30,000	£750	£2,250
	£42,500	£11,375	£34,125
Current Assets			
Stock		£0	
Debtors		£1,000	
Current Account		£27,370	
		£28,370	
Less current liabilities			
Creditors		£300	
Overdraft		£0	
		£300	
Working Capital			£28,070
Long-term liabilities			
Loans			£0
Net Assets			£62,195

Capital / Funds			
Grant A		£30,000	
Grant B		£20,000	
Investment		£10,000	
Other		£0	£60,000
Net profit / loss			£2,195
			£62,195

Examples / Templates

Interactive group session



- 1. The thing I understand least about the finances in my Organisation / Group is?**
- 2. What do you see being the challenges for your sector in the next 12 months?**

End of workshop

Thank you

