SEE Ahead
SOCIAL • ECONOMIC • ENVIRONMENTAL

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How Do I Manage The Money?

Cash flow problems are one of the main reasons for the failure of start-ups. It is essential to have a grip of the finances from the start to ensure **business survival**.

How to choose a business bank account

There are many providers of business bank accounts, so it is important to do extensive research to ensure the banking terms suit your business. Some factors to consider when choosing a bank account include:

Type of account Current account/reserve account	**Means of access** Online access/counter service	**Services provided** Online and mobile banking facilities
Minimum deposit Check if one is required	**In-credit interest** Rate of interest/is it linked to the balance	**Introductory offers** Free business banking for an introductory period
Standing charges Cost per month or per quarter	**Transaction charges** Details of chargable transactions	**Other charges** For additional services
Overdraft facility Refer to your cashflow forecast	**Support and advice** Type and accessibility of business support	**Account security** Protection against fraud

Opening a business bank account

This is one of the most important steps in starting a business, and while a business bank account is not required by law, it is highly recommended.

The process is quite simple, with many banks allowing applications to be made online. The application for a business bank account will normally require:

- Name and address of the enterprise
- Names and addresses of business owners and directors
- Purpose of business
- Estimated revenue
- Business funding sources
- Account signatories
- Identity verification source (using current passport, current driving licence, recent utility bill or HMRC tax notice)

The importance of cash

Cash flows in and out of a business, often daily, meaning that if enough consideration isn't given to this then the business could run out of cash. Business survival depends heavily on the availability of cash when payments are due. Therefore, if cash outflows exceed cash inflows for a time until the business runs out of cash and is unable to pay bills, trading may have to cease.

Cash inflows to a business include shareholder investments and customer sales. Cash outflows from a business include wages, tax, expenses and supplier costs.

TIP – *Having a healthy cash flow is not the same as having a healthy balance sheet. For example, a bakery could have lots of valuable equipment and contracts, but if it has not created the cash from sales when the rent is due, it could fail.*

Causes of cashflow problems

There are many reasons why your business could run into a cashflow crisis. Some of the main causes include:

Late customer payments

When customers do not complete the sale in time for the business paying its bills

Unforeseen insolvency of an important customer

When a customer who makes up a large proportion of your turnover is unable to pay you

Insufficient working capital

When cash is flowing out of the business faster than it is flowing in. This can be as a result of insufficient initial investment or trading too fast

Insufficient profit margins

When profit margins are too small to sustain the business, which can lead to insufficient working capital

Insufficient financial planning

If a financial plan is not created accurately, bills may be payable before the business has enough cash to pay them

Over-purchasing stock

Bulk buying can lead to lower costs per unit, but is not recommended for perishable or 'in-fashion' goods which still have to be paid for but cannot be sold

How to maintain a healthy cashflow

Businesses should produce a cashflow forecast on a monthly basis which will help to avoid a cashflow crisis. Some tips for a healthy cashflow include:

Adopt procedures for controlling credit

- You could ask customers to complete a credit application form (of which templates can be found online) so you can make an informed decision as to whether you offer credit.
- You can check credit history using a credit agency, bank or trade reference.

Encourage early payment with incentives

- A discount of 2-5% on credit can incentivise customers to pay early and improve your cashflow.

Part-payment

- You could request customers with large orders to pay a percentage of the invoice in advance to give security to the business.

Improve supplier credit terms

- If you give credit to your customers, you may want to negotiate the same credit terms with your supplier.

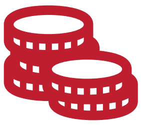
Bank overdraft facility

- If you have large fluctuations in cash inflows and outflows throughout the month, an overdraft can give you flexibility. However, if not managed correctly, it can become expensive.

Asset financing

- You could consider purchasing new equipment on hire purchase or through a leasing scheme.

Costing



Costing can be split into two different types of costs:

- Direct or Variable Costs directly related to production. They are the costs incurred by producing the goods or services. Examples include raw materials and wages.
- Fixed costs – these costs are incurred whether or not any sales take place. Examples include rent, salaries and insurance.

Pricing

It is vital when creating a pricing strategy to cover costs, make a profit, and remain competitive. There are two different methods of pricing:

- **Cost-plus pricing** – this method prices products and adds a percentage mark-up onto the unit cost to cover fixed costs and profit.
- **Value-based pricing** – this method sets prices in accordance with current market prices. The price level that can be achieved will be influenced by fashion, convenience and market share.

Profit

There are a few key things to understand when calculating and forecasting profit:

- **Breakeven point –** the point where total costs equals total revenue. Profit is not made at this level of sales, but with fewer sales a financial loss will be created.
- **Gross profit** – total revenue minus direct costs.
- **Operating profit –** gross profit minus fixed costs.
- **Contribution** – the difference between the selling price of a product or service and its direct cost. Effectively, it is how much the sale contributes to paying for fixed costs and therefore profit. It is not profit margin as fixed costs still must be accounted for. If a product or service has very low direct costs compared to fixed costs, contribution should be high.

Invoices

Invoices stating the payment terms should be issued as soon as possible after trading, to help cashflow. Businesses can often manually write out invoices, however if your business pays VAT and registers lots of invoices, then it may be useful to use an integrated accounts system as invoicing can become highly complex.

Invoices should include:

Business name	Trading address (if business name is not the name of the sole trader)	Name and address of customer	Invoice reference number
Supply date	Description of products/services supplied	Gross amount to be paid	Payment terms including due date

If a business pays VAT, it's invoices must also include:

Business VAT number	Unit price	VAT rate of products
Prices excluding VAT	Total VAT charged	Cash discount rate (if applicable)

Types of Invoices:

Pro-forma invoice
- This invoice is issued to a customer by their supplier detailing a request for payment. It should state 'This is not a tax invoice' and is often used when credit is given to a customer.

Sales invoice
- This confirms a trading transaction between business and customer and is called a VAT invoice if the business is VAT-paying.

Purchase invoice

- This is recorded in the purchase ledger and details business expenses.

Credit note

- When products are returned or that has been a pricing error, a credit note can be issued which the customer can use to deduct from their next purchase.

Self-billing invoice

- This is used in circumstances such as when royalties are paid by a customer to a supplier. It is normally when the customer has some level of control over how much of the product is used.

Receipts

Receipts are normally issued by retailers when the sale is completed and do not normally include detailed VAT information. Receipts should include:

- Business name and address
- VAT number (if applicable)
- Date of transaction
- VAT inclusive price and description of products
- VAT rate (if applicable)

Sources of finance

Savings or informal loans from family/friends

- Start-ups are most commonly funded by money from families and friends. Whilst this can be a flexible option, it can affect relationships due to the unpredictability of a start-up. Friends and family must be aware of the tax implications of investing and could consider investing for a share in the business.

Bank Loans and Overdrafts

- Bank loans are available at high street banks. It is necessary to comapre vairous loan sizes, repayment periods and interest rates. Security such as a personal asset may be needed.
- Overdrafts are avaliable on bank accounts which will allow businesses the flexibility of spending more money than in their account. They often have high rates of interest.

Credit Cards

- While credit cards may be convinient, they are not a long-term borrowing solution due to high long term costs of interest.

Government sources

- Government grants are normally related to a specific project and do not usually have to be repaid. They can contribute to the initial start up of the business as a one-off payment.
- Start-up Loans is an organisation that provides loans of up to £25,000 at an interest rate of 6% to people aged 18 and over.
- The Department for Work and Pensions runs the New Enterprise Allowance scheme which supports people claiming Job Seekers Allowance or other forms of income support. It provides financial support and mentoring to help people start their own businesses.

Where to go for further help:

- Association of British Credit Unions Limited https://www.abcul.coop/home
- Association of Independent Professionals and the Self-Employed https://www.ipse.co.uk
- Entrepreneur Handbook https://entrepreneurhandbook.co.uk

- Government Website – New Enterprise Allowance https://www.gov.uk/government/collections/new-enterprise-allowance-campaign
- National Enterprise Network https://www.nationalenterprisenetwork.org
- Princes' Trust – helping young people start up in business https://www.princes-trust.org.uk
- Responsible Finance https://responsiblefinance.org.uk
- SEE Ahead https://seeahead.co.uk
- Small Business Commissioner – Get Your Invoices Paid On Time https://www.smallbusinesscommissioner.gov.uk/home-page/get-your-invoices-paid-on-time/
- Start-up Donut https://www.startupdonut.co.uk
- Start-up Loans https://www.startuploans.co.uk