

# Companies and Finance

## Starting a company needs

- Capital
- Cash Flow
- Sources of finance
  - Equity capital, government grants, loans
- Gearing
  - Ratio of loan capital to equity

## Balance sheet

- Assets: what a company owns, depreciation, debtors, current vs. fixed
- Liabilities: what a company owes, creditors
- Net worth: Assets - liabilities, parentheses denote negative value

## Profit and Loss account

- Income and expenditure Account (approximation during a single year)
- Change in net worth = income - expenditure
- Depreciation
- "Monies owing"

Should not include assets/concrete money

## Cash Flow Statement

Movement of cash:

- Interest payments
- Tax
- Dividends to shareholders
- Capital expenditure

- Disposals

Which financial information will be presented in which accounting document?

#### Balance Sheet

- ✦ Net worth
- ✦ Liabilities
- ✦ Assets

#### Profit and Loss Account

- ✦ Income
- ✦ Depreciation
- ✦ Expenditure

#### Cash Flow Statement

- ✦ Interest payments
- ✦ Capital expenditure
- ✦ Tax
- ✦ Dividends

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## Double Entry Bookkeeping

Every entry appears twice, has Balance sheet

## Accounts and Budgets

- Accounts tell you **what happened**, costs
- Budgets tell you what you expect to happen, cashflow prediction

## Labour

has Salaries. National insurance contributions

Income tax (PAYE), pension contributions

- Can have days off sick, always have annual holidays (statutory minimum)

## Overheads are expenses you can't avoid

- Rental
- Vehicles
- Bills (energy, water, rates)
- Telecomms
- Postage
- Insurance
- Staff training
- Advertising

## Investment

Time and money

- Discounted Cash Flow Analysis, DCF, for return on investment
- Rate of return, whether it is viable

## Problems with Forecasting

- Market conditions
- Competitors
- Credit availability (and cost)
- Interest rates

## Statutory Requirements

Annual returns and accounts

- Must be filed with Companies House, and sent to HMRC

Will contain: balance sheet, profit and loss account, notes on the accounts, directors' report

## Company register

- Lists of directors, secretaries, shareholders
- Held at registered office