



NatWest

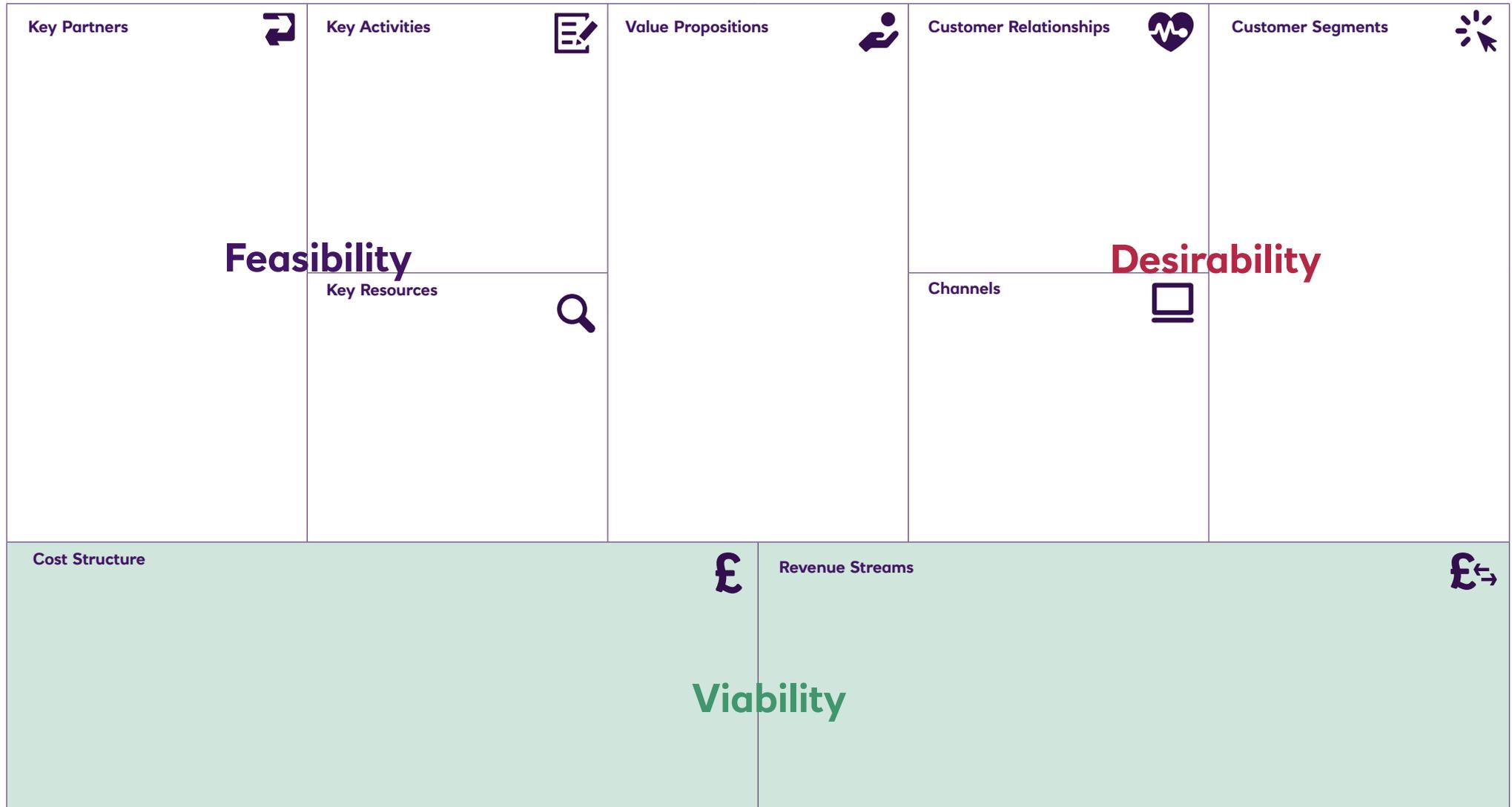
NatWest Business Builder

Understanding your Finances



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Viability



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Notes



Chapter 1 – Financial Knowledge Check

Take some time to answer the following questions about your business finances to identify what you already know and what elements you need to understand further.

Don't worry if you don't have all the answers now, we have designed a number of modules to support your development and help you to understand your numbers better.

How much do you charge for your products or services?

What does it cost you to take your products or services to market?

What does it cost you to run the business and pay your weekly/monthly commitments?

What are your product/ service net profit margins?

Note: Continued on the next page

What's your breakeven point?

How much profit is your business forecast to generate this year?

When and how do you plan to expand your team/products/services/operations?

How much can you afford to pay yourself as a wage?

We've highlighted a few key financial metrics above. Now ask yourself how confident you are in your answers and what you would need to do to understand these numbers better?



Notes



Jargon Busting



Cash Flow: is the overall movement of funds through your business each month, including income and expenses.



Revenue: is money that comes into the business. Also known as sales, income or turnover.



Expenses or costs: are the costs a business incurs each month in order to operate, including rent, utilities, legal costs, employee salaries, contractor pay, and marketing & advertising costs.



Cost of Goods Sold: are costs associated with getting the product or service to market e.g Raw materials, manufacturing expenses, labour costs. These costs can also be referred to as Cost of Sales or Direct costs.



Gross Profit: is the sum of total revenue minus the Cost of Goods Sold showing you the profit before business expenses are deducted.



Net profit: is the profit that remains after business expenses are deducted from the gross profit. Often referred to as the bottom line.



Assets: are any items of value within a business, including product inventory, IT equipment, through to any IP the company owns.



Liabilities: includes any debt accrued by a business since it started trading including bank loans, credit card debts, and monies owed to vendors and product manufacturers.



Capital: is money a business has in its accounts, assets and investments. This can be negative, known as debt or positive known as equity.



Depreciation: is when a business' assets decrease in value due to the time that has passed since it was purchased.



Chapter 2 - Key Terms



Cash Flow Statement

Example Cash Flow Statement

	Month 1	Month 2
Cash at Beginning	1,000	1,000
Cash In		
Cash Sales	5,000	8,000
Credit Sales	0	2,500
Loan	0	0
Total Cash In	5,000	10,500
Cash Out		
Purchases	4,000	7,500
Loan Payments	0	0
Purchase of Car	0	0
Wages	1,000	1,000
Total Cash Out	5,000	8,500
Cash at end	1,000	3,000

Notes

£↔ Profit and Loss

Example Profit & Loss Statement

Profit and Loss Account	Yr 2	Yr 1
Sales 1	150,000	70,000
Sales 2	40,000	25,000
Total sales revenue	190,000	95,000
Materials 1	(10,000)	(7,000)
Materials 2	(250)	(200)
Total Costs of Goods Sold	(10,250)	(7,200)
Gross Profit	179,750	87,800
Salaries & wages	(25,000)	(0)
Marketing	(40,000)	(10,000)
Total Operating Expenses	(65,000)	(10,000)
Net Profit	114,750	77,800

Notes

£↔ Balance Sheet

Example Balance Sheet

Balance Sheet	
Cash	28,000
Accounts receivable	14,000
Equipment	25,000
Patent	80,000
Total Assets	147,000
Accounts payable	12,000
Short term Loan	20,000
Premises	15,000
Total Liabilities	47,000
Common Stock	40,000
Retained Earnings	60,000
Shareholder Equity	100,000
Total Liabilities + Shareholders' Equity	147,000

Notes



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Chapter 3 - Actions

Take some time to process what you have learnt within this module and write down three key actions to develop your finances further.

1. Action One

Complete by:

2. Action Two

Complete by:

3. Action Three

Complete by:

Well done, you have completed the Understanding your Finances module!

Continue to develop your financial capability through:

- Our library of digital modules on a whole range of topics
- Join the online community to connect with other like-minded people
- Sign up to one of our wrap around events across the UK

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YOU



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