FINANCE

CASHFLOW

Definition

is the difference between the money flowing in and out of a business or household

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A CASHFLOW FORECAST (BUDGET)

Definition

This is a document showing the planned flows of money in and out of a business or household over a certain period of time. It is used to predict the big income and expenditure and when they are likely to occur for a business/household

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HOW BUSINESS BUDGET

Business use a cashflow forecast to predict the amount and timing of income and expenditure and plan how best to use their finances. If money is coming into a business faster than it is going out it has a positive cashflow (good)>if money is flowing out of a business faster than money is coming in the company will run out of cash and need to borrow This is called negative cashfl

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BENEFITS OF A CASHFLOW STATEMENT

1. **Assists Financial Planning** –It can act as an early warning system of possible cash shortage and/or positive cashflow
2. **Financial Control** –business and households can identify when and where savings/cutbacks need to be made.
3. **Loan Requirements** –can be used to show how much loan finance will be needed to keep the business afloat.

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ELEMENTS OF AN EFFECTIVE CASHFLOW FORECAST

1. **Is it Realistic** – predicted income should be underestimated and expenses should be overestimated?
2. **Are there seasonal factors** – Does the take into account the highs and lows in sales
3. **Credit** –should take into account possible delay in payment form debtors and household when starting a new job (pay-slip)
4. **What about bad debts**
5. **Are taxes included**

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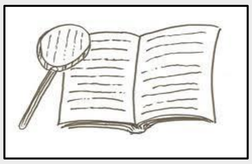

MAIN SOURCE OF FINANCE

Short term	Should be repaid within one year
Medium term	Should be repaid within one to five years
Long Term	Does not need to be repaid for at least 5 years

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HOW SHOULD FINANCE BE SELECTED

1. **Purpose** - the source of finance should match the use for which it is needed
2. **Amount** – The source of finance should be able to provide the amount of finance required
3. **Cost** – Try to get the cheapest source of finance. APR (Annual Percentage Rate) is a
4. **Control** –
5. **Risk** -

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SHORT- TERM

1. Trade Credit
2. Accrued Expenses
3. Bank Overdraft
4. Factoring Debt
5. Invoice Discounting

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MEDIUM – TERM

1. Hire Purchases
2. Leasing
3. Term Loans

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LONG TERM

1. Mortgage
2. Saving/retained earnings
3. Owners Capital
4. State Grants
5. Invoice discounting

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TRADE CREDIT

Definition

This is receiving goods now but paying for them later

The business can use the money to pay bills that are urgent. To receive prompt payment suppliers offer discounts to business and charge interest for late payments

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ACCURED EXPENSES

Definition

This is also known as unpaid expenses. It means delaying payment of bills and using the money to pay more urgent expenses Businesses and households can delay paying bills (Gas, Electricity) until absolutely necessary and use this money to pay other bills.

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BANK OVERDRAFT

Definition

These are short term banks loans giving the current account holder permission to withdraw money gather than they actually have in their current account. The maximum amount of the loan has to be agreed in advance with the bank

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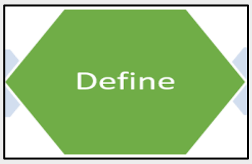

FCATORING DEBT

Definition

This means selling the right to collect payment from your debtors to a factoring (Debt collecting) firm

For Example – you are owed €100,000, you sell it to a debt collecting firm for €80,000. Then the debt collection firm will try to collect he €100,000

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INVOICE DISCOUNTING

Definition

This is when a business gets a loan from a bank to the value of some percentage of the amount owed to the business by its customers

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HIRE PURCHASES

Definition

This allows a household or business to buy an asset (car) by paying for it in instalments over a period of time

The asset can be used straight away but full ownership only passes when the item is paid for in full (last instalment)

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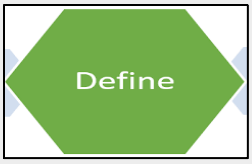

LEASING

Definition

This means renting an item (Car) for an agreed number of years. When the lease is up the item is returned to the lessor

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TERM LOAN

Definition

This is a loan from a financial institution that is repaid in monthly installments over a number of years. The conditions of the loan differs on the needs of the household or business (Duration, interest charged, security required0

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MORTGAGE

Definition

These are loans used to finance the purchases of a house or other property
They are available form a bank or building society
A household/business will have to calculate the implication of the monthly repayments on their monthly cash

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SAVINGS/RETAINED EARNINGS

Definition

Savings are finance for a household (Banks. Credit unions, An Post). Deposit accounts pay interest on the money saved. The rate of interest will depend on the amount saved and how long it is on deposit.
Retained earnings (reserves) - profit that have been put back in to the business to allow the business to expand

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OWNERS CAPITAL

Definition

This is finance brought into a business by the owner
This finance can be brought into the business through the entrepreneur's personal finance, selling shares or bringing in a new partner

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STATE GRANTS

Definition

This is a free gift of money provided to a business to be used for a specific purpose
There are no interest or cash payments involved
But there are conditions that must be met and if they are not they money will have to be paid back

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SALE AND LEASE BACK

This is a contract to raise cash by selling a piece of property and then leasing it back on a long-term lease
This provide the business with a lump sum of money

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WHAT BANKS LOOK FOR BEFORE GIVING A LOAN

1. Amount a purpose for the loan
2. Creditworthiness of the person
3. Ability to repay the loan
4. Collateral

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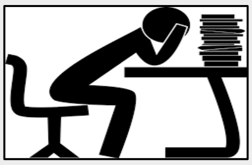

EXPLAIN THE REASONS WHY A CASH FLOW FORECAST IS PREPARED

1. Acts as a financial control mechanism – when there will be a shortfall in cash
2. Identify period when expenditure is higher than income
3. Identify when there will be a surplus of income over expenditure
4. help gain access to finance

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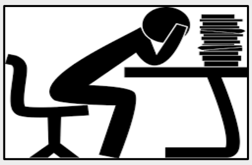

SITUATIONS REQUIRING SHORT-TERM FINANCE AND EXPLAIN AN APPROPRIATE SOURCE OF SHORT-TERM FINANCE IN EACH SITUATION.

1. Paying for stock. - Trade Credit
2. Paying for wages/first month's rent/deposit - Bank Overdraft
3. Utilities – Accrued expenses

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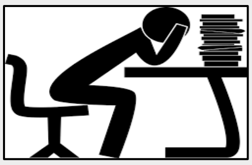

HOW TO DEAL WITH THE FINANCIAL PROBLEM IN A CASH FLOW FORECAST.

1. **Avail of a short-term source of finance** - arrange a bank overdraft facility
2. **Adjust receipts** - changing its marketing mix, e.g. lowering price to sell more
3. **Adjust payments** - The business could decrease its cash payments by sourcing cheaper suppliers, restructuring loan repayments

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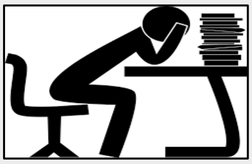

IMPROVE THE POSITION OF A CASHFLOW FORECAST

1. Spread the purchase of Fixed Assets over a few months
2. Try to avail of a bank overdraft
3. Have better credit control
4. Control overhead – negotiate insurance or rent

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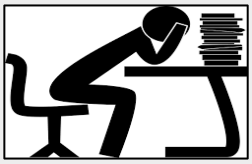

OUTLINE FACTORS THAT A BANK MAY CONSIDER WHEN ASSESSING A BANK LOAN APPLICATION

1. Creditworthiness:
2. Ability/capacity to repay the loan/Business Plan.
3. Profitability/liquidity/gearing.
4. Amount /purpose of the loan/Time period for the loan
5. Availability of Security:
6. Level of own investment/Grants

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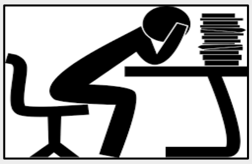

DISCUSS THE FACTORS THAT SHOULD BE CONSIDERED WHEN CHOOSING BETWEEN DIFFERENT SOURCES OF FINANCE.

1. Cost
2. Purpose
3. Amount
4. Control
5. Collateral
6. Risk

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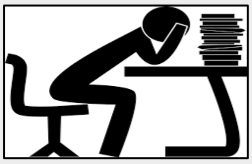

ANALYSE A APPROPRIATE SOURCES OF FINANCE FOR ACQUIRING A DELIVERY VAN (1)

A medium term

1. loan is obtained for a period of one to five years.
2. Interest must be paid but it is tax deductible.
3. The loan is repaid in agreed instalments
4. The bank may require security

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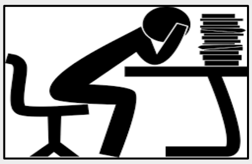

ANALYSE A APPROPRIATE SOURCES OF FINANCE FOR ACQUIRING A DELIVERY VAN (1)

Leasing

1. Renting rather than purchasing the asset.
2. The business will never own the asset.
3. Payments may be offset against tax. □ No security is required.
4. While it costs more than cash purchase it helps a businesses cash flow.

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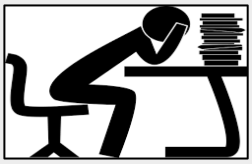

DEFINE SHORT-TERM FINANCE

Finance available for less than one year and used to finance short-term assets such as stock.

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