

## CE Entrepreneurship

### Money matters - tutor notes

Objective of this section of the module is to explain the concepts and explore with students three key money related notions, financial survival, reporting and documentation and investment decision making. Basically:

- Financial survival
- Cash flow forecasts, Profit and loss statements and balance sheets
- Investment decision making

Whilst this is not an exhaustive list I have found it is sufficient to enable a student to understand how much money they need from the business to survive, how to produce cash flow forecasts and projected P & L and balance sheet and how to formulate and answer the question, financially should I?

#### ***Introduction to money matters***

By way of an introduction to money matters there is a presentation and handout. It looks at accounting in the business environment and how it needs to be thought of tactically and strategically. The three arms of finance, financial accounting (the external view), management accounting (the internal view) and the treasury function (raising money) are briefly introduced as are the key management activities that relate to money matters. There is scope to use exercises during this section although these are left to the tutor to devise depending on how you wish to develop and present the material.

An important outcome for me is to firmly establish in the minds of the students that money matters and that cash is not the same as profit. There is some more advanced mathematical material in investment appraisal and some diversion into mathematics might be required if you, the tutor, deem that part of the material to be necessary for your course.

Introduction to money matters presentation

Introduction to money matters handout

### ***Financial survival***

This short section considers personal survival cash and can be used.

#### **Activity**

Using the proform given in “Running Your Own Show”, a blank is provided, make a list of your personal (and family unit if appropriate) personal financial survival needs. It is important to be thorough in this exercise as your personal financial survival may well depend on it if your business is financially marginal. It is also important to identify the amounts and dates at which these amounts are due.

Personal financial needs handout

### ***Cash flow forecasts, Profit and loss statements and balance sheets***

I find that an easy way into this section is to start by looking at a student's personal financial state, income and expenditures and paralleling them with business accounting. The parallel is limited but could be a useful way into the subject.

To support the personal approach there is a presentation and handout.

Personal finance presentation

Personal finance handout

To get to the profit and loss and balance sheet I use Blue Sky Toys as a hands on activity. The tutor will need to develop the profit and loss and balance sheet with the class but there is no reason why they cannot be asked to have a go at it. It would be useful to describe the fundamental structure of the P & L and Balance sheet at stages through the activity to give those students unaware of the documents a fighting chance. The activity is useful for drawing out issues such as the matching of sales revenue to cost of sales in the same period (irrespective of when monies are received and paid), notions of accruals and prepayments and of assets. It can also lead into a discussion of the working capital cycle if this is a route down which you, as the tutor, wish to go.

There are no capital assets in the Blue Sky Toys example so the simple Balance sheet can then be extended to include capital assets and so on to suit the particular student group.

## **Activity**

Blue Sky Toys

At this point specific issues of small business finance can be developed, the issues of VAT can be explored and external speakers can be brought in to address specific student questions or to give anecdotal examples.

Further case studies can also be used to develop specific learning points for the particular student group.

## ***Investment decision making***

This section considers the question how should I decide to go ahead with a business idea or a particular project within a business? Basically the cash flow forecast is used as the starting point for investment appraisal and the concepts of discounted cash flow and net present value are introduced. There is some mathematics in this section that I have found some students have difficulty with.

There is a presentation and handout that considers:

- Cash flow revisited
- The simple accounting return
- The payback period
- Discounted cash flow techniques
- Net present value
- And introduces sensitivity analysis.

Sensitivity analysis is one of the many routes into a look at the risks of a small business and is left as a hook for tutors to use if they wish to develop their module in that direction.

Investment decision-making presentation

Investment decision-making handout

This section of material can also be taught using case studies or be supplemented by additional examples such as case studies or external speakers.

## **Resources**

Money matters tutor notes (these notes) [fintut.pdf]

Introduction to money matters presentation [finint.ppt]

Introduction to money matters handout [finint.pdf]

Personal financial needs handout [fineed.pdf]

Personal finance presentation [perfin.ppt]

Personal finance handout [perfin.pfd]

Blue Sky Toys [bst.pdf]

Investment decision-making presentation [invest.ppt]

Investment decision-making handout [invest.pdf]