

What is financial management?

Money to your Company is like blood to your body. Just as the body can bleed to death, so can your Company if the flow of money is not maintained.

So the money must be there. And it's your job to know how much there is, and where it is.

Then, when you know all this, you can tell the Board, so that they can do their job of:

- ? making informed decisions;
- ? ensuring that the Company's activities are profitable;
- ? ensuring that sufficient funds are available to pay the bills.

The importance of your role in the company

You are the custodian of the Company's money. The Company relies upon you for the accurate recording of all transactions.

It is your job to know and understand the financial implications of all the Company's activities.

Your financial information will govern all of the key decisions of the Company.

At any time you should be able to report accurately on the Company's financial position.

You should ensure that people owing money to the Company (debtors) pay their bills, and ensure that people owed money by the Company (creditors) are paid by the due date.

You can use this document as your ready reference for what you should be doing, and how you should be doing it. A more detailed explanation of your duties can be found in your Director File.

To get started in your role work through the Finance Director Step by Step Guide.

Getting Started

Open a Bank Account

Visit a bank and discuss opening your Bank Account. Banks vary in the documents they require and their rules for loans.

There is a guide to opening an HSBC Bank account in the Company Administration Folder.

Policy decisions to be made:

- ? is your Company going to buy on credit?
- ? is your Company going to sell on credit?
- ? Complete the Case Study in the Finance Director Step by Step Guide

Planning

- ? Liaise with the Company Secretary on selling shares.
- ? All monies received from sale of shares should be entered on the Receipts form immediately.
- ? Payment of registration invoice to Young Enterprise office within 30 days of registration.
- ? Make sure you understand about YE VAT - there are no exemptions. (YE VAT in the Rules and Guidelines section).

NB You pay YE VAT to the charity Young Enterprise and not to Customs and Excise.

Establish salary levels

- ? Liaise with the Human Resources Director to work out what the Company should and can pay out in salaries, wages and commission.
- ? Calculate the figures and work out what this is going to cost the Company in future months (as soon as possible).
- ? Agree the rates of all salaries at a Board meeting as soon as possible and record the outcome for your own records.
- ? Establish a system whereby the Operations and Human Resources Directors inform you of hours worked and/or production/sales achieved so you know what to pay.

See form HR3 available through the [Resources](#) for the Human Resources Function.

Pricing

- ? Work out and record the "fixed and variable costs", liaising with the Operations Director. Don't include YE VAT when you cost this - you need the net figure.
- ? Meet with the Sales and Marketing Directors to discuss prices of your product or service and Calculate how many items you have to sell to meet these costs or break even.
- ? Agree with them a price to recommend to the Board. Note again - this is the price before YE VAT. Add YE VAT to get the customer selling price.

See form MD3 available through the [Managing Director resources](#).

Budget statements

- ? Liaise with the Marketing Director to estimate level of sales. (Production and Sales will have contributed information.)
- ? Complete the Budgeted Profit and Loss Statement.
- ? Complete a Budgeted Cash Flow Statement.

See forms MD1 and MD2 available through the [Managing Director resources](#).

Up and Running

Regular transactions and optional forms

- ? Lodge all money in the Bank immediately and record in the Receipts Form FD1.
- ? Cash received (e.g. cheques cashed for payment of wages) enter on FD1.
- ? Cash payments, including cash paid to bank, enter on the Payments Form FD2.
- ? To pay accounts, prepare cheques, have them correctly signed and enter in FD2.
- ? Enter goods purchased which do not have to be paid till later (purchases on credit) on Form FD5. when you have paid for them and entered the cheque in FD2 also enter date paid on FD5.
- ? Similarly any goods sold (sales on credit) are entered on FD4. When you are paid enter on FD1 and date on FD4.

See forms FD1, FD2, FD4, and FD5 available through the Finance function on the CD. See also

Checking

It is essential that you carry out checks on the accuracy of the Books of Original Entry as follows:

- ? On a monthly basis check that columns on Form FD1 add up correctly.
- ? On a monthly basis check that columns on Form FD2 add up correctly.
- ? On a monthly basis check that unpaid creditors on Form FD5 agree.
- ? On a monthly basis check that unpaid debtors on Form FD4 agree.

Provided you do this regularly it will be simple. If you leave it, you will find the accounts difficult to balance.

See forms FD1, FD2, FD4, and FD5 available through the Finance function on the CD. See also

Monthly task

- ? It is advisable to prepare the extended trial balance FD3 monthly, and you must prepare it before liquidation (if you are using the 'live' Excel Finance System, this will be done automatically).
- ? Your job as Finance Director is to advise the Board and you will find this difficult if you do not have accounts.
- ? The totals from the Receipts Payments and Optional Forms are carried to the extended trial balance.
- ? Check corresponding DR and CR totals agree.

See form FD3 available through the Finance function on the CD. See also Director File pages 26 to 28.

Profit and loss account and balance sheet

- ? These should be prepared monthly, and must be prepared prior to liquidation.
- ? The totals from the extended trial balance are carried to the Profit and Loss Account FD6 and Balance Sheet FD7 as appropriate.
- ? Your job is to guide the Board. Be factual and explain possible cash flow problems while at the same time avoiding being over cautious.

See form FD6 and FD7 available through the Finance function on the CD. See also Director File pages 28, 29 and 30.

Ending the Year

This relates to Stage 5 of the Company Cycle, Ending the Year.

Preparation for liquidation

- ? The Board should decide on a date when trading ceases and fix a Board Meeting to decide where the profit goes. Inform them of stocks which need to be sold.
- ? Draw up a draft Profit and Loss Account showing the net profit.
- ? Provide the Board with various choices of profit allocation, taking into account YE Corporation Tax, various levels of dividend and so on.
- ? Be prepared at the Board Meeting to explain the four ways in which profit may be allocated:
 - o bonus to students (which then alters the net profit as it increases wages);
 - o YE Corporation Tax (10% or current rate if different);
 - o dividend to shareholders;
 - o allocation to charities.

It is not permitted to carry forward any surplus for next year's Young Enterprise Company.

See form FD6 and FD7 available through the Finance function on the CD. See also Director File pages 28, 29 and 30.

Final accounts

- ? Prepare your final Profit and Loss Account and Balance Sheet. Incorporate YE Corporation Tax, Dividends, Bonuses and any donations you may have decided to make to charity.
- ? Prepare your own Financial Report to the Shareholders. Include Liquidation Report (FD9) after final work completed.
- ? If not yet paid, pay YE VAT to the Young Enterprise Office.
- ? Ensure forms FD7 and FD9, are signed by an Auditor/Adviser.

See form FD6, FD7, FD8 and FD9 available through the Finance function on the CD. See also Director File pages 28 to 31. Liquidation

- ? Pay YE Corporation Tax (form FD8).
- ? Liaise with the Company Secretary to repay share capital and agreed dividend to shareholders.
- ? Pay any Bonuses and Charitable Donations.
- ? Record sale of any stock or equipment and continue to record these and any other transactions.
- ? Prepare Liquidation Report (form FD9) and add to Company Report.
- ? Close Bank Account once all cheques are cleared.

See form FD6, FD7, FD8 and FD9 available through the Finance function on the CD. See also Director File pages 28 to 31.

You Will Need to Develop Skills and Qualities Which Will Help You Become:

- ? A communicator who can make complicated things understandable.
- ? Accurate and tidy in presenting reports.
- ? Organised and good with numbers.
- ? A problem solver.
- ? An analyst and forecaster - someone who can work out what the financial future will bring.
- ? Trusted to deal with other people's money.
- ? Knowledgeable about the business.