

How Will the Financials Work?

Financial Requirements for Start-up

Start-up funds are the necessary capital you need to get a rural social enterprise off the ground. Securing funding for your enterprise can be an important step in starting your enterprising activity.

First, you need to determine the basic requirements for starting the social enterprise.

What activities will you perform in generate income? What kinds of equipment will you need? How much labour and what type of skills? What facilities or locations will you require to make the social enterprise a reality?

Second, how much do these items cost? If you don't have an amount of money equal to the total anticipated cost, you will need to determine how to cover these costs. More information on this can be found in the 'Securing Investment' chapter.

Note that start-up costs are separate to operational running costs, and are one-off costs that are associated with setting up the social enterprise.

Example of financial plan elements for starting up a social enterprise:

Cost Examples	Resources	Investment/ Funding
<ul style="list-style-type: none"> • Premises • Consultant fees • Recruitment fees • Legal fees • Capital equipment • Training 	<ul style="list-style-type: none"> • Location/building facilities • Equipment, machinery and tools • Vehicles • Technology • Access to networks • Knowledge and skills • People (including volunteers) • Lines of credit 	<ul style="list-style-type: none"> • Grant income (Government Grants, Private Trusts) • Crowdfunding • Donations • Social investment or Bank loans

Financial Management

Financial management is the process of planning, monitoring, and evaluating all financial aspects relating to your social enterprise. At its most basic level it is about anticipating and tracking how money comes into your organisation (revenues, funding, investment), how it is invested within your organisation (operating costs, staff costs, purchasing assets, etc) and how it is invested or leaves your organisation (paying operating suppliers, paying staff, purchasing assets, paying investors, etc).

Accounting is the system of recording and classifying financial transactions related to a business, and summarising and communicating those transactions. Accounting is essentially documenting what happens to money once a company receives it, and thereby makes that information available for reporting to stakeholders and regulatory agencies, and informing business decisions.

Assets and Liabilities

Assets are items, such as equipment, cash supplies, inventory, receivables, buildings, and vehicles - that a business owns, and derives future use from. Potential investors and stakeholders will want to know what resources a company has at its disposal.

A liability is a debt that a social enterprise has incurred with another party. For example, when it borrows money from an investor or purchases materials from other suppliers. The business is required to make a future payment to satisfy that debt. For accounting purposes, we want to be able to see what the business owns (assets) compared with what it owes (liabilities).

Tools for Financial Management

It is important to keep accurate and up to date financial information for your social enterprise. In order to start this process, it is helpful to have a Financial Plan. A Financial Plan provides an overview of activities, resources, costs associated for delivering activities, and income streams.

Example of financial plan elements for running a social enterprise:

Activities	Resources	Running Costs	Income streams
Commercial: <ul style="list-style-type: none"> Selling of traditional nutritional foods, artisanal handicraft, environment friendly shopping bags Renting out space Offering catering Social: <ul style="list-style-type: none"> Training on job Work-oriented education Renovation of building 	<ul style="list-style-type: none"> Location/building Facilities Equipment, machinery and tools Vehicles Technology Access to networks Knowledge and skills People (including volunteers) Personal, family and friends' funds/ cash Lines of credit 	<ul style="list-style-type: none"> Salaries Training Uniforms Rent Utilities Materials Travelling Repairs Fundraising 	<ul style="list-style-type: none"> Sales Subscriptions Contract income Grant income (Government Grants, Private Trusts) Donations

Financial Monitoring and Control

An accounting system should be established to track income and expenditure. The information entered into an accounting system can then be summarised in financial statements, which are the output of an accounting system. There are three basic types of financial statements:

- Cash flow
- Balance sheet
- Profit and loss account

This short PowerPoint presentation [How Money Works in Business](#) explains the elements below and gives real life examples. It is easy to follow and requires no previous knowledge.

1. The Cash Flow

The **cash flow** is a statement of the income and expenditure, which details how cash moves in and out of the organisation, and is normally recorded in monthly buckets. This actual, historical information can then assist with future planning of projected income and expenditure.

For good forward planning, the organisation should define cash flow projections for future years. This will involve estimating the income and expenditure predicted, based on previous years and anticipated activity for future years.

Carrying out this exercise will allow the organisation to ensure that it has enough cash in the bank to remain afloat as activity progresses throughout the year. It is recommended that there is a designated person within the organisation who is responsible for creating and updating the cash flow file on a monthly basis to ensure good financial management.

Assessing projections versus the actual results on a regular basis is good practise and would mean any financial risks can be mitigated in good time, rather than waiting until the end of the year accounting or until it is too late to rectify the issue.

The following cash flow template has been provided which includes guidance notes and considerations for developing the cash flow.

2. The Balance Sheet

A **balance sheet** provides a snapshot of the financial health of the social enterprise at a specific point in time. The balance sheet would also include everything the social enterprise owns (assets) as well as everything it owes (liabilities).

- **Assets** - items the company owns or will benefit from; examples include cash, inventory (such as stock), invoices due to be received and equipment.
- **Liabilities** - debt or amounts the company must repay in the future; examples include credit card balances, loans payable, and invoices due to be paid.

This file is normally produced by someone with financial expertise, such as an accountant.

3. The Profit and Loss Account

A **profit and loss account** provides the financial results of a social enterprise operations over a period of time (this tends to be monthly, quarterly, or annually). At the most basic level, the profit and loss account (also called the **income statement**) describes how much money the company earned while operating the business and what costs it incurred while generating those revenues.

The revenue minus operating costs equals the profit or loss. The profit and loss account excludes VAT. This file is normally produced by someone with financial expertise, such as an accountant.

Annual Accounts

Social enterprises are required to produce a set of annual accounts. This ensures openness and accountability. The annual accounts can vary in content and can include a summary of the organisation's performance for the year as well as the balance sheet at year end and an annual profit and loss account.

An accountant or someone with financial expertise would carry out the year end accounting exercise with information provided by the organisation.

Case Studies

- [Co-operatives UK 'Simply Finance' - A comprehensive guide to the different options for financing a community enterprise](#) *(written in English)*
 - This guide covers many different aspects of funding, including technical terms, processes, and documents, and offers clear and understandable definitions for people new to funding. There is also a glossary of terms.
 - The advice in this guide may not be suitable for all types of social enterprise, but for general or specific guidance on financing issues, this is a good place to look, using the contents page to navigate.

- [How Money Works for a Rural Enterprise - PowerPoint Presentation](#) *(written in English)*
 - This short and colourful presentation explains the basics of managing finances for an organisation, covering aspects including the income statement, balance sheet, and cash flow - using key terms and examples.