



# 7 things 4 HR 2 know about 5inance!

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- Qualified as an ICAEW Chartered Accountant in London
- Has worked in various training and HR roles post-qualification
- Now Angus runs workshops for professional staff in commercial and management skills



# What we'll cover today

1. Why bother with finance?
2. Balance sheet
3. Profit and loss account
4. Project appraisal
5. Budgets
6. Margins and ratios
7. Tax

## But first ...

A crash course in financial accounting!

- Company starts with £100 cash

Cash	<u>£100</u>
Total net assets	£100

Share capital	<u>£100</u>
Total capital and reserves	£100

# Crash course in accounting!

- Buys 50 pens at £1 each

Stock	£50
Cash	<u>£50</u>
Total net assets	£100
Share capital	<u>£100</u>
Total capital and reserves	£100

# Crash course in accounting!

- Sells 30 pens for £2 each cash and 10 pens for £2 each credit

Stock (50-30-10)	£10
Debtors	£20
Cash (50+60)	<u>£110</u>
<b>Total net assets</b>	<b>£140</b>
Share capital	£100

# Crash course in accounting!

- Sells 30 pens for £2 each cash and 10 pens for £2 each credit

Sales (£60 + £20)	£80
Cost of sales (40 pens at £1)	<u>(£40)</u>
<b>Gross Profit</b>	<b>£40</b>

# Crash course in accounting!

- Sells 30 pens for £2 each cash and 10 pens for £2 each credit

Stock (50-30-10)	£10
Debtors	£20
Cash (50+60)	<u>£110</u>
<b>Total assets</b>	<b>£140</b>
Share capital	£100
Trading profit	<u>£40</u>
<b>Total capital and liabilities</b>	<b>£140</b>



# Crash course in accounting!

- Incurs £15 of overheads - £5 paid in cash, £10 on credit

Sales (£60 + £20)	£80
Cost of sales (40 pens at £1)	<u>(£40)</u>
<b>Gross Profit</b>	<b>£40</b>
Expenses	<u>(£15)</u>
<b>Net profit</b>	<b>£25</b>

# Crash course in accounting!

- Incurs £15 of overheads - £5 paid in cash, £10 on credit

Stock	£10
Debtors	£20
Cash (110-5)	£105
Less: creditors	<u>(£10)</u>
<b>Total net assets</b>	<b>£125</b>
Share capital	£100
Trading profit	<u>£25</u>
<b>Total capital and reserves</b>	<b>£125</b>

# Crash course in accounting!

## Balance sheet

Stock	£10
Debtors	£20
Cash	£105
Less: creditors	<u>(£10)</u>
<b>Total net assets</b>	<b>£125</b>

Share capital	£100
Trading profit	<u>£25</u>
<b>Total capital and reserves</b>	<b>£125</b>

## P&L account

Sales	£80
Cost of sales	<u>(£40)</u>
<b>Gross Profit</b>	<b>£40</b>
Expenses	<u>(£15)</u>
<b>Net profit</b>	<b>£25</b>

# 1. Why bother?

- Identify performance
- Measure performance
- Communicate performance

## 2. Balance sheet

- A financial 'photograph'
- Assets (owned) and liabilities (owed)
- Think about:
  - Capitalisation
  - Accruals

## 3. P&L account

- A financial 'movie'
- Income and expenditure
- Fixed, stepped and variable costs

## 4. Project appraisal

- ROCE
- Payback
- Net Present Value

## 4. Project appraisal: ROCE

- ROCE (Return On Capital Employed)  
= average annual return / initial investment X 100%

Project cost is £50,000

Annual savings of £15,000 for 4 years

- So our project ROCE  
=  $15,000 / 50,000 \times 100\%$   
= 30%
- What is our target ROCE?
- Advantages and disadvantages?



## 4. Project appraisal: Payback

- Payback period = time taken for benefits to 'payback' costs

Project cost is £50,000

Annual savings of £15,000 for 4 years

- So our project payback:
  - After 1 year :  $£50,000 - £15,000 = £35,000$
  - After 2 years:  $£35,000 - £15,000 = £20,000$
  - After 3 years:  $£20,000 - £15,000 = £5,000$
  - After 3 years and 4 months, project is 'paid back'
- What is our target "Payback period"?
- Advantages and disadvantages?

## 4. Project appraisal: Net Present Value

- NPV = total project profit reflecting time value of money

## 4. Project appraisal: Net Present Value

- Time value of money:
  - £100 now is worth “more” to us than £100 in 2 years time
- Banks acknowledge this by offering interest
  - £100 invested at 5% earns £5 interest over one year = £105.00
  - In the second year, 5% on £105 is £5.25, so balance = £110.25
- So £110.25 in 2 years is worth the same to us as £100 now
- NPV simply works the other way round

## 4. Project appraisal: Net Present Value

- NPV = total project profit reflecting time value of money

Project cost is £50,000

Annual savings of £15,000 for 4 years

- At 5%, our future cash flows are worth:
  - Now: £50,000 outlay = (£50,000)
  - Year One: £15,000 / 1.0500 = £14,286
  - Year Two: £15,000 / 1.1025 = £13,605
  - Year Three: £15,000 / 1.1576 = £12,958
  - Year Four: £15,000 / 1.2155 = £12,341
  - NPV = £3,190

## 4. Project appraisal: Net Present Value

Project cost is £50,000

Annual savings of £15,000 for 4 years

- Using 10% as our cost of capital
  - Now: £50,000 outlay = (£50,000)
  - PV of £15,000 in Years 1-4 = £47,585
  - Project NPV = (£2,415)
- What is our cost of capital?
- Advantages and disadvantages?

# 5. Budgets

- Incremental v zero-based
- Annual v phased
- Variances

## 6. Margins and ratios

- Useful margins – GPM, NPM
- Useful ratios – Yld, PE
- Custom ratios!

# 7. Tax

- On companies
- On individuals
- VAT



# Conclusions

- Finance isn't all opaque and boring!
- What can it do to support you?

# How ICAEW can support you...

- Seek out the best qualifications
  - Help your employees achieve your business goals by offering them practical business qualifications. [icaew.com/programmes](https://www.icaew.com/programmes)
- Employ an ICAEW Chartered Accountant
  - Achieve more for your business by employing an insightful, high-performing professional. [icaew.com](https://www.icaew.com)
- ICAEWJobs.com
  - Advertise your finance and accountancy vacancies and reach ICAEW chartered accountants on our jobs board. [icaewjobs.com](https://www.icaewjobs.com)

# Questions

# Thank you for attending

- The recording of the webinar and presentation will be available shortly at [icaew.com/programmes](https://icaew.com/programmes)
- Tell us what you think – please let us know how useful this webinar was for you. A survey will be sent to you shortly
- If you have any questions, please email us at [programmes@icaew.com](mailto:programmes@icaew.com) or call +44 (0)1908 248 250



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