

Finance

Own Savings – many entrepreneurs have savings from previous income or may have inherited money. A major advantage of this source of money is that interest does not have to be paid. Relatives and friends can sometimes be persuaded to lend money, but they may want interest to be paid and will almost certainly want their money back at some stage.

Bank Overdrafts – an overdraft is an agreement with the bank where the customer can ‘overdraw’ money from the current account. Interest rates are higher than those for a loan but charged on the balance each day. They are far lower for an arranged overdraft than for one that has not been previously agreed with the bank.

Bank Loans – this is where money is borrowed for a fixed period and repayments (including interest) are paid monthly. Normally, banks ask for some sort of personal security, such as the owner’s property which they could claim if the business defaulted on the loan. The government has setup a Small Firms Loan Guarantee system to help businesses which cannot provide security. Often, banks will offer new businesses incentives to open an account and provide an adviser.

Grants and Loans - there are several types of grants and special loans available from local, national and European governments.

Claire and Mischa have saved £1100 to put towards the business and they own a van. They only need an extra £500, so they will be more likely to use their own savings because if they were to take out an overdraft the interest rates would be very expensive to pay back.

Mischa and Claire will need money to get them started. There are two basic costs linked with starting a new business, capital costs and start-up working capital.

They will need start-up working capital to buy stock for the business, such as: brooms, mops, dusters, window leathers and cleaning potions.

They will also need capital items; these are items that will last a long time. It is needed for items such as: phone lines, phone and two Dyson cleaners, brooms, mops, dusters, window leathers and cleaning potions.

Operating costs are the routine costs incurred to keep the business running. These include: staff wages, materials, telephone bills, utility bills, insurance and any investments.

Mischa and Claire’s operating costs will be: mops, window leathers, cleaning potions, brooms for when they get worn out or used up and telephone bills.

Cash flow is the amount of money that flows in and out of a business bank account. Mischa and Claire will need to forecast their cash flow, so that they will be able to predict any problems they may have in the future. They will also be able to predict how much money they should have in the bank at any particular time, usually at the end of the month. This means listing and adding up all their expected cash inflows, this is the money the business expects to receive and pay into its bank account. It then needs to add up its cash outflows, this is the money Claire and Mischa expect to pay other people or stock costs. The difference between these two figures is the cash balance. Every businesses aim is to gain a positive balance, which occurs when inflows are greater than outflows.

Document	Reason for Need
Purchase Order Form	Claire and Mischa will need to have a list of all the stock they will need to buy at the wholesalers. This list will be given to the wholesaler, with a copy for Claire and Mischa’s own financial records.
Delivery Note	Claire and Mischa will get this from their supplier as proof that they have received the delivery.

Goods Received Note	Claire and Mischa will need to send this to their supplier to tell them whether the goods are sent are in good condition.
Sales Invoice	Claire and Mischa will receive this from their supplier so that they can check the prices, VAT, full details of goods and discounts.
Statement of Account	Claire and Mischa will receive a statement of accounts, on it is a list of invoices and any credit note that has been issued and the total amount the company own.

It is important for Claire and Mischa to organise their expenses because of legal requirements. They will need to keep financial records so that they can evaluate and check their businesses performance, by doing this it makes sure that they can take action when needed and they can check that no unexpected problems will take place within the business e.g. fraud by staff or customers.