B- LAND

Promote and Strengthen Business Development Skills in Rural Communities

Module 4
Financial skills

Developed by Logica, Sofia, Bulgaria

Co-funded by the Erasmus+ Programme of the European Union

Project Number: 2020-1-BG01-KA202-079089

Learning outcomes

Level according to the Competence Framework (IO1): Moderate

Upon completion of this learning module, you will be able to:

- ✓ understand the general knowledge on finances for SMEs with understanding of the common financial terms;
- ✓ perform financial planning;
- ✓ create and use financial tools useful for SMEs in rural areas
- ✓ create and use a budget plan
- ✓ monitor the financial performance of a SME
- ✓ cash flow management

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Unit 1. Introduction to Financial Skills Module

Content of the Financial Skills Module:

The module consists of 4 units – 1 introductory and 3 content related units. Each unit is split in parts covering in logical order the respective topic of the Module.

Unit covers theoretical and practical content and examples. Their theoretical content is given in logical steps that will allow you to perform the practical exercises (case studies) with the same continuation.

Unit 2: General principles of Financing

Part 2.1 Common Financial Terms
Part 2.2 Financial planning

Unit 3: Manage the Finances

Part 3.1 How to create and use a budget plan
Part 3.2 Budgeting
Practical exercises – complement course – Case studies

Unit 4: Monitor the Performance

Part 4.1 Observing Cash flow management
Part 4.2 Paperwork and data of the monitoring performance
Practical exercises - complement course – Case studies

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Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (1)

The terms explained in this unit:

- ✓ Assets and liabilities;
- ✓ Balance sheet;
- ✓ Incomes/revenues and expenditures/costs/expenses;
- ✓ Income Statement;
- ✓ Type of costs depreciation, investment costs, fixed costs and variables;
- ✓ Taxation and social security payments.

Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (2)

Assets	Liabilities
the resources that you and your company own. The most common example is the amount of money (at the bank or petty-cash) you possess or computers and other equipment you need to operate the business	the obligations and/or debts that you and your company will need to fulfil in the future. For example, the money you will need to repay, goods to be purchased, payments due to your suppliers, taxes due to authorities, etc.

The amount of the assets and liabilities is presented in **BALANCE SHEET** - normally displayed in two columns – one for the assets and one for the liabilities!

The total amount of the assets and liabilities is ALWAYS EQUAL! If there is a difference between both numbers, there are mistakes in the accountancy of the company!

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Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (3)

Balance Sheet:
A summary of the financial situation representing the total amount of assets, liabilities and a capital of the company at certain moment (date/period).

Paul's Agricultural Shop
BALANCE SHEET
For the Year ended December 31, 2020

ASSETS		**LIABILITIES and OWNERS' EQUITY**	
Current assets		**Current liabilities**	
Cash and cash equivalents	€ 10 000.00	Accounts payable	€ 10 000.00
Acounts receivable	€ 2 000.00	Payables to employees	€ 3 000.00
Inventory	€ 1 500.00	Payables for social security	€ 1 500.00
Other short-term receivables	€ 400.00	Payables to suppliers	€ 15 600.00
Investments	€ 1 000.00	Deferred revenue	€ 2 000.00
Total current assets	**€ 14 900.00**	**Total current liabilities**	**€ 32 100.00**
		Long term debt	€ 11 430.00
Property and equipment		**Total liabilities**	**€ 43 530.00**
Land	€ 12 000.00		
Buildings	€ 13 000.00	**Owners' Equity**	
Machinery	€ 5 000.00	Capital	€ 1 000.00
Equipment	€ 5 000.00	Reserve	€ 2 000.00
		Retained earnings	€ 1 970.00
Other assets		Profit (Loss)	€ 2 000.00
Intangible assets	€ 400.00		
Tangible assets	€ 200.00		
Total assets	**€ 50 500.00**	**Total liabilities**	**€ 50 500.00**

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Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (4)

Revenues - The total amount of income generated by the sale of goods or services related to the company's primary operations.

Incomes - Company's total earnings or **profit**.

Expenditures: Total amount spent on certain item, i.e. for supplies or goods. The expenditure does not give information regarding the financial representation of the amount in the Balance sheet or the Income Statement

Cost: The amount given to acquire an asset. If an expenditure is made to acquire supplies, then the cost is the amount paid in cash to acquire those supplies. A cost can be created by an estimate of future expenditures. **For example**, if the company sells 20,000 euros of agricultural equipment in cash with a warranty to repair defects for one year after the sale, then an estimate of future expenditures related to those repairs is made – let's say 3,000 euros. No immediate expenditure has been made, but the business has incurred a cost.

Expense: refers to decreases in economic benefits. It is a cost that has already been consumed – 'expired' – and therefore has no future value to the business. If we say 'supplies expense was 1200 euro', then we know that supplies that cost 1200 euro have been consumed and are therefore no longer available for future use in the business.

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Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (5)

The amount of the
REVENUES, EXPENSES and INCOME
is presented in **INCOME STATEMENT!**

The difference between
the Revenues and the Expenses
will show the INCOME (profit or loss)
of the Company!

Paul's Agricultural Shop INCOME STATEMENT For the Year ended December 31, 2020		
Revenues		
Merchandise Sales	€ 24 800.00	
Other services income	€ 3 000.00	
Total revenues		**€ 27 800.00**
Expenses		
Costs of goods sold	€ 10 200.00	
Depreciation expenses	€ 2 000.00	
Wage expenses	€ 750.00	
Rent expenses	€ 500.00	
Interest expenses	€ 500.00	
Supplies	€ 500.00	
Utilities	€ 400.00	
Total expenses		**€ 14 850.00**
Net income		**€ 12 950.00**

Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (6)

Investment costs – Money you are willing to invest in long-term aspect, i.e. buying machines, land, buildings that will be subject to depreciation.

Fixed costs – costs that are constant in terms of value no matter of the volume of the sales you have, i.e. monthly rent of your premises/office. When your production/sales increase, the fixed costs stay at the same amount.

Variables – costs that vary in proportion related to the volume of sells you realize, i.e. raw materials you buy to produce goods. When your production or sales increase, the variable costs increase as well.

Taxation - Expenses due to authorities imposed by the respective legislation. i.e. income tax, Value added tax, taxation on specific type of activities – i.e. taxes on cars and fuels. Those type of costs are very **specific depending on the respective country and the legislation in force**. Different percentage for taxes might be applied in different countries.

Social security – costs normally arising from the legislation on the labour force in a respective country (see unit 4). Different type of social security schemes might be applicable in EU countries. The payments are normally calculated based on the so called “security income” by applying percentage for different social funds.

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Unit 2: General principles of Financing

Part 2.1 Common Financial Terms: (7)

Profit – The surplus of the revenues over the expenses	
Loss – The surplus of the expenses over the revenues	
Petty cash – Money held in cash, out of the bank accounts	
Receivables - payments due by clients/customers for services/goods provided by the company	
Liabilities – payments due to suppliers of services/goods needed to operate the business; payments due to staff/employees/tax authorities/financial institutions	
Short-term – up to one year. The term normally refers to receivables/liabilities	
Long-term – more than one year. The term normally refers to receivables/liabilities	

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Unit 2: General principles of Financing

Part 2.2 Financial planning:

Financial planning vs Accounting

Finance and Accounting in general go strictly together. Still the term “finance” has wider aspect as it covers more managerial approach to the business, including the vision of the manager, the planning process, the control over the performance. While the accountancy focuses on the day-to-day business records, transactions and bookkeeping in compliance with the respective legislation for reporting.

In few words the finance is more flexible and more creative compared to the accountancy.

Both the financial officer and the accountant use one and the same data but with different aim and sometimes with different tools, i.e. the financial officer will use mostly Excel, while the accountant will use also specific accounting software. Still for the financial officer is important to be able to read and understand the information from the accounting software.

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Unit 3: Manage the Finances

Part 3.1 How to create and use a budget plan: (1)

The information in this unit is related to the "Management of SMEs" and "How to start a business" modules!

Link the budget to the business plan – when starting a budget plan for your company it is important to relate the budget to your business plan (*see module 2 Management of micro or SMEs on how to create a business plan*) This will ensure coherence of your figures and numbers to the activities in the plan and will provide valuable information if you, for example, apply for a bank loan and/or try to attract an investor. The correlation of the Plan and the Budget shows to your external partners that **you know what to do** and **you know with how much you will achieve it**.

STEPS TO FOLLOW:

✓ **Step 1 Highlight all the "actions/activities" you set in the business plan**

Remember the INCOME STATEMENT from Unit 2 (*part 2.1 (5)*). Your budget planning has the same logic (revenues and expenses) but represents a forecast for the future implementation of your business

✓ **Step 2 Assess the categories to be included in the plan**

When you have structured the "actions/activities" from your business plan you have to describe all the possible expenses that need to be budgeted.

✓ **Step 3 Assess the type of costs**

Grouping the costs per category **-** assessing the possible costs/expenditures that need to be budgeted means that you should categorise them in terms of: 1. time (long-term and short-term), 2. type of costs (*see part 2.1. (6)*) and to group them per category

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Unit 3: Manage the Finances

Part 3.1 How to create and use a budget plan: (2)

✓ **Step 4 Set the units and quantities**

Based on the assessment, you can set the expected units and quantities. This is crucial for the realistic budget you need. The more realistic and closer to the business plan is your budget, the less variations and unexpected costs will happen when starting your business operations.

✓ **Step 5 Forecast the costs, researching and budgeting realistic cash flow**

With all the above steps performed you can approach the values of each cost per category, per units and per quantities you already have set

✓ **Step 6 Forecast the revenues**

When you are ready with the assessment, categorization and forecasting the costs, you can now assess and forecast your revenues. This is the time when you will realize how important the quantities and the categorization of the costs is. Based on your budget forecast you can assess the “critical” volume of sales you need to achieve in order to maintain your business, to balance the cash flow and to manage the financial operations of your company.
The approach when forecasting the Revenues should also consider the same aspects as for the costs – time, category, units, quantities. By putting the same categories in the Revenue part of your budget, you will have a good tool for creating your budget forecast. It will allow you to apply flexible approach if some categories should be increased/decreased in order to achieve realistic and balanced numbers.

The unit has a Practical exercise 3.1 – complement course Case study to Unit 3, part 3.1

Unit 3: Manage the Finances

Part 3.2 Budgeting:

After you have finished the budget planning and the steps in part 3.1. you can set and calculate the budget for your business operations.

Step 1 Create the tool as per the planning - different tools are used by the managers and financial officers to create the budget. The most commonly used tool is excel as it is cheap, easy-to-use and provides good number of functionalities.

Step 2 Set the values – one of the most important aspect for a company budget is the realistic calculation of costs based on good and sufficient research on the market prices for each type of expenditure. On practice this means that for each item you have assessed and categorized you should collect various offers with comparable prices. i.e. unit price for one and the same item or total amount for one and the same service.

Step 3 Set the timing – decide on the budget time frame, i.e. one-year forecast or three years forecast. Depending on the time frame you decide to structure your budget it will allow you to monitor the performance and to revise the budget if needed. It is considered that a budget forecast normally covers three-year period with the first year split into 12 months calculations, while the next two years are forecasted on a yearly base with increase/decrease foreseen based on the year 1.

Taxation and social securities in terms of budgeting (**country specific topic**) – when calculating your budget you need to consider the taxes and social securities you have to pay as per the requirement of the national legislation - *see unit 4, part 4.2*

The unit has a Practical exercise 3.2 – complement course Case study to Unit 3, part 3.2

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Unit 4: Monitor the Performance

Part 4.1 Observing Cash flow management: (1)

Monitoring the performance means that you need to observe the real performance of the business operation for a certain period against the business plan and the budget. In simple words it provides you with information on how close to the planning your real business is operating.

Main documents to be observed:
- ✓ **Business plan**
- ✓ **The forecast Budget**
- ✓ **The actual financial and accounting reports (for specific period)**

Review the business plan and the budget as per the real performance – based on the elaborated business plan and the budget the data from the actual performance is reconciled. The number of the services/goods/supplies in terms of quantity and money is monitored. The total amount of revenues generated for the specific period of time is the main information that provides information for the financial performance of the business. The other data that is crucial to be observed is the amount of the expenses – both as a total amount and split into categories.
The revenues and the expenses should be monitored for one and the same period of time!

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Unit 4: Monitor the Performance

Part 4.1 Observing Cash flow management: (2)

Key data to be observed from the financial and accounting records:

- ✓ Total amount of revenues for the specific period
- ✓ Total amount of expenses for the specific period
- ✓ Cash available at bank accounts and petty cash
- ✓ Receivables – short-term
- ✓ Liabilities – short-term

The process of monitoring the performance provides the tool for proper decision making. It gives the manager the information whether is possible to optimize EXPENSES AND / OR REVENUES, i.e. REDUCING PRICES AT THE SAME AMOUNT OF PRODUCTION/SALES OR INCREASE PRODUCTION FOR PRESERVATION OF PRICES OF GOODS / SERVICES OR PROMOTION TO CLIENTS WITH DISCOUNTS, IF THE EXPENDITURE PERMITS.

The unit has a Practical exercise 4.1 – complement course Case study to Unit 4, part 4.1

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Unit 4: Monitor the Performance

Part 4.2 Paperwork and data of the performance: (1)

✓ **What to observe in the documents of the performance:**

It is of a crucial importance to have proper documentation of the business operations and financial performance. This is due to the fact that each business has legal obligations to report to the respective national authorities, i.e. Revenue and Taxation Authorities. Each business might be subject to audits and checks where the documents for the revenues and expenses should be available, kept and in compliance with the requirements of the respective law.

✓ **Relate the taxation rules to the documents available and kept:**

Revenues:	Expenses:
✓ Specific requirements on the minimum content for documenting sales (invoices) ✓ Minimum content for cash register documents – revenues in petty cash ✓ Limitations for payments in cash	✓ Specific requirements on the minimum content for documenting purchases (invoices) ✓ Specific templates for business trip orders ✓ Minimum content for cash register documents – expenses in petty cash ✓ Specific requirements on the thresholds for daily allowances in terms of recognizing expenses for tax purposes ✓ Documenting costs related to automobiles, fuel consumption and reporting

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Unit 4: Monitor the Performance

Part 4.2 Paperwork and data of the performance: (2)

✓ Reporting to authorities - **Links to country specific requirements**:

Country	National Tax Authority/-ies:	National Authorities responsible for legal registers
Bulgaria	https://nra.bg/	https://www.registryagency.bg/bg/registri/targovski-registar/obyavyavane-na-godishni-finansovi-otcheti/
Greece	Ministry of Economics https://www.minfin.gr/ Independent public revenue authority (AADE) https://www.aade.gr/ TAXISNET https://www1.gsis.gr/gsisapps/soasgsisws/login.jsp	General Secretariat of Information Systems of Public Administration https://www.gsis.gr/ General Commercial Register http://www.businessportal.gr/

Unit 4: Monitor the Performance

Part 4.2 Paperwork and data of the performance: (3)

✓ Reporting to authorities - **Links to country specific requirements**:

Country	National Tax Authority/-ies:	National Authorities responsible for legal registers
Poland	Polish Ministry of Finance	Polish Central Register of Business Identification (CEIDG) Polish National Economy Register number (REGON) Polish National Court Register
Spain	https://www.agenciatributaria.es/AEAT.internet/Inicio.shtml https://www.hacienda.gob.es/es-ES/Paginas/Home.aspx	https://www.registradores.org/el-colegio/registro-mercantil

Country specific information and useful links:

BULGARIA:
National Revenue Agency - https://nra.bg/wps/portal/nra/nachalo
Registry Agency - https://login.registryagency.bg
Calculator for the social securities due by the employer and the employee under labour contract https://www.calculator.bg/1/zaplata_bruto_neto.html
Calculator for the social securities due by the employer and the employee under civil contract https://balans.bg/kalkulatori/grajdanski-dogovor
Useful information related to legal and financial obligations of SMEs
https://www.advokatami.bg/

GREECE:
Guidelines from the Independent public revenue authority on how to calculate taxes
https://www.aade.gr/menoy/hristikoi-odigoi/enarxi-epiheirimatikis-drastiriotitas/ypologismos-kai-kataboli-toy-foroy
Other websites
https://www.taxheaven.gr/klimakes
https://gr.talent.com/tax-calculator
https://www.forin.gr/tools/foros-eisodhmatos

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Country specific information and useful links:

POLAND:
Polish social security calculator
Polish tax calculator

SPAIN:
https://www.agenciatributaria.es/AEAT.internet/Inicio/_componentes_/_Le_interesa_conocer/_Relacionados_/Calculadora_de_plazos_de_pago__y__Calculadora_de_intereses_y_aplazamientos___dos_nuevos_servicios_de_ayuda_sobre_deudas.shtml

https://www.billin.net/calculadora-contratar-trabajador/

https://cincodias.elpais.com/herramientas/calculadora-irpf/

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What is next?

- ✓ 3 Case studies
- ✓ Evaluation in the B-LAND Multilingual APP

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THANK YOU FOR YOUR ATTENTION!

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