

Financial Management Module



PRIFYSGOL CYMRU

Y Drindod Dewi Sant

UNIVERSITY OF WALES

Trinity Saint David

Sole Trader v Limited Company

https://youtu.be/_g1xDdgb3d0

SOLE TRADERS



Advantages:

- You are your own boss, 100% control;
- Few legal regulations;
- Close contact with clients;
- Sole owner of the whole profit

Disadvantages:

- Unlimited liability;
- Restricted with expansion;
- No partner who can help during absence;
- Business stop its existence after the founder dies

EXAMPLES OF SOLE PROPRIETORS

- Housekeeping service
- Landscape service
- Plumber
- Electrician
- Web site designer/manager
- CPA/ Accounting service
- Shop/boutique owner
- Restaurant owner



Business where ONE person owns and operates the business

WHAT IS A PRIVATE LIMITED COMPANY (LTD)?

- Most common incorporated business structure.
- Owned by shareholders and managed by directors.
- Private Limited Companies provide limited liability to its members because the company has a separate legal identity to its shareholders and directors.
- Shareholders have no personal liability beyond the amount they originally paid for their shares.
- Shares cannot be offered to the public.
- Recognised by having “Limited” or “Ltd” at the end of their company name.



TYPES OF BUSINESS

Sole Trader vs Limited Company



PROS

SOLE TRADER



- Relatively easy to set up.
- Less regulated than the other business types.
- You don't have to file anything publicly (companies have to file their accounts and information about their shareholders with Companies House)



CONS

LIMITED COMPANY



- Limited personal liability
- More options to raise money
- Potential for tax planning and reducing tax bill
- You are an employee of the company
- More credibility

- You are personally liable for all business debts.
- There is less opportunity to tax plan and reduce your tax bill. You pay normal income tax on all profits.
- Raising money is trickier than the other business types.

- Complex to set up which means more cost!
- Companies are subject to more regulation than the other business types.
- Accounts have to be filed annually
- Lenders may ask for personal guarantees
- Dilution of powers – risk of disagreement between Directors can cause problems
- Written agreements should be in place

12 Largest Private Companies in UK

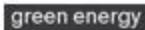
1. INEOS

Revenue: £17,981m
Number of workers: 14,319
HQ: UK/Switzerland
Industry: Chemicals manufacturer



2. Greenenergy

Revenue: £14,109m
Number of workers: 604
HQ: Central London
Industry: Fuel supplier



3. John Lewis Partnership

Revenue: £9,536m
Number of workers: 92,100
HQ: Central London
Industry: Food & general retailer



4. Swire

Revenue: £6,927m
Number of workers: 88,179
HQ: Central London
Industry: Conglomerate



5. Palmer and Harvey

Revenue: £4,197m
Number of workers: 3,706
HQ: East Sussex
Industry: Wholesaler



6. Stemcor

Revenue: £3,807m
Number of workers: 1,733
HQ: Central London
Industry: Steel Trader



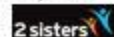
7. Worldpay



Revenue: £3,394m
Number of workers:
HQ: Central London
Industry: Payment processor

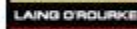
8. 2 Sisters Food Group

Revenue: £3,355m
Number of workers: 23,767
HQ: Birmingham
Industry: Food producer



9. Laing O'Rourke

Revenue: £3,327m
Number of workers: 15,312
HQ: Dartford
Industry: Engineering & construction



10. Arnold Clark Automobiles

Revenue: £3,265m
Number of workers: 9,184
HQ: Glasgow
Industry: Car dealer



11. Brakes Group

Revenue: £3,094m
Number of workers: 10,359
HQ: Kent
Industry: Food distributor



12. Virgin Atlantic

Revenue: £2,928m
Number of workers: 9,231
HQ: Crawley
Industry: Airline & tour operator



Difference between a Public & Private Company

AFLEO.COM

AFFORDABLE SERVICES FOR STARTUPS

FEATURES	PRIVATE	PUBLIC
Members	Min - 2/Max - 200	Min - 2/Max - No Limit
Directors	Minimum - 2	Minimum - 3
Nature	Closely Held Co.	Widely Held Co.
Public Subscription	Prohibited	Allowed
Compliances	Fewer as compared to Public Co.	More as compared to Private Co.
Right to transfer Shares	✗	✓

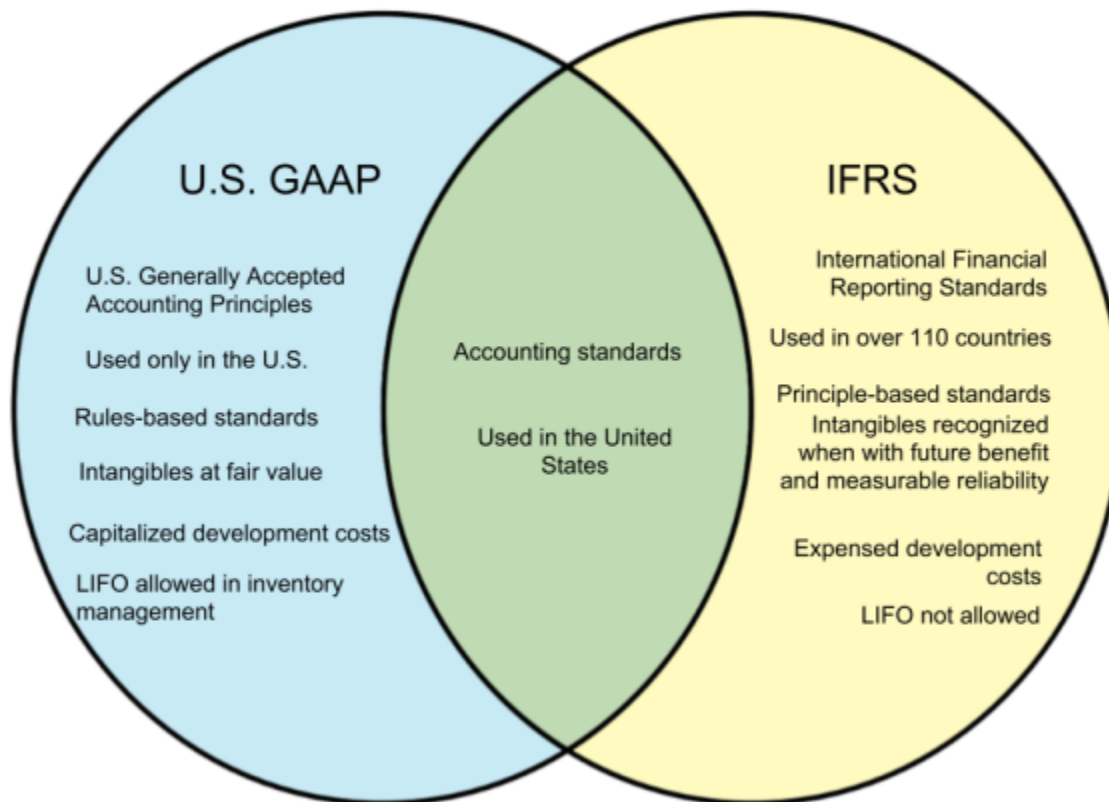
Note – Slide shows a minimum of 2 directors for a Private Ltd company , UK Gov now shows 1 director is required.

Financial Standards and Ethics

Financial Standards

Financial Standards

- GAAP - General Accepted Accounting Principles (founded 1985)
- IFRS - International Financial Reporting Standards (started Feb 2001) replacing IAS
- Agreement in 2002 that they would work towards compatibility between both systems.



Financial Standards

- Why have standards and what do they mean ?
 - Common Rules so that financial statements can be consistent , transparent and comparable around the world.
 - Standardisation of reporting requirements
 - Highlights any events that have financial impact
 - Objectivity
 - Common accounting language
 - Clarity on Audit requirements.
 - Year on year methodology changes to be declared
 - Material changes to be disclosed.

Financial Standards

- Code of Conduct

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behavior

- Threats to this code

- Self-interest threat: Commonly called a “conflict of interest” which may inappropriately influence judgment or behavior.
- Self-review threat: When you are required to evaluate the results of a previous judgment or service.
- Advocacy threat: Arising if promoting a position or opinion to the point that your subsequent objectivity is compromised.
- Familiarity threat: When you become so sympathetic to the interests of others as a result of a close relationship that your professional judgment becomes compromised.
- Intimidation threat: When you are deterred from acting objectively by actual or perceived pressure or influence.

Financial Standards

Sarbanne's Oxley Compliance

- Us Federal law requirement signed in July 2002 due to the Enron and Worldcom accounting scandals
- Aims of Sox
- Renewed Focus on corporate governance and reporting integrity
- CEO's and CFO's must personally certify and be accountable for their businesses financial statements
- Real time reports of any events that will directly affect their stock price or financial performance
- Introduced a new ethical code to protect whistleblowers
- Broaden sanctions / penalties including criminal penalties
- Heighten Auditor independence
- Widen understanding on how IT can ensure accuracy

Financial Standards

Sarbanes-Oxley Act 2002

- Purpose
 - Protect investors by improving accuracy and reliability of corporate disclosures
- Eleven sections, each title has several sections
- Created as a result of major corporate and accounting scandals including Enron, Tyco International, WorldCom, and Peregrine Systems
- Title III – Corporate Responsibility – places responsibility for accuracy and validity of reports

Tesco Annual Report

Financial Statements

Working Capital recap

<https://youtu.be/XvHALui-Bno>

Which option did you pick ?

Working Capital

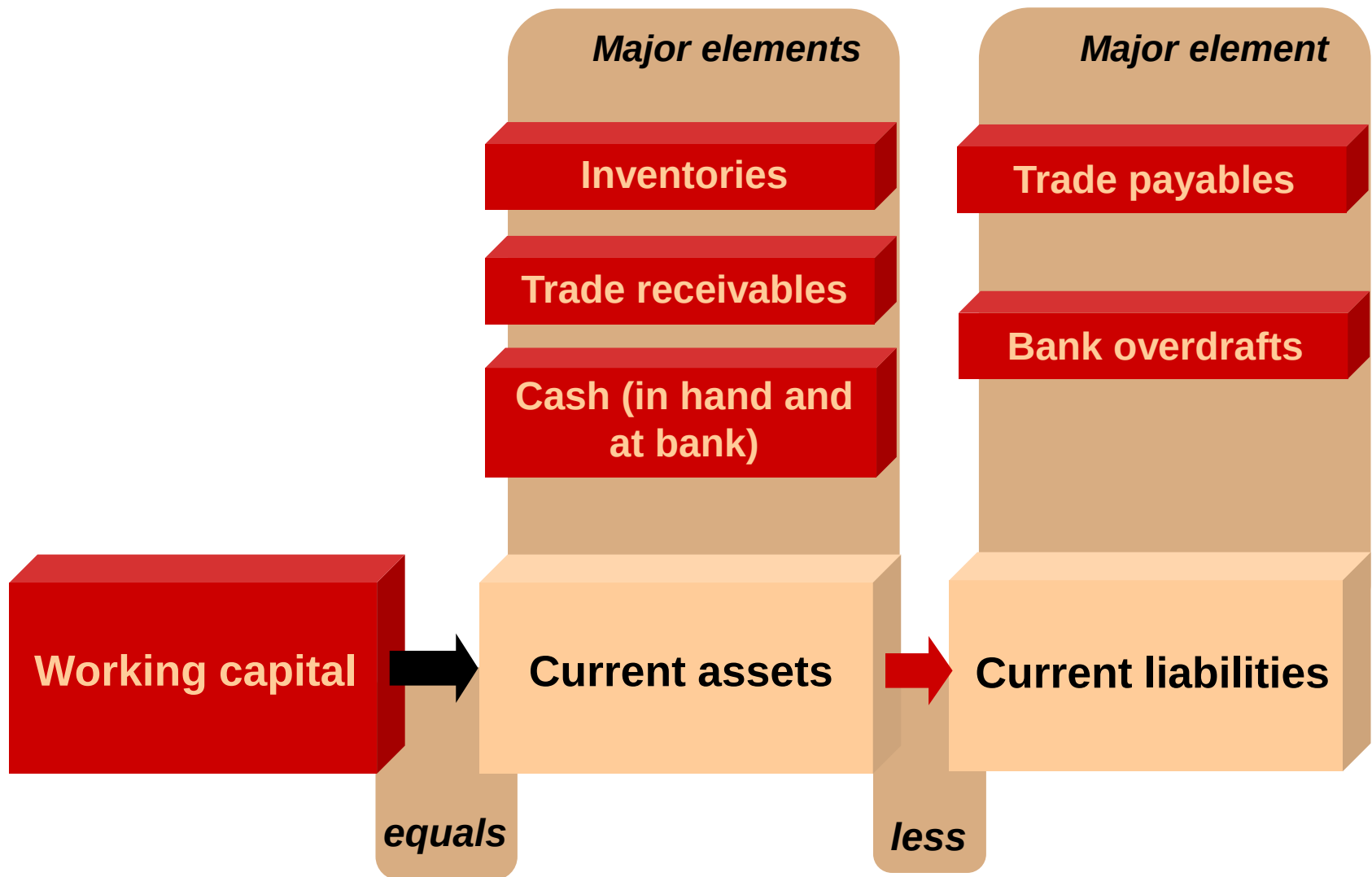
- **Working capital is comprised of current assets and current liabilities:**

Current assets are: stock, debtors (those owing us money) and cash

Current liabilities are creditors (those we owe money to) and short term loans (e.g. overdrafts)

- **It is the control of liquidity (ability for a business to meet its short term debt obligations in the following areas:**
 - Debtor Control
 - Creditor Control
 - Stock Control

The nature of working capital



Financial Statements

XYZ COMPANY Balance Sheet

12/31/2011

ASSETS

Current Assets:

Cash	\$12,000
Accounts Receivable	35,000
Inventory	120,000
Prepaid Rent	8,000
Total Current Assets	\$175,000

Long Term Assets

Land	\$126,000
Buildings & Improvements	300,000
Furniture & Fixtures	50,000
General Equipment	125,000
Total Fixed Assets	\$601,000

TOTAL ASSETS **\$776,000**

LIABILITIES

Current Liabilities:

Accounts Payable	\$60,000
Taxes Payable	25,000
Salaries/Wages Payable	30,000
Interest Payable	25,000
Total Current Liabilities	\$140,000

Long Term Liabilities:

Loan 1	\$322,000
Total Long Term Liabilities	\$322,000

TOTAL LIABILITIES **\$462,000**

OWNER'S EQUITY

Paid in Capital	\$64,000
Retained Earnings	250,000

TOTAL OWNER'S EQUITY **\$314,000**

TOTAL LIABILITIES & OWNER'S EQUITY **\$776,000**

Working Capital

Working Capital Lifecycle



How do we influence this ?

Working Capital

How can we reduce the Working Capital Lifecycle

- Reduce the need for stock or stockholding time – Just in Time Methodology ?
- Negotiate quicker payments from our customers – Incentives ?
- Negotiate longer payment times to suppliers – Reputation risk if seen as a slow payer.

Working Capital

Why is it important?

- Business requires sufficient working capital to meet its day to day running costs
- Working capital is 'dead' money because :
 - it earns no interest
 - it is high risk (e.g. debtors not paying, stock becoming obsolete)
- The objective is for the business to operate with as little working capital as possible, and to therefore make what they have work as hard as possible.
- Working Capital Cycle should be as short as possible.....

Video to watch in resources

Ethics and Governance

<https://youtu.be/cgoMJbUTVUU>