M.I.C.R.O.
MIGRANTS IDEAS CONVERTED
INTO REAL OPPORTUNITIES

Chapter 2 - HOW TO MANAGE YOUR BUSINESS

2.6 INVESTMENT AND FINANCING PLAN

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What are the investment plan and the financing plan?

The first data you need to analyse when considering starting a business are:

INVESTMENT

The investment is everything required in order to open the doors of the business.

FINANCING

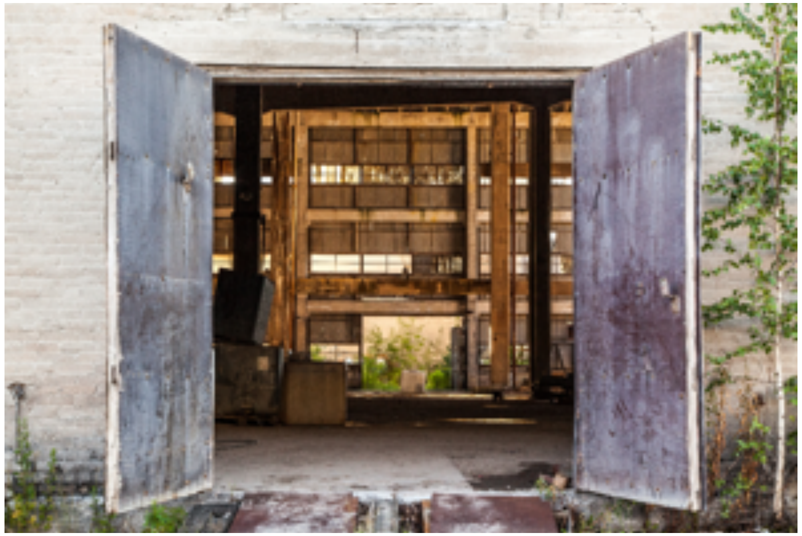
All the possibilities for financing the venture.

When drawing up an **investment plan**, you need to make a list of the investments required. To do this, you need to be very clear on the difference between what constitutes part of the investment and the expenses that will incur through running the business.

To describe this very graphically, the investment is everything required in order to open the doors of the business:

- formation expenses
- licences
- tangible assets
- software applications
- other intangible assets and rights

- a certain quantity of raw materials or stock of goods
- an initial cash flow, which will be the money required to cover the costs of the first few months of the venture



It is advisable to calculate the initial cash flow based on the fixed costs that will incur during the venture. It will be sufficient to hold an initial cash flow that covers the fixed costs for the first three months.

It is also advisable to make a list of the necessary investments at the same time as drawing up a list of fixed costs, since knowing these costs enables you to calculate the initial cash flow.

What are the investment plan and the financing plan?

With regard to the **financing plan**, it is important to take into account all possibilities for financing the venture.

Own funds include both, the contribution in cash and the contribution in kind that you can make, in other words, the assets and equipment contributed to the business. For example, a contribution in kind may be a computer, a car or even some of the tools needed to conduct the business.

With regard to grants or subsidies for starting up the venture, we will only be able to count on those we will have received before starting the business, such as, for example, capitalisation of unemployment benefit.

If our own funding is less than the total investments required, we will need to resort to external financing, by applying for a loan, for example.

You can find more about financing possibilities in chapter 4!

It is important to remember that the total investments must be equal to the total financing.

Cash Flow Forecast

The Cash Account reflects the collections and payments made by the business during its first operating year. The objective is to analyse whether we have enough money in the safe to cover the established payments

The Cash Account shows you your financial viability and enables you to make forecasts, anticipating any liquidity shortages. Since the Cash Account reflects the monthly cash flow, collections and payments, the sums included are net of VAT.

Following you can find explanations for the most important terms regarding the cash account:

- The **opening balance** you will begin with is the opening cash account balance, in other words, the money we referred to in the previous section, which is required in order to start up a business.

- **Collections** include sales, subsidies and grants and any other revenue received as income from the business, included in the month in which it was actually collected.

- Next, you include all **payments** that you have to make on a monthly basis: fixed costs, variable costs such as the purchase of products, loan repayments and payment of VAT.

In the Cash and Banks table, the difference between the collections and the payments shows you the monthly balance. It is fairly common for the first month's balance to be negative. In some types of business, such as those, which are relatively seasonal, the balance may even be negative for several months. This means that, during that month, you have spent more than you have taken, which is not necessarily a problem if you have cash in the safe from the previous months.

- The **closing balance** is the sum of the monthly balance PLUS the opening balance. It is very important that this balance is always positive since, if it should happen that you have a negative month, it means that the business has not enough liquidity to pay its debts. The closing balance of month 1 becomes the opening balance of month 2 and so forth.

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Profit and Loss Account

The Profit and Loss Account represents the business's economic outcome (profit or loss), taking into account the revenues and expenses it has generated.

All the data included in this account is without VAT, since VAT is a tax on consumer spending and not on the profit of the venture.

The **revenues** section contains details of the annual amounts obtained, through sale of products, provision of services or, for example, subsidies granted to the business.

The **expenses** section contains details of:

- Cost of sales, such as the purchase of raw materials and products from suppliers.

- Personnel costs: including salaries and social security contributions.

Revenues - Costs = Profits

The difference between revenues and expenses gives us the income before tax, which tells us whether the business has made a profit or a loss.

Depending on the legal form of your business, you will have to pay a percentage of tax to the Ministry of Finance if the business has made a profit.

INCOMES	
Sales of products and services	0,00
Other incomes (subsidies, grants...) only one payment	0,00
TOTAL INCOME	**0,00**
EXPENDITURES	
Sales cost	*0,00*
Staff Expenditures	*0,00*
General expenses	*0,00*
Rent	0,00
Maintaining and repair	0,00
Professional services	0,00
Transport	0,00
Insurance	0,00
Bank expenses	0,00
Publicity and comunication	0,00
Supplies	0,00
Other expenses	0,00
Taxes	*0,00*
Amortizations	*0,00*
Finantial expenses	*0,00*
Loan interests	0,00
TOTAL EXPENDITURES	**0,00**
RESULT BEFORE TAXES	**0,00**
Taxes on benefits	0,00
RESULT AFTER TAXES	**0,00**

Other important terms:

Overheads: those resulting from the business, i.e. the monthly fixed costs we have previously calculated.

Taxation: taxes and rates, for planning permission, for example.

Depreciations: this accounts for the depreciation of the assets in which you have invested. It is created to compensate for the loss of value that some assets undergo with the passing of time. For example: if you buy a computer because it is necessary for the business, you may have to replace it within three years. For this reason, the Ministry of Finance permits you to account for the loss of value of that asset as an expense. In this example, if the computer costs 600€ and depreciates linearly over three years, this account will reflect an annual depreciation expense of 200 euros. It must be taken into account, however, that it is an accountable expense, which we do not have to pay to anyone.

Financial expenses: such as, for example, interest on a loan if you had to apply for one.

Economic and Financial Management of the Business

While a business is operating, it is very important to keep a record of its revenues, expenses and investments. Appropriate management of the invoices you receive and issue helps you to keep track of the business's economic and financial situation.

It depends on the type of business which management system to use. There are businesses that continually receive small amounts of money from their customers (such as, for example, a bakery) and others that issue few invoices per month (as in the case of someone who renovates houses). For this reason, it is advisable to analyse the needs of your business in advance to enable you to maintain simple, continual and effective control, and, based on these needs, choose the management system best suited to the daily running of the business.

An appropriate management system can serve to:

- Make the necessary calculations to comply with tax obligations, for those who have decided to perform these procedures for themselves.
- Facilitate decision-making, such as, for example, analysing your business expenses and, if possible, reducing some of them. Also to get information on the type of products or services that are selling most, among other things.
- Understand how the running of the business affects the amount of tax paid (for example, if deciding whether to contract an external professional to deal with payment of taxes).
- Know the dates when certain amounts of money have to be paid out, such as VAT, for example, and the amount that has to be paid. This information is important in order to keep track of liquidity, in other words, the business's available cash.