# Financial Management

## An Introduction for Community Shops
## Training Manual

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Plunkett Foundation

Improving rural lives together

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This content in this document is for guidance only. Whilst every care has been taken to ensure that the facts contained in this manual are correct at the time of writing, they should not be relied upon in the event of a technical or legal dispute. They are not a full statement of the financial and legal obligations under legislation. If in doubt, seek professional advice.

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# 1. Introduction

Good financial management is necessary in any business and this applies equally to community co-operatives as much as to commercial ones. Even if the objectives of the business are not primarily financial, producing a surplus to re-invest in the shop or another community project is important.

**Financial management is not rocket science! Do it well and the shop management will have the time to focus on developing and growing the business further. Do it badly and it can derail the business, create unnecessary tension between people and damage the enthusiasm and commitment of customers, stakeholders, suppliers, employees, voluntary workers and the wider community that are essential to future success.**

The objective of this financial management manual is twofold. Firstly, to demystify the principles and jargon used in finance and secondly, to provide practical advice and tips to help with the day-to-day reporting and other business needs of the shop. It is an introduction to the topic and further information is available from the organisations listed in Section 6 or from your accountant. There are example accounts in Section 7 to demonstrate some of the points covered in the manual.

By the end of the manual, the reader should be familiar with:

- Procedures for the smooth and controlled flow of cash in and out of the business.
- The purpose and nature of the key financial statements and management accounts.
- Preparation of a budget.
- Measurement of financial performance and the use of key performance indicators to monitor the retail operation.

The content is structured to reflect the key needs of the business and there is a glossary of finance terms in Section 8.

# 2. Why good financial management is necessary

Businesses that are profitable can fail because there is insufficient cash available to pay bills. Businesses that are cash-rich can fail because the underlying activity is not profitable and they soon run out of money. Having spare cash in the business is not the same as profit. Profit is less visible and of course, may or may not exist.

Nothing in business is risk-free but an understanding of the financial circumstances is essential if a business is to be managed effectively and successfully.

Financial transactions are fundamental to any business and a community shop is no exception. In a retail context the challenges are particularly great: for example, a shop with a turnover of £150,000 is likely to process over 40,000 transactions using a range of payment methods including cash, cheque, credit card and coupons. Addressing this and other sources of complexity requires financial processes, systems and reporting structures that are effective and efficient for the management and governance needs of the business.

Proven techniques and tools that are used widely elsewhere in the business world are available to help with financial management in community shops. We will now explore these in Section 3.

**The five main business needs relating to financial management are as follows:**

1. To manage the flow of money in and out of the business effectively and efficiently.
2. To manage the business and monitor performance.
3. To provide information for the control and governance of the organisation.
4. To meet the obligations as an employer.
5. To meet the other legal, tax and reporting obligations.

# 3. Meeting the business needs

The five business needs listed above are interdependent and in this section we look at how a shop may address each of the needs in detail.

Financial managers use a series of standard financial statements and tools which may be familiar to members of the community group to a greater or lesser degree. Examples are the budget, balance sheet, profit & loss account and cash flow forecast. In this manual we will outline the purpose of each and highlight ways of preparing and using them in a community shop context. But first, we will consider the management of money flowing in and out of the business.

## 3.1 To manage the flow of money in and out of the business effectively and efficiently

In this section we will cover two activities that are important in the running of a shop: book-keeping and banking. One point to highlight at this stage is that in business terminology the term ‘cash’ is used to include cheques and card payments as well as currency.

In a community shop money flows in two directions:

- *Money in:* from customer sales, grants, loans and capital from stakeholders in the business. The objective is to get the money into the bank account in a timely manner without losing any of it on the way.
- *Money out:* as the business pays bills for supplies, utilities, rent, rates and other overheads, as well as to meet commitments such as loan repayments and tax payments to Government for National Insurance, VAT and Corporation Tax.

Here the objective is to ensure that the right amount is paid at the right time to the right people.

### Book-keeping

Book-keeping is the administrative function of recording financial transactions. It is the foundation on which all financial reporting and management activity is based.

At a basic level there are four sets of records that help with the running of a business: cash flows in and out of the business, sales, purchases and wages. The four tools used to manage these are the cash book, sales ledger, purchase ledger and wages book.

**Anyone with suitable experience can act as a book-keeper for a community shop though it is best practice that it is someone other than the shop manager.**

In the past, financial accounts were kept on paper and in some smaller businesses this practice continues. Simple spreadsheets may be developed for the purpose or a package, such as Sage Instant Accounts or Quickbooks, could be used.

**Using a package helps reduce the risk of information loss: a spreadsheet could be wiped in error! Whichever system is used, there should be a regular back-up of the information in case of a problem.**

Typically, the book-keeping duties at a community shop will take 5-8 hours per month. Good organisation of the paperwork and timely action is key to making the process efficient (and hopefully as painless as possible!). Whenever a financial transaction takes place, two things happen: something is gained and something is lost and the value is equal and opposite. This important principle underpins book-keeping and accounting practice. In accounting terminology, for every debit (money coming in), there is a credit (money going out). For example, when a shop buys products from a supplier it gains an asset as stock increases but loses another asset as cash decreases.

## End of day reconciliation

Every effort should be made to manage the flow of money in and out in a smooth and controlled manner. The amount of cash, cheques and credit card receipts should be collated at the end of every day and the total cross-checked with the sales recorded for the day. This simple process is called reconciliation but sometimes ceases to be simple when discrepancies occur. Remember that discrepancies may occur for a number of reasons, for example a keying error in a till entry or a mistake with customer change. It is best practice to have a policy on the level of over-counting and under-counting that is acceptable. Monitor the occurrence of discrepancies and investigate any patterns that become evident.

This is a good way of identifying problems with volunteers who are not following procedures or theft.

**Some tips on book-keeping:**

- Use simple systems, ideally in electronic format, which can be easily picked up by others covering the job.
- Update the books regularly, ideally on a weekly basis. Monthly may be more practical but remember that problem solving is easier if things are recent and fresh in the mind. This will also reduce the need for a large time requirement at a later date.
- Record every transaction, even small expenses, especially when the cash is taken from the till. This will make it easier to reconcile any discrepancies and in the case of expenses, reduce the liability to tax at the end of the year.
- Where possible, make payments to suppliers by direct debit, cheque or BACS rather than with cash payments from the till. This will ensure that there is an audit trail. Whatever system you use, it is vital that all volunteers understand and adhere to it.
- Check the business bank account on a regular basis. This task is made easier with an internet banking service: don't wait for the statement at the end of the month when you can reconcile transactions on a weekly basis using an internet access facility.

## Banking

The high street banks offer business banking services but unlike personal bank accounts, most banks make a charge for transfers in and out of a business account. It may be possible to get a free banking service and it is worth shopping around. When choosing a bank, consider the ease of travelling to deposit cash, often out of normal bank opening hours. A lot of community shops use the Co-operative Bank, which is often able to provide them with cheaper banking than its competitors.

Internet banking has greatly improved the information available to businesses both on balances and the status of receipts and payments.

**Where a shop has a Post Office and your bank permits the use of it for deposits, it usually makes sense to do so. Check with your bank to find out if they offer this service.**

The number of cheques and cash to be deposited may be reduced if a shop accepts payment cards and offers cash back. There is more information on these topics later in the manual.

### Making deposits

There should be a clear procedure on bank deposits that includes who does it, when, where and how. Best practice is that deposits are made by the shop manager or when they are unavailable, by another nominated employee or management committee member.

Typically, in a busy shop, there is a daily deposit of cash and cheques. Alternatively, if the shop has a secure safe, deposits could be made every few days. Shops holding a significant amount of cash overnight should have a safe that is securely fixed to a solid part of the building.

**Where a safe is used, it is good practice to establish a threshold level above which a deposit is made. A record should be made of all amounts placed in and removed from the shop safe and premises. Make sure that the shop's insurance policy includes insurance cover for cash in transit.**

## 3.2 To manage the business and monitor performance

In this section we will cover budgeting, cash flow forecasting, management accounts and how to monitor performance.

## Budgeting

Setting a budget is one of the most important activities in any business. It is a step in the planning process and as such should reflect the objectives of the business.

A budget will help you to control and manage finances. You can check that the money needed to fund the business will be available and make informed decisions based on the information it provides. In addition, a regular review of performance against the budget will help the shop management focus on progress against the business plan.

**A budget is different to a forecast. It is a planned outcome that the management committee wishes to achieve. Unlike a forecast, it is not a prediction.**

Usually a budget will be for a trading year with a breakdown by month. It is recommended that the budget preparation process is completed in advance, ideally 3 months, before the trading year begins. However, in practice most businesses complete the budget closer to the start of the year.

When starting up, a business can chose the end date for its financial year. This does not have to follow the April to March tax year and some businesses schedule the year end outside the main holiday periods and when business is quieter, for example in January.

**Think about who is involved in preparation of the budget. The engagement of people with practical experience of the shop will keep it real and help with getting their buy-in later on.**

A budget should fit with and reflect the vision and business plan that the management committee has for the community shop. If this is unclear or absent, then consider if the time is right to revisit or prepare a business plan. Usually, the budget preparation process will start with sales revenue and consider the cost of purchasing stock, staff costs and other overheads. Historic and current knowledge is a good starting point for the calculations, however, due consideration should be given to potential changes in the future, with inflation and local competition of particular significance. Consideration should also be given to any investment required and sources of funding to pay for it.

**Whilst community shops have a social purpose and a strong desire to support the local community it is recommended that the shop is run on a business basis with a transparent surplus or profit target in the budget.**

A target will give everyone the focus necessary for success and when achieved, the surplus funds may be distributed in line with the wishes of the management committee provided this is compliant with the regulations that apply to the shop. For example, the management committee may decide to use part or the entire surplus to invest in new equipment, add to the shop's financial reserves or donate to a worthy cause locally.

## Reserves

The management committee should have a policy on financial reserves held by the business.

**Reserves are useful: they may be essential for a rainy day, perhaps to cover overheads during a poor trading period, or to build a fund for future investment or expansion of the shop.**

There is no magic formula for the right level of reserves. The management committee could decide to use a percentage of turnover or a fixed amount as a target level. The important thing it that there is a policy agreed by all on the committee. This will make decisions on how to use surplus funds more straightforward.

It is worth highlighting two related areas that a community shop should consider carefully. Firstly, as there is an understandable desire to repay loans quickly, for example from the local community, the committee may not leave the shop with sufficient reserves to cope with unexpected expenditure.

Secondly, the committee may assume that any grant funding that helped to establish the business will be there for subsequent developments. This may not be the case and the management committee may not give enough focus to the accumulation of a capital fund to improve the shop or sustain it in the long term.

## Cash flow management

Generally in the retail trade, there is a regular source of money from sales to customers and this is usually a strength of the business. There are two reports commonly used in business relating to cash flow: a forecast and a statement. A cash flow statement is a historical summary of the movement of money in and out of the business over a trading period (more on this later).

**A cash flow forecast is a different tool. This is an analysis of the money that will flow in and out, where it will come from and go to and when it will happen.**

The business should prepare a cash flow forecast as part of the budget preparation process for each month in the trading period. As the year progresses, a rolling monthly forecast is a useful tool to help monitoring of the business. Some retail businesses produce a daily forecast for a two week period as a routine.

From a cash flow forecast, we want to know the amount of money that is available over the period to check, for example, that there will be sufficient money to pay a large bill due on a specific date in the future.

If the forecast identifies a shortfall, then the advance warning gives the business an opportunity to find a solution, for example, by rescheduling payments, bringing in capital or approaching the bank for an overdraft facility.

Forewarned is forearmed and a potential lender is likely to view the advance planning favourably. In a happier situation, a business may find that it has cash that could be deposited in an interest-bearing deposit account. Where a business is planning investment, for example in new equipment, the forecast may be helpful in planning when the item is purchased.

The calculations must include all income into the business, including any planned loans, grants and capital invested by stakeholders. Equally, it should include all payments including to suppliers, for overheads and Government commitments such as NI, PAYE tax, VAT and Corporation Tax. Critically, the amounts should be placed in the period that the flow will actually occur and not when the invoice is received, in the case of a supplier.

In the next section we will consider the Profit & loss account. This report serves a different functions to the cash flow forecast: the figures in a cash flow forecast and Profit & loss account differ in a number of key respects:

- *Scheduling of costs.* In a cash flow forecast utility and other bills are scheduled for the time when they are paid, for example, quarterly. In the profit & loss account, it is accounting practice to allocate costs across the periods for which the cost applies.
- *Treatment of capital income and expenditure.* The cash flow forecast includes any capital expenditure and capital or loan repayments. However, these flows of money do not relate directly to the trading activity of the business and therefore do not appear in the profit & loss account. In accounting practice the reduction in the value of an asset used in the business over time is spread over its working life. This is called depreciation. In effect the reduction in value is allocated as a cost of trading and therefore features in the profit & loss account but not in the cash flow forecast.

- *Accounting for VAT.* VAT is not your money and therefore does not feature in the profit & loss account. However, it is included in the cash flow forecast to reflect the actual inflow and outflow of money for sales receipts and overheads and other payments.

There is more information on these points in Section 7.

**Remember that whilst the shop is collecting VAT every day, payments are made on a quarterly basis. This is not your money! You are collecting it on behalf of HMRC and there are penalties for late payment of it.**

The shop should also consider the set aside of funds to pay any Corporation Tax liability that is expected. The shop's accountant can help with this.

## Management accounts

Management accounts are a set of financial statements that are considered sufficiently accurate to help the shop manager and managing committee to understand the trading position of the business. There are no rules on what format is used. The important thing is that they provide sufficient insight for business decision making. A cash flow forecast and Profit & loss account and are a good basis for management accounts. There is more information on this topic in Section 7.

## Profit & loss account

The profit & loss account, sometimes known as the income statement, shows the total revenue generated less the total expenses incurred in generating that revenue. It must always reflect the actual circumstances within the business for the trading period.

## There are two distinct calculations of profit:

- *Gross profit:* the total amount of profit on all sales (and other) income after deduction of the direct costs of buying or making the stock that was sold.
- *Net profit:* the net figure after the other costs (the overheads) have been deducted from the gross profit. This figure is before the deduction of any Corporation Tax and is commonly known as the 'Bottom line'.

Typically, management accounts are prepared periodically, for example monthly or quarterly, and include a comparison of performance against the original budget.

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Spreadsheets are ideal for the presentation of this information: use a structure that highlights the differences between actual and planned performance both in terms of value and as a percentage of the expected figure. For a retail business, the following areas are of interest on a monthly basis: sales turnover, gross profit, wages, cash flow and the bank balance.

A book-keeper should be able to provide management accounts information to the specification required and this is relatively easy if an electronic accounting package is used.

## Monitoring performance

The cash flow forecast and management accounts will provide good information about the financial position of the business and its viability. However, it is good practice to monitor key numbers more frequently, often on a weekly basis, to see how the business is developing. Simple easy-to-calculate performance measures can show how the business is changing over time.

In addition, we like to know how well we are doing in relation to other people and this is where it can get more complicated. Community shops come in all shapes and sizes, making it difficult to make direct comparisons. A bright modern shop in a large village is likely to perform better financially than an old portacabin in a tiny hamlet – although they can be equally important to the communities they serve.

You can monitor the financial, trading and market performance of your community shop using straightforward measures widely used in the retail industry. In the next section we will consider three areas for comparison that the shop management may find useful to monitor trading and financial performance:

*Comparing actual sales figures against budget.* Actual sales achieved should be checked against the budget – the difference between the two is known as the variance. Sales will inevitably fluctuate week-by-week, as influences such as the weather hold sway. However, if a clear pattern emerges over time, particularly if you get a number of weeks below budget, then you should investigate the reasons for it.

*Comparing actual sales figures against last year.* This comparison is useful and can be quite motivational for staff. The display of weekly sales figures for this year and last year as two separate lines on a graph is a powerful tool to let staff know how well they are doing. Do be aware that movement of events such as Easter and bank holidays can mean peaks and troughs do not always coincide exactly, and that price inflation will usually mean that this year's figures look better than last year, even if you are actually selling the same amount of goods. Many community shops have this graph on their staff notice board for all to see.

*Comparing one shop with another.* The retail industry (and remember that even if your objectives are not commercial you are still part of the industry) uses a number of measures of how well a shop is doing.

- *Sales per square foot per week*. This is the total sales turnover divided by the available sales space. This measure can be helpful when sales space has been changed, for example after an extension, or when changes are being considered. It can also be used to compare the relative success of different community shops, although of course the figures can vary widely depending on local circumstances. As a benchmark, at the time of writing few commercial village shops are viable with a sales figure of less than about £8 per square foot per week.
- *Sales per hour.* This is the total sales turnover achieved per hour. This is helpful when reviewing the shop's opening hours or when scheduling volunteers. For example, you may want more staff or more experienced people at times when sales are at their highest. You should try to schedule activities such as stock counting or replenishing shelves when sales are at their lowest and this measure is helpful for this purpose. As another example, if you find that you achieve very few sales between 5pm and 6pm, then it is worthwhile considering whether to close the shop an hour earlier. Conversely, if sales during the period are high, then it may suggest that extending opening hours to 7pm would meet a community need and increase sales.

- *Sales per staff hour.* This is the total sales turnover divided by the sum of the staff hours for the same period. Again, this may be useful when planning staff cover generally or on certain days of the week. If you have an EPoS system and can easily monitor sales for each hour of the day, then it can be quite motivational for volunteers to know how much they have sold during their stint – provided it does not get too competitive!
- *Number of weeks' stock.* This is the value of stock held at a point in time divided by the average weekly sales. This will vary depending on the nature of the shop and the product ranges sold, for example, selling newspapers will reduce this figure markedly as they are sold on the same day as they arrive.

  This is a very important figure to monitor. A typical figure would be about three weeks' stock. A significantly higher value could suggest over-stocking, tying up of unnecessary capital and risking stock remaining unsold before its sell-by date. A significantly lower value could suggest under-stocking leading to out-of-stocks, lost sales and disgruntled customers.

In addition to internal trading and financial measures it is helpful to look externally as well: how is the shop performing in its' market? Community shops have objectives other than financial and there are three indicators that may help you decide whether you are meeting your social objectives.

- *Market share.* Every year a government agency, the Office for National Statistics (ONS), publishes the results of a large survey of how households spend their money. You can look up how much the average household is spending on the specific ranges you stock and then multiply by the total number of households in your community. This will give you an approximate guide on how much potential customers are spending on the ranges you stock. Divide the shop takings by this figure to give you an estimate of your market share. A typical figure would be about 20% but figures can vary considerably between shops. A low figure would suggest that the shop is not meeting the needs of most residents and could prompt questions on how to improve the business. The spending information and details of the population of your parish at the time of the last census are available from ONS at www.statistics.gov.uk
- *Proportion of the community using the shop.* This is perhaps the most important figure of the lot but the hardest to actually calculate.

Typically, in the case of rural shops, about a third of the community population are loyal customers, a third are occasional customers whilst the remaining third do not use the shop. If you think your shop is not reaching this level of customers, then you should try to find out what you need to do to appeal to the community you serve.

- *Proportion of total sales made to volunteers.* Many community shops find that a significant proportion of their total sales are made to people who are volunteers. There is nothing wrong with this but the shop is likely to need a wider customer base if it is to be sustainable. It is worth investigating the reliance of the shop on the custom of the volunteer community and possible opportunities to extend business to others in the community.

Taken together, these measures should help you monitor how well you are doing and alert you to any developing problems. Don't be afraid to explore other measures that may be relevant to your particular circumstances. Providing that the information makes sense, there are no rules on what management information is used for internal purposes.

The monitoring of performance can contribute to the marketing of the shop to the local community, volunteer and staff management, as well as for governance purposes in the management committee.

A key task for all community shop managers is to motivate and retain volunteers. People like feedback on their performance and to feel that they are part of a successful team. Letting them have simple feedback is likely to help achieve this. As already suggested, a simple graph pinned to the backshop notice board showing the weekly sales last year and this year can be a real motivator.

## 3.3 To provide information for the control and governance of the organisation

In this section we move on to the other key documents used by a business to report on the performance during the trading period that has ended: the balance sheet and cash flow statement. We have covered the profit & loss account earlier.

## Balance sheet

The purpose of the balance sheet is to set out the financial position of the business at a particular point in time.

### Note that it:

- **Is a snapshot of the business' overall worth.**
- **Shows how the business is funded and how the funds are being used.**
- **Shows the assets and the claims against the business.**

The balance sheet must always reflect the actual circumstances on a specific date, normally the last day of the trading year. In accounting practice the claims on the business, the liabilities, are deducted from the total assets to give “net assets”. This is balanced (hence the name) with the Capital invested in the business, for example from profits generated in the trading year.

The balance sheet can provide useful insights into the financial position of a business, for example its liquidity. This is the ability of the business to meet its short-term obligations from its liquid (cash or near cash) assets. Low liquidity may present a problem and should be reviewed by the management committee.

## Cash flow statement

The cash flow statement is a summary of the cash receipts and payments over the trading period. As such it is an historic analysis of cash movements in the business. Your accountant will prepare this cash flow statement as part of the annual accounts where required by the Financial Reporting Standards.

The balance sheet, cash flow statement and profit & loss account at year end are not a substitute for each other: they perform different functions. However they are closely linked through, for example debtors, creditors and stocks.

## 3.4 To meet the obligations as an employer

As an employer the business has a commitment to pay staff in a timely and accurate manner. Someone, for example the book-keeper, will need to calculate wages each week (or month) and provide payment and a payslip to the individual members of staff.

**Under the PAYE system, the business acts like an agent of HMRC, calculating and collecting National Insurance (NI) and Income Tax for each employee.**

Therefore, the wages calculations will need to take account of employee National Insurance contribution and Income Tax requirements. The business is required to pass the NI and tax retained to HMRC on a regular basis, usually quarterly.

**Remember that there may be an employer's NI contribution in addition to that retained from the employee. Don't forget to budget for any training required, for example for a food safety certificate for shop workers.**

## 3.5 To meet the other legal, tax and reporting obligations

Typically, a community shop is incorporated as an Industrial and Provident Society (IPS). Every IPS has to submit a Mutual Societies Annual Return (AR30) to provide financial data and other information such as details of the members of the management committee. This submission is a responsibility of the society's secretary and it is generally not an onerous requirement (though it may be a little scary!).

**There is usually no requirement for submission of audited accounts. However, it is good practice to have them audited on a voluntary basis as part of the governance measures put in place by the Management committee.**

Reporting requirements are different for shops with other legal forms: Community Interest Companies, Partnerships, Limited Companies and Unincorporated Associations all have rules and they differ.

## Corporation Tax

All community shops are liable to pay Corporation Tax on their profits. There is a requirement to register with HMRC and complete an annual tax return each year. The forms are usually completed by your accountant (paid or volunteer). The tax liability stems from the figures in the annual accounts, whether they are audited or not.

The basic legal requirements for financial management of a business are to:

- Provide timely and accurate annual accounts
- Pay VAT and Corporation Tax as required
- Keep PAYE records and make payments for all paid employees
- Retain financial records (for six years)

You will need to know the precise shop turnover. For instance, if the turnover is more than a certain amount (currently £70,000) in any twelve-month period, you are obliged by law to register for VAT purposes within 30 days of crossing this threshold.

Failure to comply can result in heavy penalties. There is more information on VAT registration later in the manual.

## Record-keeping

You are required by law to keep all the documents which form the basis of information on the tax return for six years. This includes bank counterfoils, goods in and out records, bank statements, sales invoices, purchase orders, cash books, PAYE calculations and VAT.

**Think about how and where documents are stored and how to make them easy to find if required in later years. It is best practice to label documents clearly and store them away from the shop in a safe place.**

Also consider the format in which records are stored. If important information is stored in an electronic format only, think about whether you will be able to access it if it is required in a few years' time. The technology used may become obsolete or unusable when new IT is introduced. If this is a risk, keep a paper copy.

# 4. How to organise

Experience has shown that community shops operate most successfully when there are clearly defined responsibilities and reporting lines on financial matters.

**In general, the following organisational approach to financial management works well:**

- **The shop manager is responsible for the financial performance of the store. The shop manager reports to a finance sub-committee or nominated individual, for example a Treasurer, on financial matters.**

- **The work of the finance sub-committee or nominated individual is regularly reviewed by the full Management Committee.**
- **There are established and clear written policies and procedures that are understood by anyone involved in shop finance.**

## Policies and procedures

Policies and procedures should be thoroughly understood by and easily transferable between people involved in the business. This is particularly important where volunteers may work irregular hours or on a parttime basis. They need to know how to undertake routine tasks, for example, end of day reconciliation.

Shops may find the following two practical tips helpful:

- *Embed activities into a regular routine for the shop.* Activities such as a till reconciliation at the end of day and banking become easier when built into the routine.
- *Give individuals 'ownership' of specific activities.* This can apply to a range of jobs, for example the entry of new deliveries onto the financial system, payment of bills and bookkeeping, irrespective of whether this is undertaken by a volunteer or professional.

There are a raft of policies and legal procedures that shops need to be aware of, have in place and follow. They should be explained to new volunteers and it is recommended that they sign a document to confirm that this has happened. Two areas relating to finance are:

- *Employment.* Staff employed in the shop are covered by employment legislation and must have a contract of employment. They must be paid at least the national minimum wage and must get appropriate holiday entitlement.

**Volunteer staff will cease being classified as volunteers if the authorities consider that they are receiving a payment of any sort. Even a staff discount could be construed as a benefit and mean they have to be paid the National Minimum Wage and comply with PAYE and National Insurance legislation.**

- *Insurance.* Where necessary there should be procedures in place to ensure that staff and volunteers comply with insurance requirements. Community shops are generally familiar with the different types of insurance that are necessary for the business.

**One exception is car insurance: shops should consider the insurance requirements where volunteers are using private vehicles. Usually, the carrying of goods is explicitly excluded from standard policies.**

# 5. Specific topics for community shops

There are a number of financial management topics relating to profitability, cost control and smooth operation that present specific challenges for community shops, namely:

- Value Added Tax (VAT)
- Staff scheduling and opening hours
- Managing volunteer workers
- Use of EPoS
- Stock control
- Card payment and cashback
- Managing the risk of theft
- Pricing
- Cost control

We will consider each in turn in this Section of the manual.

## Value Added Tax

There are currently three rates of VAT on goods normally sold in retail shops:

- Standard rate (Currently 17.5%, due to rise to 20% on January 4th 2011)
- Reduced rate (Currently 5%)
- Zero rate

Food and drink for human consumption is, in general, zero-rated as are newspapers and magazines. However, many stock items are standard-rated, including alcoholic drinks, tobacco, confectionery, crisps and savoury snacks, hot takeaway food, ice cream, soft drinks and mineral water. Hence, for example, biscuits are zero rated whilst cakes attract VAT – you may remember a legal case some years ago to determine whether a Jaffa Cake is a cake or a biscuit, with many million pounds of tax revenue riding on the outcome. Most shops sell a few lines that attract the reduced rate of 5%, such as, for example, sanitary protection products or bottled gas. Shops often sell items that are exempt from VAT, for example postage stamps. If you are in doubt about which category a line falls into, look at the invoice which accompanied the product when it was bought to see what rate applied.

VAT is a complex topic and we will consider three areas in more detail:

## VAT registration

All businesses with a turnover above £70,000 per year (at time of writing) have to register for VAT and this applies to the majority of community shops. Shops below the turnover threshold can register voluntarily. To register for VAT you will need to fill in one or more forms and submit them to HM Revenue & Customs (HMRC) for approval. You will then receive a VAT registration number and certificate.

## Calculating the amount due

Under normal VAT schemes, a business calculates how much VAT it has charged its customers, deducts the amount of VAT it has been invoiced by its suppliers, and pays HMRC the difference. This is relatively straightforward if you have Electronic Point of Sale (EPoS) equipment but can be difficult to calculate in the case of retailers, who may well have thousands of small value transactions, each generating a VAT liability.

However, to help clarify or overcome this problem HMRC runs four schemes specifically designed to make the calculations simpler. One, the flat rate scheme, applies to a large number of different business sectors, whilst three are designed specifically for retailers. These can be used for retail sales only, though an occasional cash trade sale (to another business) is often permissible. The three retail schemes are the point of sale scheme, apportionment scheme and the direct calculation scheme.

A community shop must agree with HMRC which scheme it uses and there are specific rules that apply to each.

- *Point of sale scheme.* Under this scheme the shop calculates the tax due on sales by identifying the correct VAT proportion when a sale is made. This is relatively easy to do and administer with an EPoS system or if there are different departmental buttons on a till, so that each item sold is recorded as VAT or non-VAT liable. The use of different coloured price tickets would enable volunteer staff to distinguish goods at different VAT rates. Once your system has produced the total value of sales of goods at each VAT rate for the period, then you can easily calculate the VAT you owe. If you do have EPoS or are geared up to calculate your actual VAT liability in other simple ways, then this is usually the best option.
- *Apportionment scheme.* The shop uses the invoices from suppliers to calculate the overall proportion of the goods bought in that attracts the different VAT rates. This proportion is then applied to sales: for example, if 25% of stock bought has 17.5% VAT, then you assume that 25% of sales are made at 17.5% VAT. Whilst this has the advantage of being simple to operate, if there is a higher profit margin on zero-VAT products than on standard rate, then the shop will end up paying more VAT than is necessary.
- *Direct calculation scheme.* Under this scheme, the shop calculates the expected selling prices of goods at one or more VAT rates and this is then used to calculate an overall “average” percentage of VAT to apply to the total turnover. For example, if 75% of the goods sold are zero rated and 25% attract 17.5%, then the overall percentage is 4.38%. This can be applied to the total sales figures to obtain an estimated liability.
- *Flat rate scheme.* If your VAT taxable turnover is less than £150,000, you are normally eligible for this scheme.

This is designed to help small businesses reduce the amount of time they spend accounting for VAT. Using the FRS flat rate scheme you do not have to calculate the VAT on each and every transaction. Instead, you simply pay a flat rate percentage of your turnover as VAT. This makes for easier record keeping and gives a clear idea how much VAT is owed.

HMRC has standard percentages it applies to different industry sectors. This percentage is less than the standard VAT rate because it takes into account the fact that you are not reclaiming VAT on your purchases. At the time of writing, the flat rate for businesses categorised as “retail food, confectionery, tobacco and newspapers” is currently 3.5% of your VAT-inclusive turnover.

For the vast majority of community shops, using the flat rate scheme whilst the rate is 3.5% will lead to a relatively large VAT bill. We would not usually recommend this scheme unless reducing book-keeping is an absolute priority and you are prepared to pay for the benefit.

## Paying VAT

Normally, VAT is payable from the date an invoice is issued, not when your customers actually pay. Businesses pay their VAT bills to HMRC at the end of each quarter. There are two specific payment schemes that you can apply to use: the annual accounting scheme and the cash accounting scheme.

- *Annual accounting scheme.* You pay VAT on account throughout the year in nine monthly or three quarterly instalments, which are based on the amount of VAT you paid last year or, if you have been trading for less than a year, an estimate of your VAT liability. You complete one VAT return at the end of the year and either make a final balancing payment or, if you have overpaid, receive a refund.

  This system can reduce administration and make it easier to manage your cashflow. However, you still have to keep all required VAT records and accounts. Annual accounting is not suitable for businesses that regularly reclaim VAT as you would only get one repayment at the end of the year.

Another disadvantage of annual accounting is that if your turnover decreases, then you will overpay through the year before you get your refund at the end of it.

- *Cash accounting scheme.* Usually VAT is payable when an invoice is issued. However, under this scheme, you do not pay the VAT until your customer has paid you and you reclaim VAT on your purchases when you have paid for them.

  Cash accounting can help your cashflow if your customers are slow to pay and is good for businesses with bad debts. Under this scheme, you do not pay the VAT if your customer does not pays you. The cash accounting scheme may not be for you if you regularly reclaim more VAT than you pay, or if you buy a lot of goods and services on credit. Unless you have a large number of slow paying account customers, then there are few advantages for retailers to go onto this scheme.

**Every shop is different and it is best to get advice from an accountant on the most convenient and appropriate VAT scheme to use when you are setting up. You can change systems later on if necessary.**

## Staff scheduling and opening hours

One advantage of using EPoS is that the system can provide information on sales registered in the till over the day. There may be a local, community or other reason why it is necessary for the shop to be open for business at times when trade is quiet. An analysis of the sales figures, either from an EPoS system or till receipts, will help the manager decide on the number of people required on duty.

## Managing volunteer workers

Volunteer workers play an important role in the running of community shops and a typical shop may have 50 or more people on a volunteer list. The nature of their availability, usually part time, and diverse retail experience makes it important that consideration is given to the ease by which procedures and policies are understood and transferred to volunteers.

New volunteers should receive a formal induction covering the basic finance and other procedures in the shop. Working alongside another volunteer may be the most effective way of achieving the awareness and understanding of the procedures that is necessary.

**Use documents such as laminated instruction sheets, policy books, daily checklists, daybooks and notes on the till to make sure volunteers are aware of and understand their responsibilities and the procedures. If necessary, remind them.**

Some shop managers choose to allocate specific routine jobs to volunteer workers, for example booking in deliveries or stock counting. This routine is likely to reduce the training required and may make it easier to get the best from the volunteers.

The business should have a policy on a minimum number of people on duty at any time. Some organisations require a minimum of two people on duty for health and safety and security reasons.

## Use of EPoS

The term EPoS (Electronic Point of Sale) is a generic term used to describe electronic systems used at a till in a shop or where a transaction occurs. There is a variety of system types and a number of suppliers selling products in the market. It is fair to say that opinions about the use of an EPoS system are mixed. There are some community shops that would advise that it is avoided completely whilst others that feel they could not run the business without it.

In practice there is a wide range of till and EPoS systems used in shops and these may be broadly classified, in order of increasing sophistication, as follows:

- Till: no breakdown of detail (dissections)
- Till: VAT and non-VAT dissections
- Till: VAT and departmental dissections
- Till: records sales by short item code
- EPoS: records line-by-line sales, sends data to separate spreadsheet for analysis
- EPoS: full sales analysis within the package
- EPoS: sales analysis and stock control
- EPoS: sales analysis, stock control and ordering stock electronically

It is possible to run an efficient operation at very different levels of technical sophistication. A key element is the relationship with the volunteers as operating the till can be a headache for some volunteer staff. There is a significant purchase cost for EPoS equipment, although systems have got cheaper over the years. In addition, staff time is required to keep the system updated. For these reasons, EPoS is usually only justified in a shop with turnover above, say £2,500 per week, although there are community shops operating at below this level successfully.

### The main benefits of using EPoS are:

- It will reduce the time required for book keeping and therefore the cost.
- VAT returns are easier to complete. You have accurate line-by-line sales data and this makes the production of a quarterly VAT statement straightforward and will help ensure that you pay only the VAT due.
- It eliminates the need for individual pricing of items, a potential saving of volunteer time.
- Price changes can be implemented quickly when a new cost price comes through to protect gross margin.
- There is less room for error in the price of products sold.
- You are able to have a read out of sales so you can monitor any stock losses more closely.
- It can provide information to inform management decisions, for example on the product ranges to expand or contract, the effects of promotions and changes in layout.
- You can accurately monitor sales by time of day and use the information to help plan staff rotas and even shop opening hours.
- It makes day-to-day re-ordering easier. You have clear information on what is selling and when it needs to be re-ordered.
- The process of scanning provides a more professional transaction at the till and will offer customers an itemised receipt.

The use of EPoS divides opinion – some shops see it as indispensable, others think that the setup costs are not worthwhile. Sometimes shops buying EPoS end up with a system that is too complicated for their needs – for example, using it for stock ordering involves a lot of work to ensure that stock numbers in the system are accurate and is probably not worthwhile doing for most community shops.

For shops with very low levels of turnover it is quite likely that the cost and effort is not worthwhile. It is also true that one of the key benefits for commercial shops – the time saved not having to price stock individually – is less of an issue for community shops, where this is an activity that volunteers are often happy carrying out.

Elderly volunteers are sometimes very wary of using an EPoS system, although this also applies to the use of ordinary cash registers as well. A lot depends on the quality of the training and support given to volunteers.

Experience leads us to recommend that community shops look at the options provided by EPoS and then decide whether it is right for them.

## Stock control

Stock control is key to running a successful shop. Efficient control will ensure that you have the right amount of stock in the right place at the right time. It will also help ensure that capital is not tied up unnecessarily.

Community shops are sometimes risk-adverse: they are too slow to discontinue old lines and introduce new ones. Successful range management involves taking risks and sometimes failure!

There is a balance between holding too much stock and the risk of selling out. The decision when, or even if, to re-order is a function of the case size where relevant, expected level of sales and the importance of the line. If you stock a good substitute line then selling out is less critical. The amount of stock held should also reflect the shelf life of the product and the response time from a supplier if an additional top-up delivery is required.

Counting stock can be combined as a job with checking sell-by dates. A full stock-take is a major operation and is usually undertaken infrequently, often at the end of the financial year. If a printout from an EPoS system is used, be aware that products may be sold between the report being printed and the count taking place. If the shop is open for business, ask the till person to record sales manually for the product category that is being counted.

Goods received from a wholesaler or supplier should be checked against the order and delivery note as a matter of course. Mistakes happen and an early alert to the supplier may help resolve a problem quickly.

Stock rotation is important to ensure that products are sold in the order of the date code. The simplest approach to stock management is known as FIFO (first in, first out). However this assumes that the supplier consistently provides newer stock on every delivery.

**Check date codes when loading shelves and make sure that staff always put new stock behind older products so that the earliest sell-by/use-by date is at the front in the display.**

Product dates need constant monitoring and a wastage book should be kept to record product thrown away or sold off at a discount.

## Card payment and cashback

Nowadays many customers expect to have the option to pay with a credit or debit card. The necessary card processing equipment is available on a range of contractual options with the cost to the shop normally based on some combination of a fixed fee per transaction, a percentage of the value of the transaction and a regular rental charge for the terminal.

Do not be afraid to negotiate the percentage fee. Sometimes the suppliers are willing to be flexible. Suppliers may offer members of a trade association, for example the National Federation of Retail Newsagents (NFRN), a discount on the contract price arrangements. The Federation of Small Businesses (FSB) offer a card payment service to their members and this may be of interest to community shops.

Often shops have a minimum customer transaction value of say £10 or £15 for transactions involving card payments because of the processing cost to the business. An alternative approach maybe to charge a separate fee, 50p or £1, on small transactions to cover the processing costs. These terms of business should be displayed clearly in the shop to ensure customers are aware of them.

A cashback facility is likely to add to the range of services offered to customers, particularly in a rural area where a bank branch is some distance away.

The service will require planning to ensure that there is sufficient cash available in the till. Regular deposits of notes will reduce the ability to provide cashback. Reducing the amount of cash paid into the bank may reduce bank charges. Due to the risk of fraud, many shops only provide this facility for known customers.

## Managing the risk of theft

Retail shops are vulnerable to theft of stock and cash from the till. Look for any patterns over time: this may flag up a concern that can be investigated further. The vigilance of the staff on duty plays an important role in reducing the risk of stock losses and it is best practice to have a minimum of two staff on duty at any time.

Theft of cash from the till is an extremely serious and inevitably, an emotionally charged matter. Even the suspicion of theft could place personal relationships with people involved in the shop at risk.

**For this reason it is highly recommended that there is video surveillance of the till at all times and that the recording is held for sufficient time until a till balance reconciliation is undertaken.**

This is helpful for staff and volunteer workers as it removes the question of doubt should a mistake or theft occur.

Do not have more money in the till at any one time than is necessary and transfer surplus money at regular intervals to the safe. Under no circumstances leave more than token amounts of money in the till overnight: leave it empty and, if it can be seen through windows, have the drawer open.

## Pricing

Pricing is arguably the single most important factor that influences the profitability of a business and sometimes it receives insufficient focus. Generally, retail shops determine product prices in a number of ways:

- Prices are predefined on price-marked product packs supplied by the wholesaler.
- The wholesaler or supplier recommends a selling price.
- The shop manager adds a standard mark-up percentage that reflects the profit targets of the business, for example 25%, to the cost price of products.

- The shop manager considers the competition and sensitivity of prices in the local market and sets the price accordingly. This could include the use of loss-leader approach on key lines to attract more customers.

All these approaches may be appropriate in particular circumstances and most retail shops use a combination. It is recommended that the Management committee establish a pricing strategy to guide the day-to-day pricing decisions in the store. This will ensure that pricing receives the focus it warrants and that decisions are transparent.

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**Margin terminology** can be confusing when considering product pricing, in particular, the terms gross margin and mark up:

*Gross margin* is the difference between your selling price and cost price as a percentage of the sales price. In simple terms, it is your share of the sales price.

*Mark-up* is the amount added to the cost price to work out a selling price, as a percentage of the cost price.

For example, if a product costing 80p is sold at £1.00, the gross margin is 20% (£1.00 - 80p as a percentage of £1.00) and the mark-up is 25% (£1.00 - 80p as a percentage of 80p).

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The use of a standard margin mark-up that is inflexible may mean that the shop is missing a profit opportunity that a flexible margin policy may provide, for example where a product would sell more at a lower price or just the same quantity at a higher price. It can also make a shop seem very uncompetitive; supermarkets typically take less margin on known value items (KVIs) than other lines. This is because shoppers are often very clued up about the going rate for some products, for example, milk or bread. However, on other products the difference between 47p and 49p may be immaterial to the customer but could make a big difference to profits over a year.

## Cost control

Controlling costs is in many ways as important as developing sales. Some costs can be reduced or eliminated for community shops, for example a friendly accountant may carry out the audit free of charge. However, some costs are unavoidable and it is important that management ensures that they are minimised.

- *Cost of goods.* Although you can save some money by shopping around and using different suppliers, often the savings are negated by the cost of doing so. Nevertheless, it is good practice to review supply arrangements from time to time.
- *Staff.* For many community shops, the largest overhead cost will be the paid manager and any other staff. Retail is traditionally a lowpaying industry but many management committees rightly recognise the importance of the manager to the success of the venture and wish to pay a good rate for the job. Remember that as an employer, you are liable for additional costs above the basic wage and items such as National Insurance, holiday pay and sickness pay can really add to basic costs.
- *Electricity.* Modern shops have a voracious appetite for power, with freezers, chillers and perhaps air conditioning all demanding electricity. Make sure that somebody is familiar with the tariff you are being charged and that any supply requirements when a contract comes to an end are met as failure to do so can be very costly.

  Review prices from different suppliers regularly and switch if necessary. Make sure that electrical items run as efficiently as possible for example, keep grills unblocked. Older refrigeration can use a lot more electricity than modern models and it may be worth scrapping rather than repairing old models for this reason.

  Price comparison for business electricity is a complex area. There are fewer price comparison services than there are for domestic consumers: one comparison service provider is USC, which can be accessed by email on rsa@usc.uk.com.
- *Insurance and banking.* As with electricity, keep arrangements under review and change provider if there are better deals available elsewhere.

# 6. Useful contacts and publications

There are a number of organisations that may be able to advise or help with more information or specific queries and some of these are listed below.

Plunkett Foundation: www.plunkett.co.uk

Store is the Core: www.storeisthecore.org.uk

Business Link: www.businesslink.gov.uk

HMRC VAT Helpline: 0845 010 9000

HMRC website www.hmrc.gov.uk

Food Standards Agency: www.food.gov.uk

Association of Convenience Stores: www.acs.org.uk

Rural Shops Alliance: www.rural-shops-alliance.co.uk

Federation of Small Businesses: www.fsb.org.uk

National Federation of Retail Newsagents (NFRN): www.nfrnonline.com

Office of National Statistics (ONS): www.statistics.gov.uk

# 7. Example accounts – the Vale Community Store

## Introduction

The example accounts that follow help demonstrate some of the points raised in the training manual. Please note that Vale Community Store is not real and the figures used are for illustrative purposes only.

These accounts have been prepared using an Excel spreadsheet. There is no requirement for complex formulae and with an understanding of basic accounting principles the spreadsheet is straightforward to build and run.

Spreadsheets are ideal for this purpose and could complement an existing accounting package such as Sage or with some further work, present an alternative. However, it is important to highlight the importance of a back-up in the event that a file is lost or cannot be accessed if a computer fails.

## Budget accounts

The financial year for the store ends on 31st October. Sheets 1 – 3 relate to the next full year and are typical of a budget planned in advance of the year starting. Banks and grant funding organisations typically require such projections for three full years to help them understand your business plan, its viability and in the case of a loan, the prospects of it being repaid!

Whilst the profit & loss account, cash flow forecast and balance sheet relate to each other they serve different functions. In our example, the £4,470 profit generated in the year will add to the wealth of the enterprise. The figure is carried directly into the capital section at the bottom of the balance sheet. In addition, the money generated has contributed to the cash at bank and in hand figure higher up. Together these entries balance the sheet, hence the name of the document!

The Balance sheet shows the cash available in the business at the point in time that it is calculated. In this example, the closing Cash flow balance at the end of the year on Sheet 2 is £14,190. This is carried directly into the current assets section of the balance sheet.

In section 3.2 of the training manual we outlined the key differences between the cash flow forecast and profit & loss account. Our example accounts demonstrate these:

**1. Scheduling of costs.** In a cash flow forecast utility and other bills are scheduled for the time when they are paid, for example, quarterly. In the profit & loss account, it is accounting practice to allocate costs across the year to which the cost applies.

In our example, the audit fee is £600 plus VAT, a total of £720. Although the accountant is normally paid in December each year, the cost, excluding VAT, is spread across the twelve months at the rate of £50.

**2. Treatment of capital income and expenditure.** The cash flow forecast includes any capital expenditure and capital or loan repayments. However, these flows of money do not relate directly to the trading activity of the business and therefore do not appear in the profit & loss account.

In our example there is capital expenditure outlay of £1,800 in February and this is in the cash flow forecast but does not feature in the profit & Loss account.

The cash flow forecast includes a monthly loan repayment of £225. In our example this is made up of a capital element of £200 and £25 interest each month. The capital element of £200 does not feature in the profit & loss account, however the interest cost does: this reflects the cost to the trading business of borrowing the funds.

Note that there are lines for grants, loans and donations in the Inflows section at the top of the cash flow forecast. In our example nothing is planned to come in over the year. Any such inflow would not feature in the profit & loss account if it does not directly relate to trading activity.

**3. Accounting for VAT.** Turnover and costs in the cash flow forecast includes the VAT charged in the selling prices or invoiced by suppliers. This reflects the money that flows into and out of the business. However, VAT income is excluded in the profit and loss account: VAT is not your money and not included in the trading figures.

In our example, VAT on sales makes up £3,000 of the £153,000 sales receipts over the year: therefore the sales figure in the profit & loss account is £150,000.

The amount of VAT paid to or recovered from HMRC is also shown in the cash flow forecast. In this example, there is £1,800 for capital expenditure planned in the cash flow forecast in February. This includes VAT of £300 and the store will be able to recover this amount in the next VAT return.

As a consequence, the May VAT return is lower than usual, in this case £200. This is a good demonstration of the importance of cash flow forecasting: even if the VAT on capital expenditure will be ultimately recovered from HMRC, an enterprise will require sufficient funds in place to cover the outlay over the period of the VAT return cycle. This could be significant for large items of capital expenditure.

## Management accounts

Once into the period of the budget, the Management Committee will require management accounts for an update on the trading performance and to inform decision making. There are no rules on the format used for management accounts: they should provide sufficient insight for financial control and decision making.

Sheets 4 and 5 are examples of the type of information that could make up management accounts. In this case, the documents have been prepared six months into the trading year. The profit & loss account includes actual data for the year to April. The cash flow forecast takes the actual cash balance at the end of April (for the purposes of this example, we've used £9,000) and this is used as the opening balance for the calculations on Sheet 5.

In addition, overheads have been updated with new information. In this case the insurance has increased from £600 to £1,200.

The spreadsheet has been expanded with extra columns to show the store's performance compared to the original budget. The difference is represented both in percentage and number terms for ease of analysis.

Improving rural lives together

## Vale Community Store
### Sheet 1 – Monthly profit and poss account

| | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Sales** | 10,000 | 11,000 | 11,000 | 11,500 | 12,000 | 12,000 | 12,500 | 13,000 | 13,500 | 14,000 | 14,500 | 15,000 | **150,000** |
| **Less Cost of sales** | 7,500 | 8,250 | 8,250 | 8,625 | 9,000 | 9,000 | 9,375 | 9,750 | 10,125 | 10,500 | 10,875 | 11,250 | **112,500** |
| **Gross Profit** | **2,500** | **2,750** | **2,750** | **2,875** | **3,000** | **3,000** | **3,125** | **3,250** | **3,375** | **3,500** | **3,625** | **3,750** | **37,500** |
| **Overheads** | | | | | | | | | | | | | |
| Wages and salaries | 1,583 | 1,583 | 1,583 | 1,583 | 1,583 | 1,583 | 1,662 | 1,662 | 1,662 | 1,662 | 1,662 | 1,662 | **19,470** |
| Stationery | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | **240** |
| Telephone | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | **360** |
| Advertising/PR | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | **900** |
| Maintenance | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | **960** |
| Staff travel | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | **180** |
| Rent & rates | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | **3,600** |
| Insurance | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | **600** |
| Water, heat & light | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | **600** |
| Loan Interest | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | **300** |
| Credit card charges | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | **480** |
| Bank charges | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | **240** |
| Bookkeeping | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | **900** |
| Audit fee | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | **600** |
| **Total Overheads** | **2,413** | **2,413** | **2,413** | **2,413** | **2,413** | **2,413** | **2,492** | **2,492** | **2,492** | **2,492** | **2,492** | **2,492** | **29,430** |
| **Profit Before Depreciation** | **87** | **337** | **337** | **462** | **587** | **587** | **633** | **758** | **883** | **1,008** | **1,133** | **1,258** | **8,070** |
| Depreciation | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 3,600 |
| **Net Profit** | **-213** | **37** | **37** | **162** | **287** | **287** | **333** | **458** | **583** | **708** | **833** | **958** | **4,470** |

## Vale Community Store
### Sheet 2 – Cash flow forecast

| | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Inflows** | | | | | | | | | | | | | |
| Sales receipts | 10,200 | 11,220 | 11,220 | 11,730 | 12,240 | 12,240 | 12,750 | 13,260 | 13,770 | 14,280 | 14,790 | 15,300 | **153,000** |
| Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Grant funding | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Total Income** | **10,200** | **11,220** | **11,220** | **11,730** | **12,240** | **12,240** | **12,750** | **13,260** | **13,770** | **14,280** | **14,790** | **15,300** | **153,000** |
| **Outflows** | | | | | | | | | | | | | |
| Trade creditors | 7,500 | 8,250 | 8,250 | 8,625 | 9,000 | 9,000 | 9,375 | 9,750 | 10,125 | 10,500 | 10,875 | 11,250 | **112,500** |
| Wages, salaries & PAYE | 1,300 | 1,300 | 2,150 | 1,300 | 1,300 | 2,150 | 1,380 | 1,380 | 2,225 | 1,380 | 1,380 | 2,225 | **19,470** |
| Stationery | 144 | 0 | 0 | 0 | 0 | 0 | 144 | 0 | 0 | 0 | 0 | 0 | **288** |
| Telephone | 0 | 108 | 0 | 0 | 108 | 0 | 0 | 108 | 0 | 0 | 108 | 0 | **432** |
| Advertising/PR | 0 | 0 | 0 | 0 | 0 | 0 | 1,080 | 0 | 0 | 0 | 0 | 0 | **1,080** |
| Maintenance | 0 | 0 | 0 | 0 | 576 | 0 | 0 | 0 | 0 | 576 | 0 | 0 | **1,152** |
| Staff travel | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | **180** |
| Rent & rates | 0 | 0 | 1,000 | 0 | 0 | 1,000 | 0 | 0 | 1,000 | 0 | 0 | 1,000 | **4,000** |
| Insurance | 600 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **600** |
| Water, heat & light | 150 | 0 | 0 | 150 | 0 | 0 | 150 | 0 | 0 | 150 | 0 | 0 | **600** |
| Credit card charges | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | **480** |
| Bank charges | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | **240** |
| Book keeping | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | **900** |
| Audit fee | 0 | 720 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **720** |
| Capital expenditure | 0 | 0 | 0 | 1,800 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **1,800** |
| Loan repayments | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | 225 | **2,700** |
| VAT | 490 | 0 | 0 | 370 | 0 | 0 | 200 | 0 | 0 | 608 | 0 | 0 | **1,668** |
| **Total payments** | **10,559** | **10,753** | **11,775** | **12,620** | **11,359** | **12,525** | **12,704** | **11,613** | **13,725** | **13,589** | **12,738** | **14,850** | **148,810** |
| **NET MOVEMENT** | **-359** | **467** | **-555** | **-890** | **881** | **-285** | **46** | **1,647** | **45** | **691** | **2,052** | **450** | **4,190** |
| Opening bank/(overdraft) | 10,000 | 9,641 | 10,108 | 9,553 | 8,663 | 9,544 | 9,259 | 9,305 | 10,952 | 10,997 | 11,688 | 13,740 | |
| **Closing bank/(overdraft)** | **9,641** | **10,108** | **9,553** | **8,663** | **9,544** | **9,259** | **9,305** | **10,952** | **10,997** | **11,688** | **13,740** | **14,190** | |

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# Vale Community Store
## Sheet 3 – Balance sheet

| | 31-Oct |
|---|---|
| **Fixed assets** | |
| Tangible assets (Net book value) | 12,500 |
| **Current assets** | |
| Stock | 11,250 |
| Debtors | 500 |
| Cash at bank and in hand | 14,190 |
| | 25,940 |
| **Current liabilities** | |
| Trade creditors | 11,500 |
| Other creditors | 3,000 |
| | 14,500 |
| **Net current assets** | 11,440 |
| **Total assets less current liabilities** | 23,940 |
| **Long-term liabilities** | |
| Loan | 10,000 |
| Lease | 5,000 |
| | 15,000 |
| **Net assets** | 8,940 |
| **Capital** | |
| Issued share capital | 1,000 |
| Reserves | 3,470 |
| Profit & loss account | 4,470 |
| | 8,940 |

# Vale Community Store

## Sheet 4 – Management accounts – Profit & loss

| | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Forecast Total | Budget Total | Difference | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Actual | Actual | Actual | Actual | Actual | | | | | | | | | | |
| **Total sales** | 10,000 | 10,500 | 11,000 | 11,500 | 11,750 | 11,750 | 12,500 | 13,000 | 13,500 | 14,000 | 14,500 | 15,000 | 149,000 | 150,000 | -1,000 | -0.7% |
| **Less cost of sales** | 7,500 | 7,875 | 8,250 | 8,625 | 8,813 | 8,813 | 9,375 | 9,750 | 10,125 | 10,500 | 10,875 | 11,250 | 111,750 | 112,500 | -750 | -0.7% |
| **Gross profit** | 2,500 | 2,625 | 2,750 | 2,875 | 2,938 | 2,938 | 3,125 | 3,250 | 3,375 | 3,500 | 3,625 | 3,750 | 37,250 | 37,500 | -250 | -0.7% |
| **Overheads** | | | | | | | | | | | | | | | | |
| Wages and salaries | 1,583 | 1,583 | 1,583 | 1,583 | 1,583 | 1,583 | 1,662 | 1,662 | 1,662 | 1,662 | 1,662 | 1,662 | 19,470 | 19,470 | 0 | 0.0% |
| Stationery | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 240 | 240 | 0 | 0.0% |
| Telephone | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 360 | 360 | 0 | 0.0% |
| Advertising/PR | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 900 | 900 | 0 | 0.0% |
| Maintenance | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 960 | 960 | 0 | 0.0% |
| Staff travel | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 180 | 180 | 0 | 0.0% |
| Rent & rates | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 3,600 | 3,600 | 0 | 0.0% |
| Insurance | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 1,200 | 600 | 600 | 50.0% |
| Water, heat & light | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 600 | 600 | 0 | 0.0% |
| Loan interest | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 25 | 300 | 300 | 0 | 0.0% |
| Credit card charges | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 480 | 480 | 0 | 0.0% |
| Bank charges | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 240 | 240 | 0 | 0.0% |
| Bookkeeping | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 900 | 900 | 0 | 0.0% |
| Audit fees | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 600 | 600 | 0 | 0.0% |
| **Total overheads** | 2,463 | 2,463 | 2,463 | 2,463 | 2,463 | 2,463 | 2,542 | 2,542 | 2,542 | 2,542 | 2,542 | 2,542 | 30,030 | 29,430 | 600 | 2.0% |
| **Profit before depreciation** | 37 | 162 | 287 | 412 | 475 | 475 | 583 | 708 | 833 | 958 | 1,083 | 1,208 | 7,220 | 8,070 | -850 | -11.8% |
| Depreciation | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | 3,600 | 3,600 | 0 | 0.0% |
| **Net profit** | -263 | -138 | -13 | 112 | 175 | 175 | 283 | 408 | 533 | 658 | 783 | 908 | 3,620 | 4,470 | -850 | -23.5% |

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# Vale Community Store

## Sheet 5 – Management accounts – Cash flow forecast

| | May | Jun | Jul | Aug | Sep | Oct | Total |
|---|---|---|---|---|---|---|---|
| **Inflows** | | | | | | | |
| Sales receipts | 12,750 | 13,260 | 13,770 | 14,280 | 14,790 | 15,300 | **84,150** |
| Loan | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Grant Funding | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Total Income** | **12,750** | **13,260** | **13,770** | **14,280** | **14,790** | **15,300** | **84,150** |
| **Outflows** | | | | | | | |
| Trade creditors | 9,375 | 9,750 | 10,125 | 10,500 | 10,875 | 11,250 | **61,875** |
| Wages, salaries & PAYE | 1,380 | 1,380 | 2,225 | 1,380 | 1,380 | 2,225 | **9,970** |
| Stationery | 144 | 0 | 0 | 0 | 0 | 0 | **144** |
| Telephone | 0 | 108 | 0 | 0 | 108 | 0 | **216** |
| Advertising/PR | 1,080 | 0 | 0 | 0 | 0 | 0 | **1,080** |
| Maintenance | 0 | 0 | 0 | 576 | 0 | 0 | **576** |
| Staff travel | 15 | 15 | 15 | 15 | 15 | 15 | **90** |
| Rent & rates | 0 | 0 | 1,000 | 0 | 0 | 1,000 | **2,000** |
| Insurance | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Water, heat & light | 150 | 0 | 0 | 150 | 0 | 0 | **300** |
| Credit card charges | 40 | 40 | 40 | 40 | 40 | 40 | **240** |
| Bank charges | 20 | 20 | 20 | 20 | 20 | 20 | **120** |
| Book keeping | 75 | 75 | 75 | 75 | 75 | 75 | **450** |
| Audit fee | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Capital expenditure | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Loan repayments | 225 | 225 | 225 | 225 | 225 | 225 | **1,350** |
| VAT | 200 | 0 | 0 | 608 | 0 | 0 | **808** |
| **Total payments** | **12,704** | **11,613** | **13,725** | **13,589** | **12,738** | **14,850** | **79,219** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **NET MOVEMENT** | **46** | **1,647** | **45** | **691** | **2,052** | **450** | **4,931** |
| Opening bank/(overdraft) | 9,000 | 9,046 | 10,693 | 10,738 | 11,429 | 13,481 | |
| **Closing bank/(overdraft)** | **9,046** | **10,693** | **10,738** | **11,429** | **13,481** | **13,931** | |

# 8. Glossary of finance terms

**Accounts payable**

Money owed by a company or individual for the goods or services they have received.

**Accounts receivable**

Money owed to a company or individual for the goods or services they have provided.

**Amortisation**

The writing off of the cost of goodwill or other intangible assets over a period of time.

**Annual percentage rate (APR)**

The APR gives an accurate idea of how much you are being charged when you borrow money. It allows you to compare the total cost of borrowing money for different types of loan, and lengths of time.

**Assets**

The things that you own, such as buildings and money in the bank. The opposite of your assets are your liabilities.

**Balance**

The amount available in your account after payment of service charges not including withdrawals or debits, or deposits not credited.

**Balance sheet**

A financial statement at a given point in time. It provides a snapshot summary of what a business owns or is owed (assets) and what it owes (liabilities).

**Bank giro credit**

This is a common form of paying money into a bank account or making a transfer from one account to another.

**Bankers automated clearing system (BACS)**

This is the system for sending money electronically between banks. BACS payments happen when money is sent from one bank account to another electronically.

**Base rate**

The interest rate set by the Bank of England which is used as the basis for the rates banks offer and charge customers.

## Budget

The planned financial outcome that the Management committee wishes to achieve over a period, usually a year.

## Capital

The funds in a business contributed by its owners or stakeholders or from retained profit.

## Cashflow

The money coming into your business and the money going out.

## Creditor

An individual or company who is owed money.

## Debtor

An individual or company that owes money.

## Depreciation

A cost calculation that allows fixed assets and capital equipment such as computer equipment, to be written off over several years. A piece of equipment bought for £3,000 in 2004 and depreciated, or written off, over three years has no value in the accounts after 2007, but has appeared as a £1,000 cost in each of the years in between. This does not reflect the actual value of the assets.

## Electronic Point of Sale (EPoS)

Electronic Point of Sale equipment such as electronic tills and terminals.

## Financial Services Authority (FSA)

Independent body that regulates the financial services sector in the UK.

## Gearing

The gearing of a business refers to the percentage of money borrowed from the bank compared to money provided by the owners, stakeholders and other investors.

Gross profit

The value of invoiced sales - whether or not the money has been received - minus the direct costs of production. The costs are what you have used, not what you have bought. Gross profit is sometimes expressed as per cent on sales.

## Insolvency

When a business cannot pay its outstanding debts, or when the value of its assets is less than the value of its debts. Insolvency can lead to the bankruptcy of individuals such as sole traders, or the winding up of a business if it is not addressed.

## Joint and several liability

Where parties act together in a contract as partners they have joint liability, which means they are each responsible for their share of any debt or loss. A creditor must sue all of the parties together to get the full amount owed back. If they have joint and several liability they are each liable for the entire contract and the creditor can recover the whole debt from any one of them and leave that person to recover the shares of the rest from the other partners.

## Liquid assets

These are assets such as shares in a company or unit trust, which can be sold quickly to give a cash amount.

## Net profit

The gross profit figure minus overheads including depreciation. This may be expressed as a percentage of sales.

## Overheads

The costs of running a business (e.g. staff costs, rent, rates, lighting and heating) as distinct from the cost of purchasing or making your own goods.

## Profit and loss account

A statement of income received during a given period and the costs incurred to generate that income. It includes sales, costs and overheads.

## Rateable value

Annual theoretical rental value assessed on commercial properties for the purposes of calculating business rates.

## Return on investment (ROI)

Simple accountancy valuation method that uses the division of the gain of an investment by its cost to provide a percentage figure indicating how well it might perform. The higher the percentage figure, the greater the perceived return.

**Secured loan**

A loan in which a borrower pledges an asset such as a home or car that may be sold if they are unable to repay the loan. Secured lending is viewed as less risky than unsecured lending and interest rates are generally lower to reflect this.

**Working capital**

The amount of capital or current assets available for use in operating the business. Commonly calculated as the amount by which current assets exceed current liabilities.

# About Plunkett Foundation

Plunkett Foundation helps communities to take control of their challenges and overcome them together. We support people, predominantly in rural areas, to set up and run life-changing community co-operatives; enterprises that are owned and run democratically by large numbers of people in their community. They help people to tackle a range of issues, from isolation and loneliness to poverty, and come in many forms including shops, cafes, pubs and land-based initiatives, and everything in between.

Our core values are the values of the great Irish co-operative pioneer, Sir Horace Plunkett, who founded the Plunkett Foundation in 1919. He believed that rural communities didn't have to wait for someone else to make life better for them; they had the potential to do it themselves – with a little help. His values are embedded in the heart of what we do:

- We seek economic solutions to create social change
- We seek solutions that enrich rural community life
- We see self-help as the most effective way to tackle rural needs

We use a unique combination of approaches to help communities. We call it 'The Plunkett Way', and it is made up of four stages that we term Inspire, Explore, Create and Thrive:

•	We Inspire communities to realise the potential they have within themselves of tackling the issues they face. We do this in a number of different ways, for example by proactively promoting the co-operative approach through national and local media work or hosting and attending community events.

•	We then help communities Explore different ways of addressing their specific needs, which could be by visiting existing examples.

•	Our expert team then works with the community to help them Create their co-operative, drawing on our wealth of knowledge and experience, as well as our specially-developed tools and resources.

•	Once up and running we help the community to make sure their co-operative Thrives by continuing to support them through our membership scheme, by representing their views to governments, funders and other support organisations, or helping them to address another issue by setting up another co-operative.

We work largely in the UK, but also increasingly in Ireland. We also, at times, help to support the development of community-owned co-operatives outside of the UK and Ireland. We're an active member of the international co-operative movement and proud members of the International Co-operative Alliance, the International Agricultural Organisation Society, Co-operatives Europe and Co-operatives UK.

# Contact Us

## We're always happy to hear from you!

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