



*The Abdus Salam
International Centre for Theoretical Physics*



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Workshop on Entrepreneurship for Physicists and Engineers from Developing Countries

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Business plan fundamentals - Introduction to financial terminology

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Terminology



A few of the basics (1)

In accounting there are only
four types of balances

1.Assets

2.Liabilities

3.Income

4.Expenditure

A few of the basics (2)

Those four types fall into debits and credits as follows

- Debit - assets and expenses

- Credit – liabilities and income

What you really need to know

Gross margin and costs of goods sold

- ☐ Sales
- ☐ Costs of goods sold (costs of sales)
- ☐ Gross margin

The difference between cashflow and profit

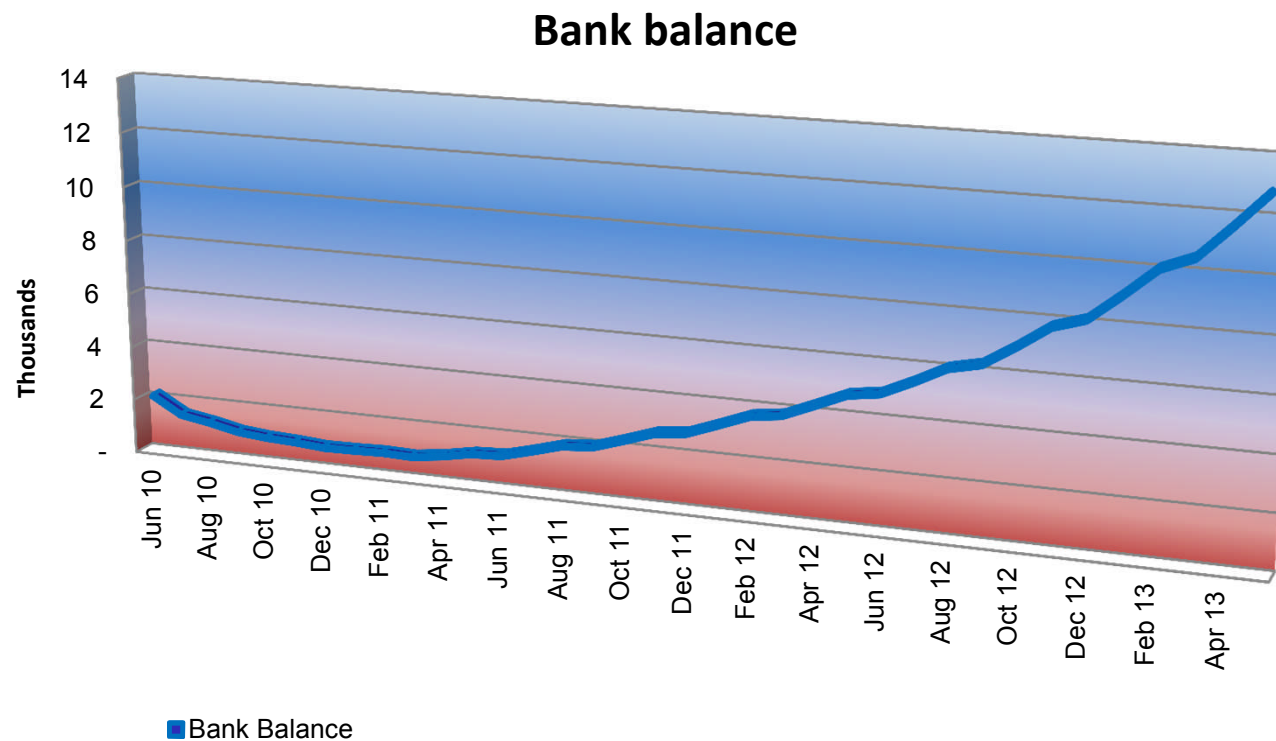
PROFIT & LOSS EXTRACT					
A	Sales	1,000			
B	Costs of goods sold	500			
C	Gross Margin	500	A-B		
D	Gross margin %	50.0%	(A-B)/A		
CASHFLOW		Month1	Month2	Month3	Month4
	Cash inflows				
	Customer receipt	0	0	0	1000
	Cash outflows				
	Payment to supplier	-500			
	Net inflow/(outflow)	-500	0	0	1000
	balance b/fwd	0	-500	-500	-500
	balance c/fwd	-500	-500	-500	500

EBITDA

Earnings before interest, tax,
depreciation and amortisation

Approximate indicator of
operating cashflow

Cashflow break-even



Cashflow £000s	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11
Inflows												
Debtors	1	8	38	49	122	180	226	254	289	340	401	466
VAT	20			22								
Shareholder Investment	2,000	-	-	-	-	-	-	-	-	-	-	-
HMRC (R&D Tax Credit)	-	101	-	-	-	-	-	-	-	-	-	-
Other												
Total inflow	2,021	109	38	70	122	180	226	254	289	340	401	466
Outflows												
Payments to suppliers	(14)	(96)	(81)	(160)	(74)	(76)	(77)	(75)	(87)	(89)	(91)	(93)
Net Wages & Salaries	(90)	(92)	(94)	(100)	(102)	(104)	(104)	(110)	(110)	(110)	(110)	(110)
PAYE	(30)	(45)	(45)	(46)	(49)	(50)	(51)	(51)	(54)	(54)	(54)	(54)
VAT							(77)			(119)		
Loan Payments	-	(510)	-	-	-	-	-	-	-	-	-	-
Total outflow	(134)	(743)	(220)	(306)	(225)	(229)	(309)	(236)	(251)	(372)	(255)	(257)
Net trading cash inflow/(outflow)	(113)	(123)	(183)	(236)	(103)	(49)	(83)	18	37	(31)	146	209
Closing Balance	2,131	1,498	1,315	1,079	977	927	844	863	900	869	1,014	1,223

Your turn

I have handed out a sheet of definitions

I have also handed out a sheet of financial terms which I will also leave displayed here

When you are finished, let us know by putting your hand in the air.

Your task is to match the correct term with its definition. Write the term in the box to the right of the definition

There will be a prize for the first team with a correct answer

Financial terms	Financial terms
Balance sheet	Cash breakeven
Budget	Capital employed
Cash flow statement	Current assets
Depreciation	Current liabilities
Equity	EBITDA
Fixed assets	Fixed Costs
Gross margin	Liabilities
Overheads	Income & Expenditure account/ Profit and loss account
Working capital	Variable costs
Share capital	Return on Capital Employed (ROCE)

Thank you

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