

Féidearthachtaí as Cuimse
Infinite Possibilities

Financial Literacy

Lecture 9

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Why Entrepreneurs Need Financial Literacy

- **Make Better Decisions.**
 - Knowing your numbers helps you make smart choices based on facts, not just instincts.
- **Attract Investors and Get Funding.**
 - Investors want proof that you understand your finances and can explain your financial situation and future plans clearly.
- **Avoid Cash Flow Problems.**
 - Even profitable businesses can fail if money doesn't flow in and out smoothly. Financial knowledge helps you spot and prevent these issues.
- **Track Growth and Performance.**
 - Financial data gives you clear measures of how healthy your business is and whether you're reaching your goals.

Class Exercise – Consultancy Role

- Irish-owned company, employing 10 people.
- Branding and Identity Programmes, Corporate Literature, Web Design, Digital Marketing.
- Revenue for the past 12 months was €800,000, net profit was €4,000.
- I asked the CEO: What is your number one goal for the next financial year? Answer: Revenue of €1m.
- I asked the CEO: What if your goal was 10% net profit?
- He was unaware of the profit margin of his biggest client, whom he charged €50,000 last year.
- After some research, he learned that the client cost him €55,000 last year.
- He also had approximately €120,000 awaiting payment from trade debtors.
- What are the business lessons here? What would you advise the entrepreneur to do?

Key Lessons Today

- **Building Blocks.**
 - Revenue.
 - Expenses.
 - Assets.
 - Liabilities.
 - Equity.
- **Financial Statements.**
 - Profit and Loss.
 - Balance Sheet.
 - Cash Flow.
- **Sources of Finance.**
 - Owner Funds.
 - Bootstrapping.
 - Debt.
 - Business Angels.
 - Venture Capitalists.
 - Grants / Soft Loans.

Five Building Blocks of Finance

- **Revenue** – Money your business earns from selling products or services.
- **Expenses** – Costs your business pays to run and make sales.
- **Assets** – Things your business owns that have value and can provide future benefits.
- **Liabilities** – Debts or obligations your business must pay in the future.
- **Equity** – The owner's share of the business (Assets minus Liabilities).

Class Exercise – Five Building Blocks

- Lily offers short-term dog boarding from her home. She charges per night and provides food, toys, and exercise. She invested in outdoor fencing, dog beds, and insurance. She pays for pet food, cleaning products, and occasional veterinary check-ups for the animals in her care.
- Each person is asked to identify one example for each of the Five Building Blocks:
 - Revenue.
 - Expenses.
 - Assets.
 - Liabilities.
 - Equity.

Class Exercise – Sample Answers

Building Block

Example

Revenue

Fees charged per night for dog boarding

Expenses

Pet food, cleaning products, vet check-ups

Assets

Outdoor fencing, dog beds, toys

Liabilities

Outstanding loan for fencing installation

Equity

Lily's personal investment in starting the business (Assets – Liabilities)

Three Core Financial Statements

- **Profit & Loss (P&L)** – shows sales, costs, and profit/loss over time.
- **Balance Sheet** – snapshot of what you own and owe.
- **Cash Flow Statement** – shows how money moves in and out.

Profit and Loss (P&L) Statement

- Shows income, expenses, and whether you made a profit.
- Helps identify trends and high-cost areas.
- Key parts:
 - Revenue.
 - Cost of Goods Sold (COGS).
 - Gross Profit.
 - Operating Expenses.
 - Net Profit.

Profit & loss statement layout

Gross revenue	Money from sales
Discounts and returns	Discounts and product returns
Net revenue	Gross revenue – discounts and returns
Cost of goods sold (COGS)	Costs to make products
Gross profit	Net revenue – COGS
Operating expenses	Expenses of running the business
Operating income	Gross profit – operating expenses
Non–operating expenses	Not directly related to core business
Net income	Operating income – non–operating expenses

Key P&L Concepts

- Profit vs. Cash
 - Profit does not always mean having cash in hand.
 - A business can show profit on paper but still lack money in the bank if customers haven't paid yet.
- Depreciation & Amortization
 - The cost of long-term assets is spread out over their useful life.
 - This shows as an expense on the Profit & Loss (P&L) statement but doesn't involve actual cash going out.
- Accrual Accounting
 - Revenue is recorded when it is earned, and expenses are recorded when incurred.
 - This happens even if cash has not yet changed hands.
 - It provides a more accurate view of business performance.

Balance Sheet Layout

Assets

- **Current Assets (less than 12 months).**
 - Cash and cash equivalents.
 - Accounts receivable.
 - Inventory.
 - Prepaid expenses.
- **Fixed/Non-Current Assets.**
 - Property, plant, equipment.
 - Intangible assets.
 - Long-term investments.

Liabilities and Equity

- **Current Liabilities (less than 12 months).**
 - Accounts payable.
 - Short-term loans.
 - Current portion of long-term debt.
 - Accrued expenses.
- **Long-term Liabilities**
 - Long-term loans.
 - Bonds payable.
- **Owner's Equity**
 - Capital stock.
 - Retained earnings.

Key Balance Sheet Terms

- **Capital vs. Revenue Expenditure.**
 - Capital expenditure: Purchases that provide long-term value (e.g., equipment, buildings).
 - Recorded as assets on the balance sheet.
 - Revenue expenditure: Day-to-day operating expenses (e.g., rent, salaries, utilities).
 - Recorded on the Profit & Loss (P&L) statement.
- **Current vs. Non-current Liabilities.**
 - Current liabilities: Debts due within one year.
 - Non-current liabilities: Long-term debts/obligations due after 12 months.
- **Net Worth (Equity).**
 - Represents the owner's stake in the business after deducting liabilities.
 - Increases through profits and new investments.
 - Decreases through losses and owner withdrawals.

Cash Flow

- Tracks actual cash in and out.
- Important for paying bills on time.
- Helps anticipate potential cash shortages before they occur.
- Cash flow problems can happen even when profitable (e.g., unpaid invoices, high investment in stock).
- Danger of overtrading (Overtrading is the practice of conducting more business than can be supported by a firm's working capital).

Typical Cash Flow Layout

	Week 0 (Actual)	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6
Beginning Cash Balance	135,035	105,325	152,449	120,906	137,002	114,352	128,499
Cash Inflows							
Accounts Receivable	82,655	119,299	157,424	137,977	98,394	93,144	117,579
Total Cash Inflows	82,655	119,299	157,424	137,977	98,394	93,144	117,579
Cash Outflows							
Accounts Payable	35,245	41,115	106,717	76,881	41,269	47,938	37,048
Payroll	77,120		82,250		79,775		79,775
Loan Payments (Interest)		905				905	
Loan Payments (Principal)		30,155				30,155	
Dividends Paid (Owner Draw)				45,000			10,000
Total Cash Outflows	112,365	72,175	188,967	121,881	121,044	78,998	126,823
Net Cash Flows	(29,710)	47,124	(31,543)	16,096	(22,650)	14,146	(9,244)
Ending Cash Balance	105,325	152,449	120,906	137,002	114,352	128,499	119,255

Cash Flow versus Profit

- **Profitable but Cash-Poor Scenarios.**
 - Customers haven't paid yet (accounts receivable growing).
 - Heavy investment in inventory or equipment.
 - Rapid growth requiring more working capital.
 - Paying off loans or other debt.
- **Managing Receivables & Payables.**
 - Shorten payment terms for customers.
 - Offer discounts for early payment.
 - Negotiate longer payment terms with suppliers.
 - Monitor aging of accounts receivable.
 - Consider invoice factoring for immediate cash.

Class Exercise – Cash Flow Problem Diagnosis

- **Scenario – The Fitness Studio.**
 - Offers personal training and group classes.
 - Introduced discounted annual memberships (customers pay monthly).
 - Invested heavily in new equipment bought outright.
 - Rent and utility bills just increased by 20%.
- **Each person is asked to:**
 - Identify at least three likely causes for this case.
 - Recommend three practical actions to improve cash flow.

Class Exercise – Sample Answer

- **Likely Causes of Cash Flow Problems.**
 - Annual memberships paid monthly; revenue is delayed while services are delivered upfront.
 - Heavy upfront investment in equipment bought outright — reduced available cash.
 - Rent and utilities increased by 20%; higher fixed costs strain monthly cash flow.

- **Three Actions to Improve Cash Flow.**
 - Offer discounts for upfront annual membership payments to accelerate cash inflow.
 - Sell unused or under-utilised equipment or lease instead of owning all equipment.
 - Introduce supplementary short-term, high-margin services (e.g., workshops) to boost immediate cash.

Sources of Funding

- **Owner Funds (own money)** - Money the entrepreneur invests from personal savings or assets. Often, the first source of finance for a new business.
- **Bootstrapping** - Growing the business using internal cash flow, careful cost control, and reinvesting profits rather than relying on external funding.
- **Debt** - Borrowing money from banks or lenders (e.g., loans, overdrafts). This amount must be repaid with interest, regardless of the business's performance.
- **Business Angels** - Wealthy individuals who invest their own money in early-stage businesses, usually in exchange for equity (ownership) and sometimes mentorship.
- **Venture Capitalists** - Professional investment firms that provide large sums of money to high-growth businesses in return for equity. They often seek significant influence over the company.
- **Grants / Soft Loans** - Funds provided by government bodies, NGOs, or institutions to support business development. Grants don't need to be repaid, while soft loans typically have more favourable repayment terms (e.g., lower interest rates).

Challenges for Entrepreneurs with Disabilities in Accessing Finance (1 of 2)

- **Perceptions & Bias.**
 - Funders may underestimate ability or ambition.
 - Disability sometimes wrongly seen as “extra risk.”
- **Accessibility Barriers.**
 - Application forms not always screen-reader/accessible.
 - Pitch events may not accommodate communication needs.
 - Networking spaces often lack inclusivity.
- **Structural & Financial Issues.**
 - Fear of losing disability/welfare benefits when earning.
 - Higher living costs reduce savings for start-up funds.
 - Lower credit history → harder to secure bank loans.

Challenges for Entrepreneurs with Disabilities in Accessing Finance (2 of 2)

- **Limited Awareness of Supports.**
 - Disability grants/funding exist but are hard to find.
 - Systems differ between Ireland and Northern Ireland.
- **Social & Psychological Factors.**
 - Past exclusion lowers confidence when seeking funding.
 - Few visible role models in entrepreneurship.
 - Extra time/energy needed to manage disability-related needs.
- Key takeaway: Disabled entrepreneurs often need not just funding, but accessible processes, clear information, and supportive funders.

