BUSINESS FINANCE

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Task 1

Cash Budget of Anton			
For the 3 months ending 31 March, 2022			
	Jan	Feb	March
	£	£	£
Receipts			
Capital	10000		
Cash receipts from sales	1260	960	885
Receipts from credit sales		2940	2240
Total Cash receipts (A)	**11260**	**3900**	**3125**
Payments			
Drawings for personal expenses	800	800	800
Cash purchase	2800	1500	1750
Computer for business purpose	720		
Bought motor vehicle for business			3200
Electricity charges			285
Telephone costs	120	120	120
Fuel cost	65	65	65
Total Cash payments (B)	4505	2485	6220
Net receipts (A- B)	**6755**	**1415**	**-3095**
Balance brought forward		6755	8170
Balance carried forward	6755	8170	5075

Workings:			
Sales:	Jan	Feb	Mar
£ 4,200.00	£ 1,260.00	£ 2,940.00	
£ 3,200.00		£ 960.00	£ 2,240.00
£ 2,950.00			£ 885.00
Collection	£ 1,260.00	£ 3,900.00	£ 3,125.00
Sales in Jan	30% in cash	70% in credit for Feb	
£ 4,200.00	£ 1,260.00	£ 2,940.00	
Sales in Feb	30% in cash	70% in credit for Mar	
£ 3,200.00	£ 960.00	£ 2,240.00	
Sales in Feb	30% in cash	70% in credit for Apr	
£ 2,950.00	£ 885.00	£ 2,065.00	

Task 2

2.1 Accounting equation

The accounting equation showcases the relationship among the assets, liabilities, and business capital. It is the fundamental aspect of the double-entry bookkeeping mechanism wherein each transaction ought to have a dual impact on the financial statements of the organisation (Hoggett, 2018). Irrespective of the size and dimension of the business, it constitutes three significant components –

- **Assets** – The proposition that the business holds.
- **Liabilities** – The commitments or obligations that the business holds to other parties.
- **Equity or capital** – simplistically, it is the difference between assets and liabilities.

The accounting equation can be represented in the following manner:

Assets = Capital + Liabilities

Thus these are the three elements that are fundamental to the businesses to uphold financial transparency because –

Assets are the resources held by the companies like the cash resources, inventories, trade receivables, investments, properties, equipment, and goodwill (Potter, et al., 2019). The accounting equation shows that the combination of capital and liabilities will match with the resources held by the companies.

Capital represents the amount contributed by the owners to run and grow the business (Ulrich & Blouch, 2018). It is the residue after deducting the liabilities from the assets and is also known as 'shareholders' equity'.

Liabilities are the obligations or financial commitments that the businesses across owes to other external parties like trade payables, loans, salaries and wages to staff, loan interests, and income taxes. These are the claims of the creditors against the company assets and are significant in providing the necessary support to run and grow the business like the bank loans (Edmonds, et al., 2019).

An accounting equation can be illustrated by citing a simple example. Jon, a sole trader buys equipment worth £5,000 using the cash resources. It means a reduction of cash resources by £5,000 and as per the double-entry system, the cash account will be credited (Hoggett, 2018). Simultaneously, the assets will increase by £5,000 owing to a debit entry in the books of account under the head equipment. So whenever a transaction takes place, the accounting equation balances itself to showcase the perfect scenario.

2.2 Benefits of listing shares on the stock exchange

Companies strive for effective funding to run their business operations effectively and they adopt various means to acquire such funds. Thus equity market is a popular and effective way to raise funds for business and to do so, the businesses ought to be listed in a recognised stock market. Listing stands for the official admission of the company securities to the trading arena of the stock exchange (Debler, 2018). Getting its stock listed on the market is a feat of the business as it nurtures the growth saga and brand identity alongside providing long-term liquidity. There are scores of benefits to getting listed in the stock market and some of the benefits are jotted down below:

- *Access to long-term capital* – The stock market is an effective medium for the companies to infuse the requisite capital required for their growth and expansion to exploit the market (Bolton, et al., 2019). Through the stock market, the listed companies can get access to innumerable investors who can provide the requisite capital to the business. The advantage of such capital is that it need not be returned unless the company goes into liquidation.
- *Visibility* – As the company gets listed in the stock market, it earns publicity getting the attention of the investors and customers alike. The phenomenon helps to gain credibility of the business in the market among institutional investors as they look to invest in firms that are under the strict vigilance of a recognised stock exchange.
- *Liquidity* – On listing, the firm gets access to suitable liquidity to grow the business adequately. It is because listing helps the shareholders to transact the company stocks freely in the market and share the risks along with a pool of investors (Malmendier, 2018).
- *Productivity* – Listing on the stock exchange is an achievement for the businesses across and it enhances the morale of the staff leading to an increase in its productivity.
- *Transparency* – The listed companies operate and trade under the supervision of the stock exchange and other competent authorities. It reduces the instances of business malpractices and transparency in the scenario for the company stocks to get valued and perform well in the market (Debler, 2018).
- *Fair pricing* – The stock prices are adjudged based on the demand and supply mechanism reflecting the real value of the securities traded in the market (Potter, et al., 2019). The phenomenon leads to an independent valuation of the stocks in the competitive market.

- *Timely disclosure* – It is a listing agreement made between the companies and the stock market to disclose various financial and non-financial information like opening a new store or announcing dividends. It is helpful to track the company information and its impact on the stocks to gain the confidence of the investors (Bolton, et al., 2019).
- *Collaterals* – The investors raise loans from the market against the listed stocks as it strives for a certain level of financial security and assurance. So getting listed in the market opens various avenues for the company to get adequate funding.
- *Better governance* – Since the listed companies operate under the strict supervision of the competent authorities, they propagate a better internal control and corporate governance system to earn accolades from the market.
- *Benefits to the public* – The stock market releases various sorts of data and information related to the listed securities and companies (Ogundare & Abdulsalam, 2020). Such information is useful for the researchers, students, institutions, and fellow investors to understand the economic trends of the particular segment and forecast for contemplating investment decisions.

2.3 Stakeholders in big companies like Marks and Spencer

Stakeholders are the group of individuals having a specified interest in the business and strive to influence the business operations in varied ways (Potter, et al., 2019). Each stakeholder has a specified interest in the business and this sort of diversion often leads to a conflict of interest among various parties. Thus stakeholders are groups, individuals, or community that claims the attention of the organisation in protecting their resources that are supposedly affected by the business output. So big organisations like Marks and Spencer (M&S) have its shares of stakeholders that are described in the following manner:

Customers –

The customers are the most important stakeholders to M&S to whom the company offers its products and services. Customers have a greater say in the products and services offered as in the competitive market scenario, it is necessary to understand the customer needs and serve them accordingly. The UK retail scenario is highly competitive and M&S to retain its customers strives for suitable strategies to offer the best quality and deals for a favourable impact (Diouf & Boiral, 2017). For instance, M&S launched its online website in 2014 to address the growing demand for online shopping spree among customers.

Employees –

Employees play an important part in running the daily business operations and their contribution is necessary to attain suitable customer satisfaction. So M&S needs to have a pool of satisfied employees as it will lead to efficiency in the workplace and better profitability (Oppong, et al., 2017). There are around approximately 78,000 staff with the retailer currently and M&S tries to satisfy them by providing competitive payments, benefits, and perquisites to attract and retain talents. The company undertakes various approaches and exercises to motivate the staff to have the focus on their job and deliver an expected outcome in the intensely competitive UK retail market.

Suppliers –

Suppliers are a dominant stakeholder in the organisational scenario of M&S for delivering high quality products to suit the tastes and preferences of the customer (Johnson-Cramer, et al., 2017).

The company takes due weightage of the reputation of the suppliers while awarding the contracts as it engages the brand quality and output. Similarly, the suppliers on their part try to satisfy the company through their products and services as they get access to big contracts. M&S owing to its sustainability program arranges ethical programs for the suppliers to address the labour standards effectively.

Owners –

It is the responsibility of M&S to provide suitable returns to the owners or equity shareholders of the company (Potter, et al., 2019). The owners present their thoughts and perception to run the company which is subjected to the discretion of the Board who runs the company. M&S ought to satisfy the shareholders by enhancing their returns which is reflected through an increased price of the stocks increasing their net worth in the company.

Trade unions –

It is a noteworthy stakeholder who keeps a tap on the collective welfare of the workforce and negotiates with the M&S management for better wages and working conditions of the employees. The trade union aims to ensure the collective benefit and fair treatment of the workforce across the spectrum (Edmonds, et al., 2019).

Communities –

M&S holds gratitude to the communities for continuous support to grow its business. Accordingly, the retailer undertakes various effective measures like planting trees, supporting local hospitals, beautification of the neighbourhood, and others as an expression of gratitude to the community.

2.4 Profit and cash balances

Both the cash flow and profit are effective business determinants to adjudge the financial position of the business. Though both the metrics are related to financial propositions, there are stark differences between the two. An investor needs to have an understanding of profit from cash balances to make wise business decisions adjudging the financial performance and financial health of the company (Malmendier, 2018).

Cash flow –

Cash is the most liquid resource in business that moves to and fro the enterprise to contemplate an effective business transaction. Thus cash flow is the net cash balance that moves in and out of the business during a specified time (Bolton, et al., 2019). For instance, when a seller sells inventory, the business experiences cash inflow as cash is being received from the customer on account of the sale. Similarly, as the owner pays rent to the landlord, the business experiences cash outflow on payment of rent which is a business cost (Ogundare & Abdulsalam, 2020). Cash flows can be either positive or negative. A positive cash flow balance shows more cash receipts than cash expenses and vice versa. Cash flow can be segregated in the following manner:

- *Operating cash flow* – These are the cash resources generated by the organisation due to normal business operations like the sale of goods and services.
- *Investing cash flow* – It refers to the cash flow generated due to business investments like investment in securities, buying new equipment, and selling assets (Hoggett, 2018).
- *Financing cash flow* – It shows the movement of cash resources among the business and the owners or creditors like settlement of debts, payment of dividends, and others.

Profit –

Profits are the financial figures retained by the business after meeting all kinds of business expenses (Edmonds, et al., 2019). It can be distributed among the shareholders or retained by the business as reserves to grow the business. Like cash flows, profits can also be positive or negative and are divided into three broad segments:

- *Gross profit* – It is extracted after deducting the cost of sales like direct materials and labour, say the sorts of variable costs (Ulrich & Blouch, 2018).

- *Operating profit* – It is derived after deduction of the operating costs in the business such as administrative costs, utilities, and salaries of the staff to run the business operations.
- *Net profit* – It is the net income of the business after deduction of every expense from the gross revenue of the business such as taxes and loan interests (Hoggett, 2018).

Difference between cash balance and profit

The key difference between profit and cash flow is that the profit shows the amount retained by the business after meeting all expenses (Diouf & Boiral, 2017). Contrarily, the cash balance shows the net cash flows in and out of the business. It is noted that profit alone cannot show the comprehensive financial picture of the business as it is devoid of the features to reflect the cash inflow and outflow. This sort of information is required to understand the financial well-being of the business. Profit can show the success rate of the business but not its sustainability to endure during difficult times (Ulrich & Blouch, 2018). Again, for a loss-making entity, it is not easy to maintain positive cash flows for the longer term. So both metrics are necessary to understand the financial position of the business.

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