

"A useful, plain-speaking, down to earth book for anybody planning to enter business and everybody who is already there."

Nick Hower, one time advisor to Lord Sugar on *The Apprentice*

HOW TO TALK FINANCE

Getting to grips with
the numbers in business



TED WAINMAN

Praise for *How to Talk Finance*

'A fundamental understanding of finance is crucial for anyone wanting to progress in business. Ted explains the basic concepts well using clear language and helpful examples. This book is a great starting point for anyone looking to be able to "talk numbers" credibly.'

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Lee Johnson, Global HR Director, Coroda

'Finance books don't normally "grip" me but this one is a great tool for quick clarifications of finance terms as well as more detailed illustrations to help demystify the world of finance – definitely a book to have on the desk!'

Rachel Kay, Managing Director, Thales Training & Consultancy

- ▶ The cash flow statement reconciles the profit in the profit and loss account with the movement in cash in the balance sheet.
- ▶ The cash flow statement shows how much cash was used in investing activities and how much was generated from funding activities.



Test yourself

- 3.1** The financial objective of a business might include:
- (a) maximising the wealth of the shareholders ☐
 - (b) paying creditors early ☐
 - (c) maximising staff bonuses ☐
 - (d) tax evasion ☐
- 3.2** Who of the following might be interested in a company's annual report?
- (a) suppliers to competitors ☐
 - (b) suppliers ☐
 - (c) the general public ☐
 - (d) ex-employees ☐
- 3.3** In which month must I show the cost of a service for the following?
- (a) purchase order raised in February ☐
 - (b) invoice received in March ☐
 - (c) service delivered in April ☐
 - (d) invoice paid in May ☐
- 3.4** The financial statements are:
- (a) always correct ☐
 - (b) a clear picture of the future of a company ☐
 - (c) a clear picture of the past of a company ☐
 - (d) never to be relied upon due to accounting manipulation techniques ☐
- 3.5** The balance sheet contains:
- (a) assets and liabilities ☐
 - (b) assets and expenses ☐
 - (c) income and liabilities ☐
 - (d) income and expenses ☐

- 3.6** Assets are categorised as:
- (a) fixed and non-current ☐
 - (b) fixed, non-current and current ☐
 - (c) non-current and current ☐
 - (d) long-term and current ☐
- 3.7** Cash will appear in:
- (a) non-current assets ☐
 - (b) current assets ☐
 - (c) current liabilities ☐
 - (d) non-current liabilities ☐
- 3.8** Plant and machinery will appear in:
- (a) non-current assets ☐
 - (b) current assets ☐
 - (c) current liabilities ☐
 - (d) non-current liabilities ☐
- 3.9** Current assets are:
- (a) assets that the business needs to keep to do business ☐
 - (b) assets that the business is trying to sell ☐
 - (c) assets that the business is trying to turn into cash ☐
 - (d) not really assets at all ☐
- 3.10** Non-current (or fixed) assets are:
- (a) assets that the business needs to keep to do business ☐
 - (b) assets that the business is trying to sell ☐
 - (c) assets that the business is trying to turn into cash ☐
 - (d) not really assets at all ☐
- 3.11** Liabilities are categorised as:
- (a) current and fixed ☐
 - (b) non-current and fixed ☐
 - (c) current, non-current and shareholders' funds ☐
 - (d) current, short-term, non-current and long-term ☐
- 3.12** An overdraft is most likely to appear in:
- (a) non-current assets ☐
 - (b) current assets ☐
 - (c) current liabilities ☐
 - (d) non-current liabilities ☐

3.13 An interest-only mortgage is most likely to appear in:

- (a) non-current assets ☐
- (b) current assets ☐
- (c) current liabilities ☐
- (d) non-current liabilities ☐

3.14 Current liabilities are:

- (a) liabilities that need to be repaid soon ☐
- (b) liabilities that do not need to be repaid soon ☐
- (c) amounts owed to shareholders ☐
- (d) dividends payable ☐

3.15 Non-current (or long-term) liabilities are:

- (a) liabilities that need to be repaid soon ☐
- (b) liabilities that do not need to be repaid soon ☐
- (c) amounts owed to shareholders ☐
- (d) dividends payable ☐

3.16 Equity is:

- (a) liabilities that need to be repaid soon ☐
- (b) liabilities that do not need to be repaid soon ☐
- (c) amounts owed to shareholders ☐
- (d) dividends payable ☐

3.17 Share capital is:

- (a) the initial investment in the business by shareholders ☐
- (b) the nominal value of all investments in the business by shareholders ☐
- (c) debt and equity ☐
- (d) reinvested profits ☐

3.18 Capital is:

- (a) debt and current assets ☐
- (b) total assets and current liabilities ☐
- (c) total liabilities and current assets ☐
- (d) equity and current liabilities ☐

3.19 Capital is used for:

- (a) investment capital and equity ☐
- (b) debt and equity ☐
- (c) debt and working capital ☐
- (d) investment capital and working capital ☐

3.20 Capital comes from:

- (a) investment capital and equity ☐
- (b) debt and equity ☐
- (c) debt and working capital ☐
- (d) investment capital and working capital ☐

3.21 The income statement contains:

- (a) assets and liabilities ☐
- (b) assets and expenses ☐
- (c) income and liabilities ☐
- (d) income and expenses ☐

3.22 Turnover is **not** also known as:

- (a) sales ☐
- (b) deferred income ☐
- (c) income ☐
- (d) revenue ☐

3.23 Cost of sales usually contains:

- (a) fixed costs ☐
- (b) sunk costs ☐
- (c) variable costs ☐
- (d) marginal costs ☐

3.24 Gross profit is sales less:

- (a) turnover ☐
- (b) administration costs ☐
- (c) cost of sales ☐
- (d) cost of sales and administration costs ☐

3.25 Administration costs usually contain:

- (a) fixed costs ☐
- (b) sunk costs ☐
- (c) variable costs ☐
- (d) marginal costs ☐

3.26 Operating profit is sales less:

- (a) turnover ☐
- (b) administration costs ☐
- (c) cost of sales ☐
- (d) cost of sales and administration costs ☐

3.27 Interest costs are:

- (a) the costs of servicing the equity investment ☐
- (b) the costs of servicing the debt investment ☐
- (c) the costs of servicing both debt and equity investments ☐
- (d) only included on the balance sheet ☐

3.28 Profit before tax is sales less:

- (a) cost of sales ☐
- (b) cost of sales and administration costs ☐
- (c) cost of sales, administration costs and dividends ☐
- (d) cost of sales, administration costs and interest ☐

3.29 Dividends are paid out of:

- (a) gross profit ☐
- (b) net profit ☐
- (c) operating profit ☐
- (d) retained profit ☐

3.30 Retained earnings appears:

- (a) in the balance sheet ☐
- (b) in the cash flow statement ☐
- (c) in the income statement ☐
- (d) in the balance sheet and the income statement ☐

3.31 The difference between brought forward and carried forward retained earnings is:

- (a) operating profit less interest ☐
- (b) operating profit less dividends ☐
- (c) net profit less interest ☐
- (d) net profit less dividends ☐

3.32 A retained loss is:

- (a) an asset ☐
- (b) a liability ☐
- (c) an income ☐
- (d) an expense ☐

3.33 The reason for a difference in accrual and cash profit will **not** be due to:

- (a) a sales invoice that has been paid ☐
- (b) amortisation ☐
- (c) a supplier's invoice that has not yet been settled ☐
- (d) rent that has been paid in advance ☐

3.34 The cash flow statement will include:

- (a) a reconciliation between accrual profit and cash profit ☐
- (b) a cash flow forecast ☐
- (c) a reconciliation between actual and budgeted cash ☐
- (d) a reconciliation between cash and overdraft balances ☐

3.35 Depreciation will appear in the cash flow reconciliation because:

- (a) it is always a big figure ☐
- (b) it affects cash profit but not accrual profit ☐
- (c) it affects accrual profit but not cash profit ☐
- (d) it affects both accrual and cash profit ☐

3.36 The cash flow statement will also include sections covering:

- (a) cash from sales and investments ☐
 - (b) how cash was invested and cash from sales ☐
 - (c) cash from sales and cash from financing activities ☐
 - (d) how cash was invested and cash from financing activities ☐
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