TITLE

1. Starting up with Accounting

ABSTRACT

Accounting is the single most important aspect of any business that wants to be successful. As an entrepreneur, you might have the best business ideas in the world, but if you don't understand the basic accounting principles, it is likely that you will struggle to grow your business. This action will explore why it’s important to get your finances right and considerations for spending, i.e, the outgoings required for your business to operate daily.

GENERAL DESCRIPTION OF THE SPECIFIC ACTON

Accounting is concerned with:

1. Cash flow statements
2. Sources of finance
3. Profit and loss
4. Balance sheet
5. Expenses
6. Tax

It is a systematic process of identifying, recording, measuring, classifying, verifying, summarising, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity.

It provides you with information on the:

- Resources available to your company
- The means employed to finance those resources and
- The results achieved through their use

If the person leading the company doesn't understand the basics of accounting and the valuable information it provides, they are not likely to lead the company to success. This is because pretty much everything to that leader is in metrics, measurables or numbers. No matter what you are running, whether its human resources, revenue generation or customer conversion, it must be measured.

Why is it important to get your finances right?

- For your own personal livelihood/survival; you need to understand your current financial position
- To track if your business is making money, optimise your profits and maximise your profit margins
- You have a legal responsibility to ensure your finances are in order, e.g reporting income to tax authorities
- You have a responsibility towards paying potential employees, therefore you need to ensure you are in the position to do so
- In order to make appropriate business decisions, e.g accepting or rejecting new business
- To mitigate risk

- To price products/services accurately

<u>Considerations for Spending</u>

It is essential to establish what you will require to spend money on for your business to operate on a daily basis.

The below link details costs that are most commonly overlooked;
https://www.calendar.com/blog/overlooked-costs-starting-a-business/

Action Type

Actions that have prerequisites (other actions need to be implemented first), but require no investment.

Connected Actions

Action 2 - Balance Sheets
Action 3 - Cash Flow Statements
Action 4 - Sources of Finance
Action 5 - Profit and Loss
Action 6 - Expenses

Time required to implement a solution and when possible associated cost

2 days

Positive and Negative Part of the Solution

Positive: The business owner is aware of exactly what finances will be required for the business to begin and sustain daily operation
Negative: Without an in-depth knowledge of accounting, the number of processes involved, and their implementation can be daunting to a business owner

Estimated Exploitation

The business is more likely to be successful due to an increased understanding of accounts and financial needs

ICT Competence

Basic

English Language Skills

Basic

Webshop Level

Basic

Informative Text

The European Commission published a study back in 2015 to help small and medium-sized enterprises (SMEs) develop accounting practices that reduce the administrative burden.

The main findings from the European Commission's research was:

- the smaller the size of the company, the less legal requirements enforced by law
- smaller entities tend to believe they require more administrative burdens than are required and therefore spend wasted time on this that could be spent elsewhere
- micro businesses do not need to produce financial statements and therefore there is a real need for a profit and loss account, as well as a balance sheet

This research provided strong evidence that small businesses do more than legally required in terms of accounting. It is important that entrepreneurs do not make this mistake and waste valuable time when building their business doing extra work.

Read the study here:
Accounting guide for SMEs - SME Accounting in Europe: insights provided by a desk research and a survey. (2015, July 28). Retrieved from URL
https://ec.europa.eu/growth/content/accounting-guide-smes-sme-accounting-europe-insights-provided-desk-research-and-survey-0_en

Additional Resources

Learn more about accounting basics;
https://www.accountingcoach.com/accounting-basics/explanation/1

A photograph that could be used for this action;
https://www.dreamstime.com/stock-photo-young-woman-asking-help-suffering-stress-doing-domestic-accounting-paperwork-bills-invoices-worried-stressed-home-image72862723

Why a business owner should have a background knowledge of accounting;
https://www.quora.com/How-important-is-it-for-a-CEO-to-have-strong-accounting-knowledge
https://www.quora.com/In-a-startup-should-CEOs-know-everything-about-accounting

What a CEO should know;
http://ww2.cfo.com/human-capital-careers/2005/05/what-does-your-ceo-really-know/

The impact of a business owner with good knowledge of accounting;
https://www.emeraldinsight.com/doi/full/10.1108/JCC-10-2016-0016

Cross Border remark

- Legal obligations for accounting practices may vary across different countries.

TITLE

2. Balance Sheet

ABSTRACT

A balance sheet records the assets and liabilities of a business at the end of a period. This can be used to summarise how the capital is used by the business. This action will describe in detail what is included in a balance sheet and a template to create one for your own business. This action will outline how to create a balance sheet and provide a template for your business to implement.

GENERAL DESCRIPTION OF THE SPECIFIC ACTON

Balance sheets are used by businesses to establish a statement of their financial position. This statement shows the assets (what the business owns) and liabilities (what the business owes to others) at a point in time. Though generally created at the end of an accounting period, a balance sheet can be drawn up at any time.

A balance sheet should include;

<u>Assets</u>

There are different types of assets that a business can hold; fixed assets (non-current assets), current assets, net current assets and net assets.
Fixed assets are items of value owned by a business that will generate income. For example, property, vehicles, equipment, etc. Without these assets the company would not be able to operate. These are usually longer-term assets.
Current assets are items owned by the company that will be used, sold or converted into cash within 12 months. These include; stock, debtors (who owes you money), bank balances and cash (and cash equivalents).
Net Current Assets, also known as **Working Capital**, is the total current assets of the business minus the total current liabilities.
Net Assets is the companies fixed assets plus net current assets. This shows the net value of the business once short-term debts (e.g bills) have been repaid,

<u>Liabilities</u>

Much like assets, liabilities are also categorised.
Current Liabilities are debts owed to external organisations that are required to be repaid in the short term (usually less than 12 months). These include; creditors (who you owe money to), bank overdrafts, dividends due to shareholders and taxation due to the government.
Long-Term Liabilities, also known as **Non-Current Liabilities** refer to long term loans, leases or mortgages where the debt will be repaid over several years.

and,

<u>Equity</u>
You may also see this referenced to as **Capital**. This is the total that the owner or shareholders within the company has invested. This may also include any retained profits accrued from previous periods of operation.

<u>How to implement a Balance Sheet</u>

- List all your current and fixed assets
- Add these together to get your **total assets**
- List all current liabilities
- List all long-term liabilities
- Add these together to get your **total liabilities**
- Calculate any retained earnings
- Calculate owners/share-holders equity
- Add these together to get your **total equity**
- Add the total liabilities and total equity figures

Assets = Total Liabilities + Total Equity

If these figures match, then your balance sheet 'balances'.

Action Type

Actions that have prerequisites (other actions need to be implemented first), but require no investment.

Connected Actions

Action 4 - Sources of Finance
Action 5 - Profit and Loss

Time required to implement a solution and when possible associated cost

1 day
If done by the business owner personally, there should be no cost involved in creating a balance sheet.

Positive and Negative Part of the Solution

Positive: It gives the business owner a snapshot of the businesses finances and allows them to review what the company owns and owes at any given time.

Negative: Balance sheets are not always accurate as assets are listed as their value at the time of purchase and can depreciate over time.

Estimated Exploitation

Increased awareness of financial position and ability to monitor debts to ensure the business does not default on payments.

ICT Competence

Basic

English Language Skills
Basic
Webshop Level
Basic
Informative Text
Balance Sheet – What is a Balance Sheet? (Publication Date Unknown) Retrieved from URL https://debitoor.com/dictionary/balance-sheet Lewis, M. (2017, April 21) How to Make a Balance Sheet for Accounting. Retrieved from URL https://www.wikihow.com/Make-a-Balance-Sheet-for-Accounting What is the Balance Sheet? (Publication Date Unknown) Retrieved from URL https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/
Additional Resources
Google Balance Sheet Template; https://docs.google.com/spreadsheets/d/1eL5MzxToEpTEKMqh7mjjz9KfHKu5QkCrd6VdRBJttmk/edit#gid=0 Understanding a balance sheet and its terminology; https://www.investopedia.com/terms/b/balancesheet.asp How to read a balance sheet; https://www.ecommercefuel.com/how-to-read-a-balance-sheet/ Understanding the purpose of a balance sheet; https://www.accountingtools.com/articles/the-purpose-of-the-balance-sheet.html
Cross Border remark

TITLE
3. Cash Flow Statements
ABSTRACT
Cash flow statements summarise the movement of money within the business for an agreed trading period (month, quarter, year, etc). You should be recording when cash is received by the business and when payments are made by the business. You can also use a cash flow statement to forecast cash movements. This action will explain how to create a cashflow statement for your business.
GENERAL DESCRIPTION OF THE SPECIFIC ACTON

Cash flow is the money that comes into your business, as well as the money that leaves your business.

The money coming into your business comes from clients or customers who use or buy your products and services. If you sell products, then there is an immediate transaction of cash flow into your business. If you sell services, customers are likely to pay for the service once it is complete and this type of cash flow will be categorised as 'accounts receivable'. In other words, we expect payment on X date. This is known as **Accounts receivable**.

Money that leaves your business is known as expenses. An example being tax payments, loan payments or rent payments. This is known as **Accounts payable or liabilities**.

It is important for every business to make sure that the money coming in, is more than the money that is going out. A shortage in cash is one of the main reasons small businesses and start-ups fail. Therefore, it is important to have a supply of 'Working Capital' in the case where the business has more money leaving than coming in.

Working capital is a reserve of cash, that covers the day to day or short-term costs of the business.

Working Capital = Current Assets – Current Liabilities

It is important to note that if you have started a new business, you may have to borrow this reserve of Working Capital from a bank or lender to cover these costs until they comfortably make profit.

How to monitor Cash Flow

To monitor Cash Flow, a report can be created.

This involves analysing the activities taking place in the business checking account and the easiest way to do this is to follow these 3 steps:

1. At the end of the month, look at your total sales

2. Add up the purchases you have made that still need to be paid for

3. The difference is what you will need to bring in as income to stay even

If you have a cash shortage, it is important to address it immediately and come up with a solution to decrease your purchases or increase your sales. If this is not resolved, you will get further and further behind.

Tools

There are several free and paid online tools that help you analyse your cash flow. In particular:

https://floatapp.com/

https://community.intuit.com/quickbooks-desktop

https://www.entrepreneur.com/calculators/cashflowcalculator.html http://pulseapp.com/features/
Action Type
Actions that have prerequisites (other actions need to be implemented first), but require no investment.
Connected Actions
Action 2 – Balance Sheets
Time required to implement a solution and when possible associated cost
Around 4 hours
Positive and Negative Part of the Solution
Positive: It gives the leader of the organisation an overview of how the company is performing on a regular basis by understanding the cash coming in and the cash going out of the business. Negative: It requires investment of time to understand Accounting and the different aspects involved. Some leaders feel they have better things to be doing and push accounting to the side.
Estimated Exploitation
A better chance of growth for the company.
ICT Competence
Basic
English Language Skills
Basic
Webshop Level
Starting
Informative Text
Reynold, W. & Morin, N. (2015). Higher Business Management. Edinburgh, Scotland: Bright Red Publishing.
Additional Resources

The below link contains a cash flow case study; https://www.theseus.fi/bitstream/handle/10024/104698/Thesis_Annika%20Pitkanen_FINAL.pdf?sequence=1 Solving cash flow problems; https://www.thebalancesmb.com/cash-flow-solutions-for-businesses-397476 Step-by-step YouTube tutorial on how to prepare a cashflow statement; https://www.youtube.com/watch?v=hr6Gs7IHaPU Free cashflow templates to download; https://www.smartsheet.com/free-cash-flow-statement-templates Online workshop in managing cashflow; https://www.score.org/event/managing-your-cash-flow Metrics to ensure you are managing your cash flow effectively; https://www.score.org/blog/cashing-your-numbers-key-metrics-managing-your-cash-flow
Cross Border remark
Currency exchange, cross-border transaction charges and delays may impact the figures you are entering on your cash flow statement.

TITLE
4. Sources of Finance
ABSTRACT
A business can access many different financial sources. Typically, this is a mixture of internal (profits made and ploughed back into the business) and external sources. This action will detail the various sources of finance available, from short term to long term.
GENERAL DESCRIPTION OF THE SPECIFIC ACTON
Whilst the most important source of finance for a business is internal, external sources of finance are also necessary for most businesses to operate. There are various external sources of finance available. External sources can be short, medium or long term. **<u>Short Term Sources of Finance</u>** **<u>Bank Overdraft</u>** A typical short-term source of finance is a bank overdraft. This is an agreement with the bank that a business can draw from its account an agreed amount more than it has in the account. This is known as the 'overdraft limit'. This enables a company to borrow

money to continue trading over a short-term period when its need for cash, exceeds the amount of money it has available.

<u>How to set up an overdraft</u>

A bank overdraft is simple to arrange. This can be done by visiting your local bank branch and setting it up directly with a member of staff.

However, it can often be organised online through a business's online banking account, dependant on the online services offered by your bank.

<u>Negotiating Payment Terms</u>

Negotiating a longer period between receiving goods from suppliers and payment of the goods can provide a company with more cash to use in the short term

<u>How to negotiate payment terms</u>

Contact the supplier directly, either by telephone, email or a meeting in person and discuss your current payment schedule.

<u>Medium Term Sources of Finance</u>

<u>Bank Loans</u>

This is the most common way to get medium term funds for your business. The term is usually around 2-4 years. This is a good source of finance for purchasing assets, such as stock. This will need to be repaid in full by the end of the agreed term. Interest is usually added at a higher rate than overdrafts as this is considered a riskier option for banks.

<u>How to set up a bank loan</u>

Contact your bank and set up a meeting to speak to a financial advisor about your business needs. You would them typically apply for the loan, providing information about your credit history and the bank can either accept or decline the application.

<u>Leasing</u>

Leasing is another term for renting. This is a source of finance most commonly used by a business to rent assets such as vehicles or premises, rather than having to raise funds to buy these outright.

<u>How to set up a lease</u>

A lease is set up with the company you are looking to rent the asset from. This is usually implemented in person with the company, as you will typically have to sign a document which outlines the terms of the lease.

Long Term Sources of Finance

Mortgages

This is a long-term method of borrowing used to buy premises (property). Interest is added to the amount at the beginning and the whole amount is usually repaid in equal monthly instalments over the agreed re-payment period. This is typically between 20-35 years. The rate of interest is calculated dependant on the length of the mortgage and the amount loaned.

How to get a mortgage

You can also apply for a mortgage directly through a bank or building society, or by contacting an independent mortgage advisor, who will look at products from various lenders. The latter can often be the best option, as the advice is impartial and often free.

In the initial stages, the lender or mortgage advisors will attempt to work out how much you can afford and which type of mortgage you require. This usually involves them taking some basic information from you on your outgoings and income. This information is used to determine the best type of mortgage for you and how long you want it for. They are trying to get an idea of your financial situation, to provide the mortgage lender, for the lender to provide an indication of how much they may be willing to lend you.

In the second part of the process, the mortgage lender will go into more detail to find out if you are able to afford the product offered and you will be required to provide evidence of your income, if this hasn't been requested already. This is usually when the application process begins. This may involve some detailed questioning of your finances and anything which could impact your income in the future.

Details of the evidence you need to provide can be found below;
https://www.moneyadviceservice.org.uk/en/articles/how-to-apply-for-a-mortgage

Then, if your application is accepted, you will be provided with a decision in principle, and you will be given a reflection period (usually around 7 days) which will give you the chance to compare with other lenders and the implications it could have on your business if you accept. The reflection period can be waived if you are operating to strict time constraints. During this reflection period, the lender usually can't change or withdraw their offer.

Venture Capital (Equity)

Venture capitalists provide loans to businesses that a bank may consider to be too risky. In return for their loan, the lender usually acquires a share in the business.

How to get venture capital

You will need to approach a venture capital firm. Bearing in mind that these firms are inundated with business opportunities, it is best to avoid methods of contact where your pitch could get lost or overlooked, e.g email. It's best to make an introduction in person.

You must then prepare an 'elevator pitch' to present your business to the investors in the venture capital firm.

Action Type

Actions that have prerequisites (other actions need to be implemented first), and may require some investment.

Connected Actions

Actions 3 and 5.

Time required to implement a solution and when possible associated cost

Dependant on the Source of Finance selected it can be anywhere from implemented instantly to 4 weeks.

Positive and Negative Part of the Solution

Positive: Having various sources of finance available to a business can help to keep operations running during periods where cashflow may be restricted.

Negative: Interest is added to several finance sources, meaning the business is paying out an additional cost that they will not recoup, in order to gain these finances.

Estimated Exploitation

An increase in funds for the business to grow and generate further profit.

ICT Competence

Basic

English Language Skills

Basic

Webshop Level

Basic

Informative Text

Reynold, W. & Morin, N. (2015). Higher Business Management. Edinburgh, Scotland: Bright Red Publishing.

How to apply for a mortgage. (Publication Date Unknown) Retrieved from URL https://www.moneyadviceservice.org.uk/en/articles/how-to-apply-for-a-mortgage
Additional Resources
Sources of finance; https://www.tutor2u.net/business/reference/sources-of-finance-for-a-startup-or-small-business Sources of Finance and their Advantages/Disadvantages; https://smallbusiness.chron.com/sources-finance-advantages-disadvantages-14407.html Understanding an overdraft; https://efinancemanagement.com/working-capital-financing/advantages-and-disadvantages-of-bank-overdraft https://www.nibusinessinfo.co.uk/content/advantages-and-disadvantages-overdrafts Get a small business loan; https://www.bankrate.com/loans/small-business/3-ways-to-get-a-small-business-loan/ How to choose the best bank loan for your business; https://www.nibusinessinfo.co.uk/content/where-look-bank-loan
Cross Border remark
Application processes and sources of finance available may vary between countries.

TITLE
5. Profit and Loss
ABSTRACT
Profit and Loss accounts (also known as income statements) calculate the final profit or loss that a business has made over a financial period. These statements list sales, expenses, income and cost of sales within this period. This action explains what a profit and loss statement is, provides an example of one and provides a template that can be used within your own organisation.
GENERAL DESCRIPTION OF THE SPECIFIC ACTON
<u>What is a Profit and Loss Statement</u>? A Profit and Loss statement is a financial statement that outlines the companies cost, revenue and expenses:

- Cost = an amount that has to be paid or given up in order to get something
- Revenue = the amount of money that a company receives during a specific period, including discounts and deductions for returned merchandise
- Expense = a cost that has expired or was necessary in order to earn revenues

The profit and Loss statement is one of three financial statements every public company issues quarterly and annually, along with the balance sheet and the cash-flow statement (Actions 3 and 4). It follows a specific structure; Revenue first, which is then subtracted by the cost of doing business including goods sold, operating expenses, tax expense and interest expense.

<u>What is needed to create a Profit and Loss statement</u>

- A list of all the transactions in your business bank account and all purchases made using your business credit card.
- Details of petty cash transactions or cash transactions with related receipts.
- A list of all sources of income for the business, cheques, card payments, etc. Don't forget about cash payments made to your business.
- A list of all business expenses.
- A list of any losses your business has incurred.

<u>Example of a Profit and Loss Statement</u>

https://handsonbanking.org/articles/sample-profit-loss-statement/

https://www.smallbusiness.wa.gov.au/business-advice/financial-management/profit-loss-and-balance-sheets/example-profit-and-loss

<u>Profit and Loss Template</u>

https://templates.office.com/en-us/Profit-and-loss-statement-with-logo-TM03986991

Together with the balance sheet and cash-flow statement, the income statement provides an in-depth look at a company's financial performance and position.

<u>Comparison with Previous Year/Monthly</u>

It's important that your accountant and you compare income statements from different accounting periods, as the changes in revenues, operating costs, research and development spending and net earnings over time are more meaningful than the numbers themselves. For example, a company's revenues may grow, but its expenses might grow at a faster rate. As a start-up, monitoring this is even more vital to ensure the company grows.

Action Type

Simple actions that can be implemented immediately without requiring an investment
Connected Actions
Action 3 and 4
Time required to implement a solution and when possible associated cost
Around 4 hours
Positive and Negative Part of the Solution
Positive: Gained confidence and a better understanding of the profit and loss of the company Negative: Creating a balance sheet can take time and patience and some leaders prefer to spend their time elsewhere.
Estimated Exploitation
A better understanding of what direction the company needs to go based on the profit and losses made.
ICT Competence
Basic
English Language Skills
Basic
Webshop Level
Starting
Informative Text
Wells Fargo Bank. (2018) Sample Profit and Loss Statement. Retrieved from URL https://handsonbanking.org/articles/sample-profit-loss-statement/ Example Profit and Loss Statement. (2018) Retrieved from URL https://www.smallbusiness.wa.gov.au/business-advice/financial-management/profit-loss-and-balance-sheets/example-profit-and-loss
Additional Resources
An image which could be used for this action card; https://www.stockfreeimages.com/7880238/Falling-profits-in-Europe.html

What is a Profit and Loss statement – YouTube;
https://www.youtube.com/watch?v=ulpX3jX_UT0

What is a Profit and Loss statement;
https://startups.co.uk/what-is-a-profit-and-loss-sheet/

How to create a Profit and Loss Statement;
http://edwardlowe.org/how-to-prepare-a-profit-and-loss-income-statement-2/

Why is a Profit and Loss statement useful;
https://fitsmallbusiness.com/profit-and-loss-statement-pl-income/

Cross Border remark

Not everyone is comfortable with numbers and therefore, they're avoided. It is always useful to get someone to double check your calculations just to be sure.

TITLE

6. Expenses

ABSTRACT

Expenses are any costs incurred to the business whilst trying to generate revenue. All expenses are costs, however not all costs are expenses. A business expense must be relevant to your trade/business and considered necessary and helpful in aiding generation of income. This definition is outlined because a business can deduct expenses from their income before assessing tax. This action will explain what costs can be processed as business expenses.

GENERAL DESCRIPTION OF THE SPECIFIC ACTON

What you can claim as a business expense

It's important to establish what can be put through your business as a business expense, as this total can be deducted from your business income, reducing the amount of your profit than can be taxed. You need to separate this from personal expenses and money you pay to yourself, as these cannot be claimed.

There are two types of business expenses; business expenditure and capital expenditure.

Business expenditure

This refers to the running costs of your business. For example,

- Vehicle running costs; mileage allowances and actual running costs.
- Wages, salaries and other staff costs
- Rent, rates, power and insurance costs
- Repairs and renewals of property and equipment
- Accountancy, legal and professional fees
- Phone, fax, stationery and office costs
- Clothing – essential to your business, e.g protective overalls (not a business suit)
- Staff Training/Up-Skilling

Capital expenditure

You can claim back expenditure on large items purchased for your business, such as a car, computer or other equipment essential for business operations. You can claim a percentage of their cost or value.

How to keep track of your business expenses

Keep your business and personal expenses separate. This is crucial before you begin documenting business expenses.

Keep sufficient documentation for business expenses. A bank statement with a trail of purchases will not suffice when it comes to claiming business expenses. Always remember to get a paper receipt with a purchase, no matter how small the cost and label receipts if they do not clearly state what has been purchased.

Create a spreadsheet to log expenses. Creating a spreadsheet, organised monthly with the date, description of purchase and the category it falls under within the business, keeps expenses tidy and easily manageable.

Log your expenses regularly. Do not wait until you have a bulk of receipts to log your expenses. This can lead to things being missed, receipts lost or forgotten details about a expense.

Use a business bank account and business credit cards to aid management of accounts and keeping records. This will help to keep your business and personal expenses separate. Put all income of the business into the account and use it to withdraw money related to the business or pay any business expenses.

Log any mileage used for business travel. If you use a personal vehicle for business purposes, it is essential to differentiate the mileage logged for personal use and business use. You can only claim back any mileage used to travel for business. Take a note of your mileage at the beginning and end of a journey for business purposes.

Log business records by tax year. Having to sort out business records when the end of a fiscal year is approaching is a time-consuming task. Organise your expenses by business year so that you can easily collate them when it comes time to submit the expenses for tax purposes. **Store your expenses for the correct amount of time.** This will be determined by your country's government. <u>Claiming a tax deduction against business expenses</u> You will need to submit a tax return to the governing body within your country at the end of a tax year. Log all business expenses accrued within that tax year on your tax return in order to receive a tax deduction on the expenses. You will need to provide sufficient detail for each purchase made and have the relevant documentation (receipts) to prove that you made the purchase.
Action Type
Simple actions that can be implemented immediately without requiring an investment
Connected Actions
Action 6
Time required to implement a solution and when possible associated cost
If done little and often, logging expenses should take no longer than an hour at a time.
Positive and Negative Part of the Solution
Positive; You will receive a tax deduction against your overall profits if you submit business expenses at the end of a tax year. Negative; Tracking what percentage of an expense was used for business and personal purposes can be a time-consuming and confusing task.
Estimated Exploitation
Receipt of a tax deduction against business expenses.
ICT Competence
Basic
English Language Skills
Basic

Webshop Level
Basic
Informative Text
U.S. Department of Treasury, Internal Revenue Service. (2005). Business Expenses. Retrieved From URL. https://www.inc.com/encyclopedia/tax-deductible-business-expenses.html
Additional Resources
Why you should track your business expenses; https://www.freshbooks.com/blog/track-business-expenses Keeping track of business expenses; https://www.mileiq.com/en-gb/blog/keep-track-business-expenses/ What you can claim; http://smallbusiness.co.uk/what-expenses-can-i-claim-through-my-business-2387518/ How to claim business expenses; https://www.crunch.co.uk/knowledge/tax/how-to-claim-business-expenses/
Cross Border remark
Regulations and allowances on tax deductions when claiming expenses may vary between countries.

TITLE
7. Tax
ABSTRACT
Tax is a compulsory payment to state revenue, implemented by the government on an employee's income and business profits. It can also be added to the cost of some goods, services, and transactions, which will impact businesses outgoings. This action will explain the tax implications you may face when starting a business.
GENERAL DESCRIPTION OF THE SPECIFIC ACTON
Tax exists to fund government expenditure. Taxes which business are liable for are not decided by the EU. They do not have a direct role in either raising taxes or setting tax rates. This amount of tax you pay is decided by your own country's government, not the EU.

Whilst taxes vary from country to country and between types of businesses, the main taxes you will be expected to pay are; income taxes, corporate taxes, value added taxes, EU excise duties and social security contributions.

Income Tax; This is a tax on financial income, for both individuals and businesses.

Corporate tax; This tax is imposed on the profit of a business.

Sales Tax; A tax imposed by the government on the sale of goods and services. For example, value-added tax (VAT).

Businesses are categorised into 3 categories and the category a business falls under may have an impact on the amount of tax they pay. The three categories are service, merchandising and manufacturing.

Service Business; A business that sells products with no physical form. They tend to offer professional skills, expertise, advice and other service-based products.

Examples of a service business include: beauty salons, law firms, digital agencies and cleaning companies.

Merchandising Business; A business that buys a product for a wholesale price and sells this product for a higher price, generating profit. The key in this definition is that the form of the product is never altered.

Examples of a merchandising business include: supermarkets, distributors and other resellers.

Manufacturing Business; A business which buys products with the intention to use them as a material in the creation of a new product. The form of the purchased product is changed.

A manufacturing business considers raw materials, labour and production overheads in the creation of goods which will then be sold to customers.

Hybrid Business; A business that may be classified in more than one type of business. However, these are usually categorised in the end by their major business interest.

How to implement

- To ensure that you are registered properly as a business and contributing to the correct taxes, you will require to **do some research into your country's tax policies**, dependant on the type of business you are operating.
- The easiest way to do this is to **consult the website of the government in your country**. If they do not have a website, you may be able to contact them directly, via telephone or in person, to get some advice.

• If you are unsure about the taxes you should be paying, it may be best to **speak to a financial advisor or an accountant**, who will be able to ensure you are meeting all tax regulations for your business.
Action Type
Actions that have prerequisites (other actions need to be implemented first), and may require some investment.
Connected Actions
Action 5
Time required to implement a solution and when possible associated cost
1 week to get set up and registered to pay all the required taxes
Positive and Negative Part of the Solution
Positive; Paying the correct taxes will provide your business with good credit rating, which is beneficial if the business needs to apply for loans or further funding for expansion. Negative; Taxation increases a business's expenses if they are liable for numerous taxes, using money that could have otherwise been spent to grow the business and gain revenue.
Estimated Exploitation
Boosting the credit rating of the business has potential to attract investors and gain new funding for the business.
ICT Competence
Basic
English Language Skills
Basic
Webshop Level
Basic
Informative Text
Business Gateway. (2014) Tax Rates and Allowances. Retrieved from URL https://www.bgateway.com/business-guides/finance/tax-rates-and-allowances

Additional Resources
Taxation, the different types and why it's important; https://www.investopedia.com/terms/t/taxation.asp A beginner's guide to tax; https://tax.findlaw.com/federal-taxes/tax-basics-a-beginners-guide-to-taxes.html Taxation terminology explained; https://www.artofmanliness.com/articles/taxes-for-beginners/ Importance of Taxes; https://vaderanco.com/importance-taxes-in-business/ Tax for Small Businesses; http://smallbusiness.co.uk/five-taxes-you-should-know-about-when-running-a-small-business-2488866/
Cross Border remark
Tax legislations vary within the EU