

Finance for Sustainability Professionals

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IEMA

Transforming the world to sustainability



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**1 Very basic principles
of accounting**

**2 Investment
appraisal**

**3 Writing a
business case**

30 minutes, calculators not required!



Part One: Accounting Basics

Cash: *when we spend the money.*

Accruals: the period to which it relates.

- **Depreciation:**
Spreading the cost of an asset over its life.
- **Obligations:**
Recognise obligations as soon as it arises.
- **Costs and Assets:**
Recognise cost of stock when it's sold.
- **Cost Savings:**
Recognise savings only when they're realised.

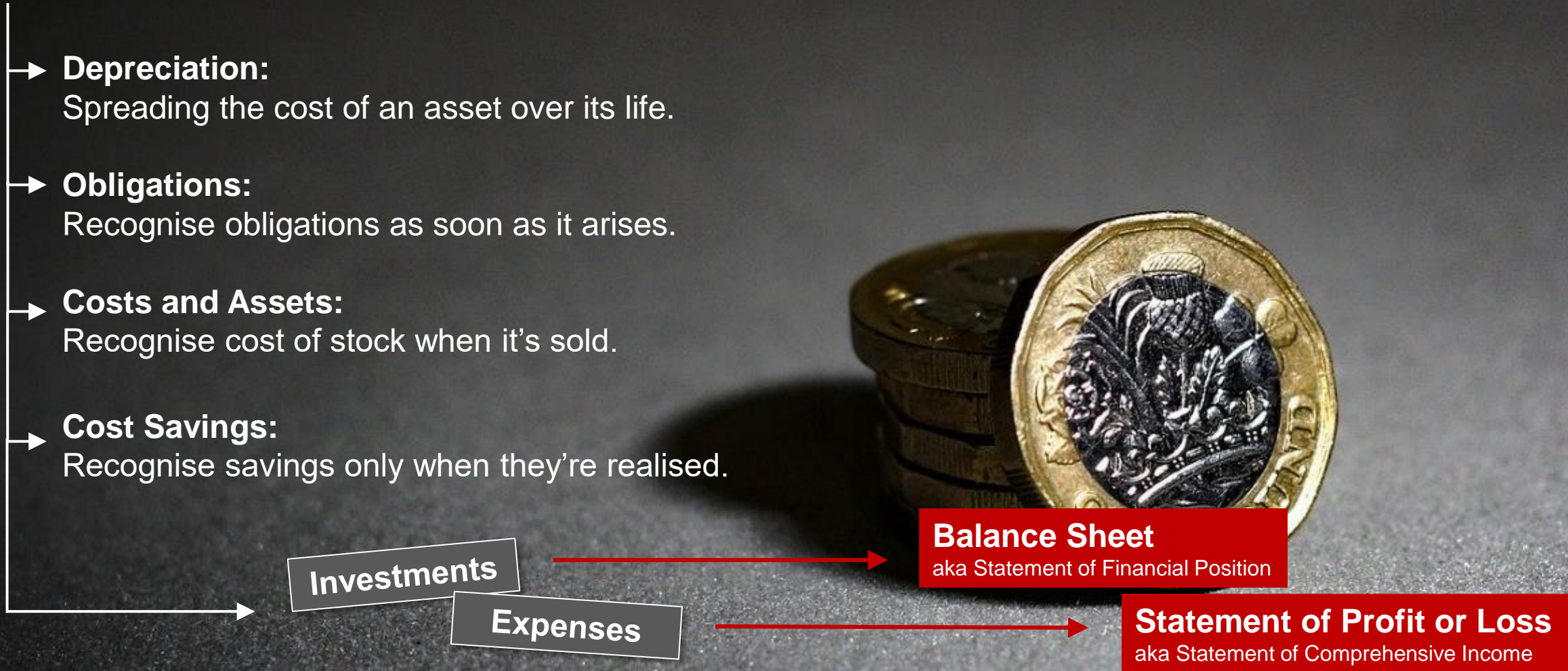


Investments

Expenses

Balance Sheet
aka Statement of Financial Position

Statement of Profit or Loss
aka Statement of Comprehensive Income



First published work on double entry...
Luca Pacioli, Italian Monk

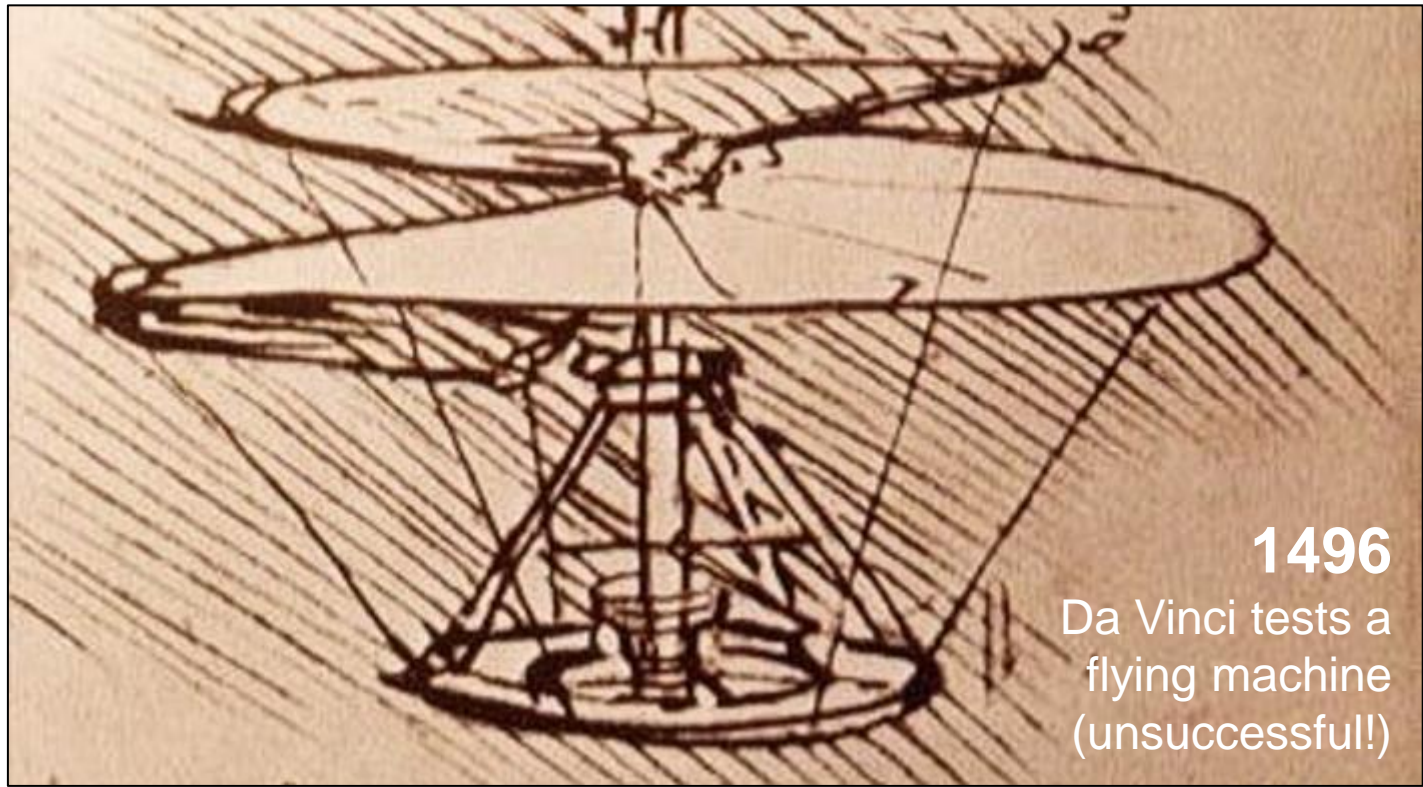
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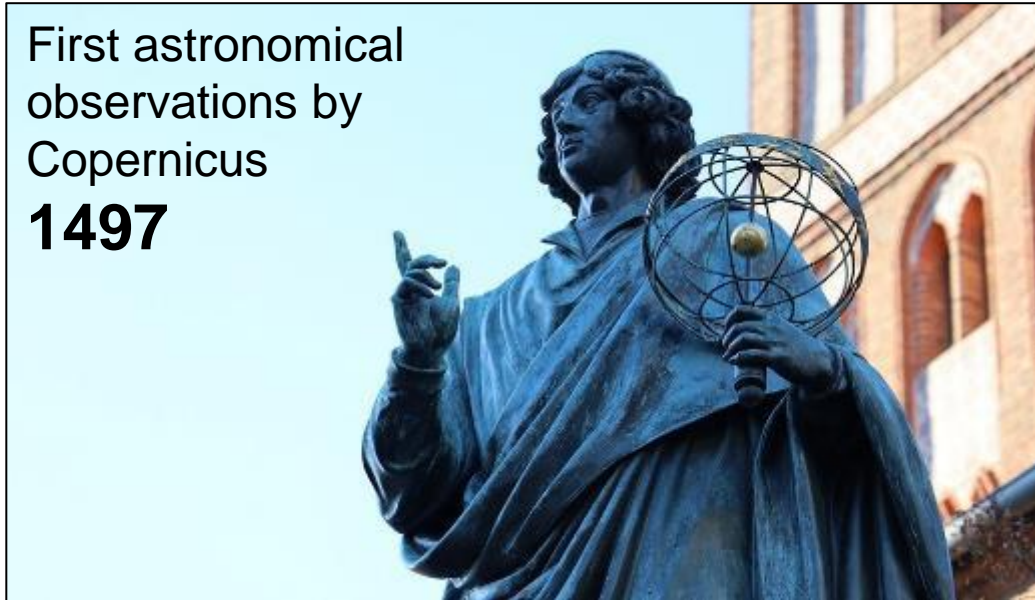
1495

First record of
Scotch Whisky



1496

Da Vinci tests a
flying machine
(unsuccessful!)



First astronomical
observations by
Copernicus

1497



Trinidad discovered
by Europeans.

1498

Two primary financial statements...

Balance Sheet

aka Statement of Financial Position

Our assets	X
Our liabilities	<u>- X</u>
Net assets	<u>X</u>
= Investor's funds	<u>X</u>



Statement of Profit or Loss

aka Statement of Comprehensive Income

Revenue	X
Cost of goods sold	<u>- X</u>
Gross profit	X
Admin expenses	- X
Selling expenses	<u>- X</u>
Operating profit	X



Prof Alex Edmans
London Business School

The Crowd, 8th February 2016

Part Two: Investment Appraisal



1

Does the project make sense?

- Payback period
- Savings vs investment (“return on investment”; ROI)

2

What about the time value of money?



3

How much do we need to make?

- Net present value
- Internal rate of return

Part Three: The Business Case



The Business Case

- Describe the project
- Investment required
- Expected benefits
- Risks and sensitivities
- Alternatives discarded

Efficiency and Innovation...

Revenue Strength

Enduring Cost Savings

Long Term Business Resilience

Err... what did you say again?

The background of the slide features a traditional Japanese bow (yumi) and arrows (ya) on the left side. The bow is made of wood and has a thick, light-colored, fibrous grip. The arrows are also made of wood and have white fletching. On the right side, there is a target with a bullseye and several concentric circles. An arrow is shown hitting the bullseye. The overall scene is set outdoors on a dirt ground with some greenery in the background.

The Key Points...

Consider cash **and** reporting implications

Business cases need to explain the **financial benefits** of a project.

Consider the organisation's **resilience**, **cost savings** and **revenue strength**.