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A Comprehensive Guide to Financial and Accountancy Issues for Start-Ups

 **TIGA**TM
Representing the Games Industry

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Partnering with TIGA, this guide aims to provide essential financial and accountancy knowledge for Video Games start-ups. Covering fundamental topics such as budgeting, cash flow management, start-up loans, financial reporting, planning and controls, and sources of finance, this guide is designed to support new studios in navigating their financial responsibilities and opportunities.

Understanding and managing financial and accountancy issues is critical for the success of start-ups. By following the guidelines in this document, new studios can establish a strong financial foundation, navigate challenges, and achieve sustainable growth.



Budgeting is essential for video game start-ups to manage their finances effectively. A comprehensive budget helps you:

- 🎮 **Track Expenses** – Monitor and control spending to avoid overspending.
- 🎮 **Forecast Revenue** – Predict future sales and income to plan accordingly.
- 🎮 **Set Financial Goals** – Establish both short-term and long-term financial objectives.
- 🎮 **Allocate Resources** – Ensure funds are available for essential operations and strategic investments.

Key Benefits of Budgeting

- 🎮 **Monitor Spending** – Keep an eye on where your money is going to avoid unnecessary expenses.
- 🎮 **Control Cost** – Identify areas where you could reduce spending without impacting game development quality.
- 🎮 **Predict Sales** – Use historical data and market research to estimate future sales of your games.
- 🎮 **Plan Ahead** – Align your business strategies with expected revenue to stay prepared for different scenarios.
- 🎮 **Short-Term Goals** – Define immediate financial targets, such as monthly sales quotas or quarterly profit margins.
- 🎮 **Long-Term Objectives** – Establish broader goals like annual revenue targets or milestones in game development.
- 🎮 **Ensure Availability** – Make sure you have the necessary funds for daily operations and development costs.
- 🎮 **Invest Strategically** – Allocate resources to high-priority projects that drive growth and profitability, such as new game features or marketing campaigns.

Tips for Effective Budgeting

- 🎮 **Realistic Estimates** – Base your budget on realistic income and expense projections to avoid financial shortfalls.
- 🎮 **Regular Reviews** – Update your budget regularly to reflect actual performance and any changes in the market or your business.
- 🎮 **Categorise Expenses** – Break down expenses into fixed (e.g., rent, salaries) and variable (e.g., utilities, marketing) categories for better management.

Steps to Create a Budget

- 🎮 **Identify Income Sources** – List all potential revenue streams, including directors loans, bank loans, investment, publisher funding, game sales, in-game purchases and subscriptions.
- 🎮 **List Fixed Costs** – Include rent, salaries, and other fixed expenses necessary to keep the business running.
- 🎮 **Estimate Variable Costs** – Account for costs that can fluctuate, such as utilities, marketing, and game development expenses.
- 🎮 **Plan for Contingencies** – Set aside a portion of your budget for unexpected expenses or opportunities.
- 🎮 **Review and Adjust** – Regularly compare actual performance against your budget and make adjustments as needed to stay on track.

Budgeting for Video Game Start-Ups



Cash Flow Management for Video Game Start-Ups

The Importance of Cash Flow Management

Cash flow is the lifeblood of any start-up, including those in the video game industry. Proper cash flow management ensures that your business has enough liquidity to meet its obligations, maintain operations, and invest in growth opportunities.

Key Strategies for Cash Flow Management

- 🎮 **Track Inflows and Outflows** – Keep a close eye on all cash movements within your business to identify potential cash shortages or surpluses.
- 🎮 **Anticipate Needs** – Regular monitoring helps in forecasting future cash requirements and preparing for them in advance.
- 🎮 **Accelerate Receivables** – Issue invoices immediately after services are rendered or goods are delivered to ensure faster payments.
- 🎮 **Follow Up** – Implement a system to follow up on overdue invoices to minimize delays in receiving payments.
- 🎮 **Extend Payables** – Work with your suppliers to negotiate extended payment terms, giving your business more time to pay bills and improving cash flow.
- 🎮 **Early Payment Discounts** – If possible, negotiate discounts for early payments to reduce costs while maintaining good relationships with suppliers.

- 🎮 **Buffer for Unexpected Expenses** – Keep a reserve of funds to cover unforeseen expenses or downturns in revenue, ensuring your business can continue operating smoothly during tough times.
- 🎮 **Emergency Fund** – Set aside a specific amount as an emergency fund to safeguard against financial crises.

Steps to Effective Cash Flow Management

- 🎮 **Create a Cash Flow Statement** – Develop a cash flow statement to track all incoming and outgoing cash. This statement should be updated regularly to reflect the current financial status.
- 🎮 **Set Up Alerts** – Use accounting software to set up alerts for low cash balances or overdue invoices, helping you take timely action.
- 🎮 **Review Regularly** – Conduct monthly or quarterly reviews of your cash flow to identify trends and make necessary adjustments.
- 🎮 **Optimize Inventory** – For those dealing with physical products, manage inventory efficiently to avoid tying up too much cash in stock.
- 🎮 **Plan for Seasonality** – If your business experiences seasonal fluctuations, plan your cash flow accordingly to ensure you have enough funds during slower periods.




Start-Up Loans for Video Game Start-Ups

The Importance of Start-Up Loans


Securing funding is crucial for video game start-ups to launch and grow their operations. Understanding the different types of loans available and the considerations when choosing the right loan can significantly impact your business's financial health and success.

Types of Start-Up Loans

 **Traditional Funding** – Bank loans are a conventional source of funding, often requiring a strong credit history and collateral.


Pros: Typically offer lower interest rates compared to other forms of financing.

Cons: Can be difficult to obtain for new studios without a proven track record.

 **Favourable Terms** – Government programs such as the UK Games Fund and Innovate UK, provide grants and loans with favourable terms specifically designed to support new studios.


Pros: Typically offer lower interest rates compared to other forms of financing.

Cons: Can be difficult to obtain for new studios without a proven track record.

 **Equity Financing** – Involves selling a portion of your company to investors in exchange for funding.

Pros: Provides significant capital and can come with valuable mentorship and industry connections.


Cons: Dilutes ownership and may require giving up some control over business decisions.


 **Public Funding** – Raising small amounts of money from a large number of people, typically through online platforms like Kickstarter or Indiegogo.


Pros: Can also serve as a marketing tool and validate your game concept with potential customers.


Cons: Requires a strong marketing effort and the ability to engage and build a community.


Considerations When Choosing a Loan


 **Compare Rates:** Evaluate the interest rates of different loan options to find the most cost-effective solution.

 **Impact on Cost:** Higher interest rates can significantly increase the total cost of the loan.

 **Align with Cash Flow:** Ensure that the loan's repayment schedule aligns with your business's cash flow projections to avoid liquidity issues.

 **Flexibility:** Look for loans with flexible repayment terms that can adapt to your business's financial situation.

 **Understand Requirements:** Be aware of any assets you need to secure the loan, such as property or equipment.

 **Risk Assessment:** Consider the risk of losing collateral if the business fails to meet repayment terms.




Financial Reporting for Video Game Start-Ups:


The Importance of Financial Reporting

Accurate financial reporting is critical for video game start-ups to track performance, secure investment, and comply with regulations. It provides transparency into the financial health of your business, enabling better decision-making and fostering investor confidence.


Essential Financial Statements

 **Balance Sheet** – Shows the company's assets, liabilities, and equity at a specific point in time. Main components:

- **Assets:** What the company owns (e.g., cash, equipment, inventory).
- **Liabilities:** What the company owes (e.g., loans, accounts payable).
- **Equity:** The owner's interest in the company (e.g. retained earnings, shareholders' equity).


 **Income Statement** – Details revenue, expenses, and profit over a specific period. Main components:


- **Revenue:** Income from sales and other sources.
- **Expenses:** Costs incurred to generate revenue (e.g., development costs, marketing expenses).
- **Profit:** The net income after subtracting expenses from revenue.


 **Cash Flow Statement** – Provides a summary of cash inflows and outflows. Main components:


- **Operating Activities:** Cash generated or used in day-to-day operations.
- **Investing Activities:** Cash used for investment in assets (e.g., purchasing equipment).
- **Financing Activities:** Cash from or used in financing activities (e.g., loans, investor funding).


Best Practices for Financial Reporting


 **Monthly or Quarterly Reports** – Generate financial reports on a regular basis to monitor progress and make informed decisions.

 **Timely Updates** – Ensure that financial data is current and reflects the latest business activities.

 **Automation** – Leverage accounting software to automate and streamline the reporting process, reducing the risk of errors.

 **Efficiency** – Use technology to save time and improve accuracy in financial reporting.

 **Expert Advice** – Work with accountants familiar with the games industry and financial advisors to ensure accuracy and compliance with relevant regulations.

 **Compliance** – Ensure your financial reports meet all legal and regulatory requirements, which is crucial for securing investment and avoiding penalties.



Planning and Controls for Video Game Start-Ups:

The Importance of Planning and Controls

Effective planning and controls are essential for video game start-ups to stay on track and achieve their goals. These practices help in outlining business strategies, managing financial resources, and ensuring that operations run smoothly and securely.

Planning Activities

- 🎮 **Business Plan** – To outline your business objectives, strategies, and financial projections. Main components:
 - **Objectives:** Define clear and achievable goals for your start-up.
 - **Strategies:** Detail the steps and actions you will take to reach these goals.
 - **Financial Projections:** Include revenue forecasts, expense estimates, and profit margins to guide your financial planning.
- 🎮 **Financial Plan** – To develop a detailed financial roadmap for your business. Main components:
 - **Budgets:** Create budgets to manage your resources effectively.
 - **Forecasts:** Develop financial forecasts to predict future income and expenses.
 - **Funding Needs:** Identify how much capital you need and the best sources of funding.

Control Mechanisms

- 🎮 **Internal Controls** – To implement processes that safeguard assets and ensure accurate financial reporting. Main components:
 - **Segregation of Duties:** Divide responsibilities among different employees to reduce the risk of errors and fraud.
 - **Approval Processes:** Establish approval processes for expenditures and financial transactions.
- 🎮 **Performance Monitoring** – To regularly review performance against targets and adjust plans as needed. Main components:
 - **KPIs:** Define key performance indicators (KPIs) to measure progress.
 - **Regular Reviews:** Conduct regular performance reviews to assess whether goals are being met.
 - **Adjustments:** Make necessary adjustments to strategies and plans based on performance data.
- 🎮 **Risk Management** – To identify potential risks and develop strategies to mitigate them. Main components:
 - **Risk Identification:** Identify potential risks that could impact your business.
 - **Risk Assessment:** Assess the likelihood and impact of these risks.
 - **Mitigation Strategies:** Develop and implement strategies to minimize or eliminate risks.




Sources of Finance for Video Game Start-Ups:

The Importance of Choosing the Right Source of Finance

Selecting the appropriate source of finance is crucial for video game start-ups to fund their operations and support growth. Understanding the different options available can help you make informed decisions that align with your business goals and financial needs.

Common Sources of Finance

 **Equity Financing** – Involves selling shares of the company to raise capital.


Pros: Provides substantial capital without the obligation to repay.

Cons: Dilutes ownership and may require giving up some control over business decisions.

 **Debt Financing** – Borrowing funds through loans or bonds.


Pros: Maintains ownership and control over the company.

Cons: Requires regular repayments with interest, which can strain cash flow.

 **Grants and Subsidies** – Non-repayable funds provided by governments or organisations.

Pros: Provides funding without the need for repayment or equity dilution.

Cons: Competitive application process and may have strict eligibility criteria.

 **Bootstrapping** – Using personal savings or revenue generated by the business to fund growth.

Pros: Maintains full ownership and control, no debt or interest obligations.

Cons: Limited funding capacity, which may slow down growth.

Choosing the Right Source

Evaluate Cost:

- **Considerations:** Analyse the cost of capital, including interest rates for debt financing and the potential loss of equity for equity financing.
- **Impact:** Higher costs can affect profitability and cash flow.

Assess Availability:

- **Considerations:** Determine which sources are accessible based on your studio's stage, the industry, and financial health.
- **Impact:** Some sources may be more readily available to established studios (such as the UK Games Content Fund) or for specific game genres.

Align with Goals:

- **Considerations:** Select financing options that support your long-term business objectives, such as scaling operations, developing new games, or entering new markets.
- **Impact:** The right source of finance should enable you to achieve your strategic goals without compromising your business model.

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Plus Accounting provide tailored accounting solutions for the gaming industry. With a focus on indie game developers and studios, we offer comprehensive services including tax, finance management, and strategic planning to help your studio thrive.

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TIGA is the network for games developers and digital publishers and the trade association representing the video games industry. Our core purpose is to strengthen the games development and digital publishing sector.

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