

**Teach yourself how to build a Business Case for any industry** including mining

**1b Where does the business case fit  
with accounting, project funding and tax?**



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*Let's assume there are seven stages in a project or acquisition, whether big or small ...*

1. ...

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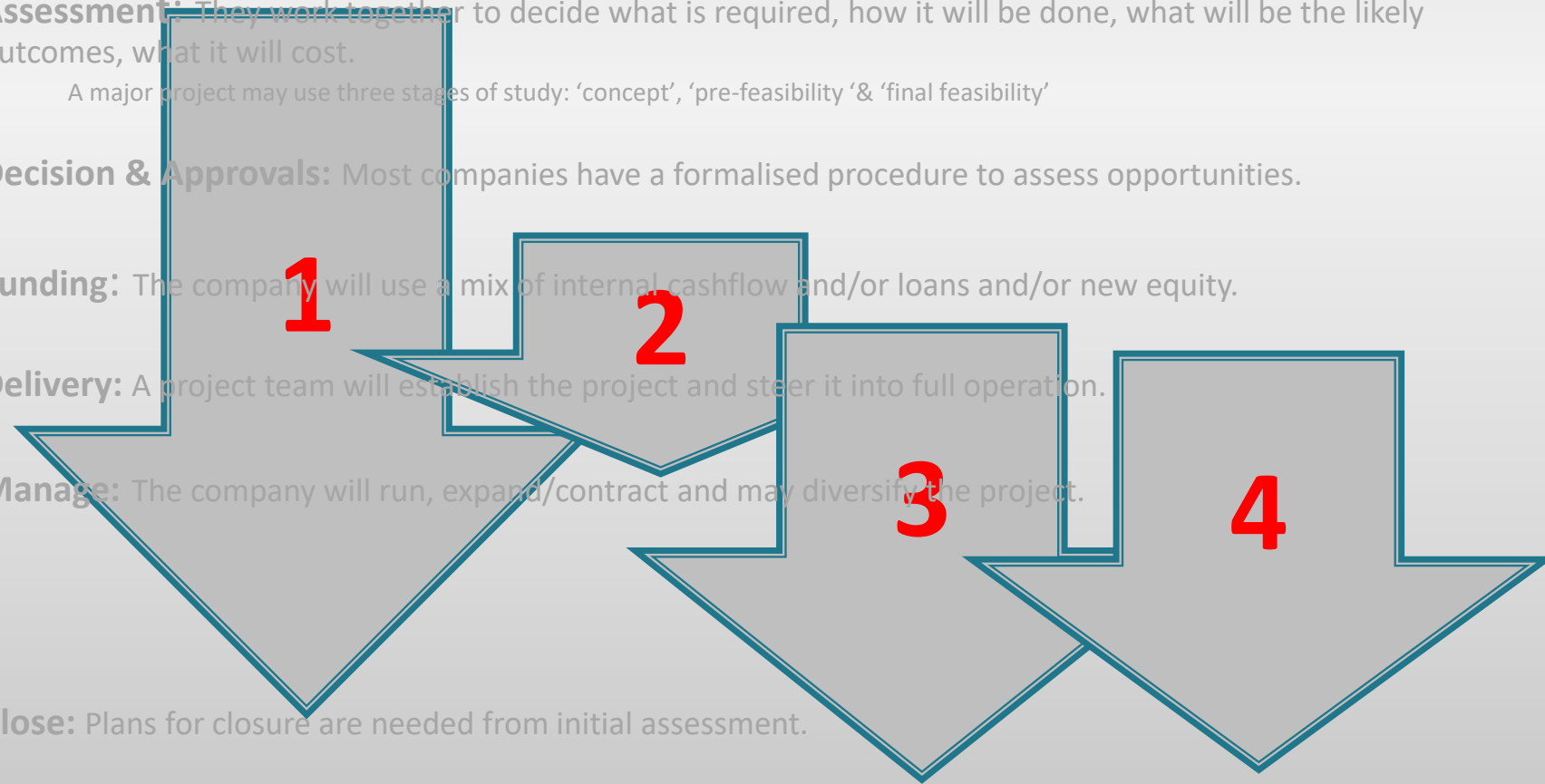
7. ...

*Let's assume there are seven stages in a project or acquisition, whether big or small ...*

1. **Idea:** People decide to try to make a good idea work.
2. **Assessment:** They work together to decide what is required, how it will be done, what will be the likely outcomes, what it will cost.  
A major project may use three stages of study: 'concept', 'pre-feasibility' & 'final feasibility'
3. **Decision & Approvals:** Most companies have a formalised procedure to assess opportunities.
4. **Funding:** The company will use a mix of internal cashflow and/or loans and/or new equity.
5. **Delivery:** A project team will establish the project and steer it into full operation.
6. **Manage:** The company will run, expand/contract and may diversify the project.
7. **Close:** Plans for closure are needed from initial assessment.

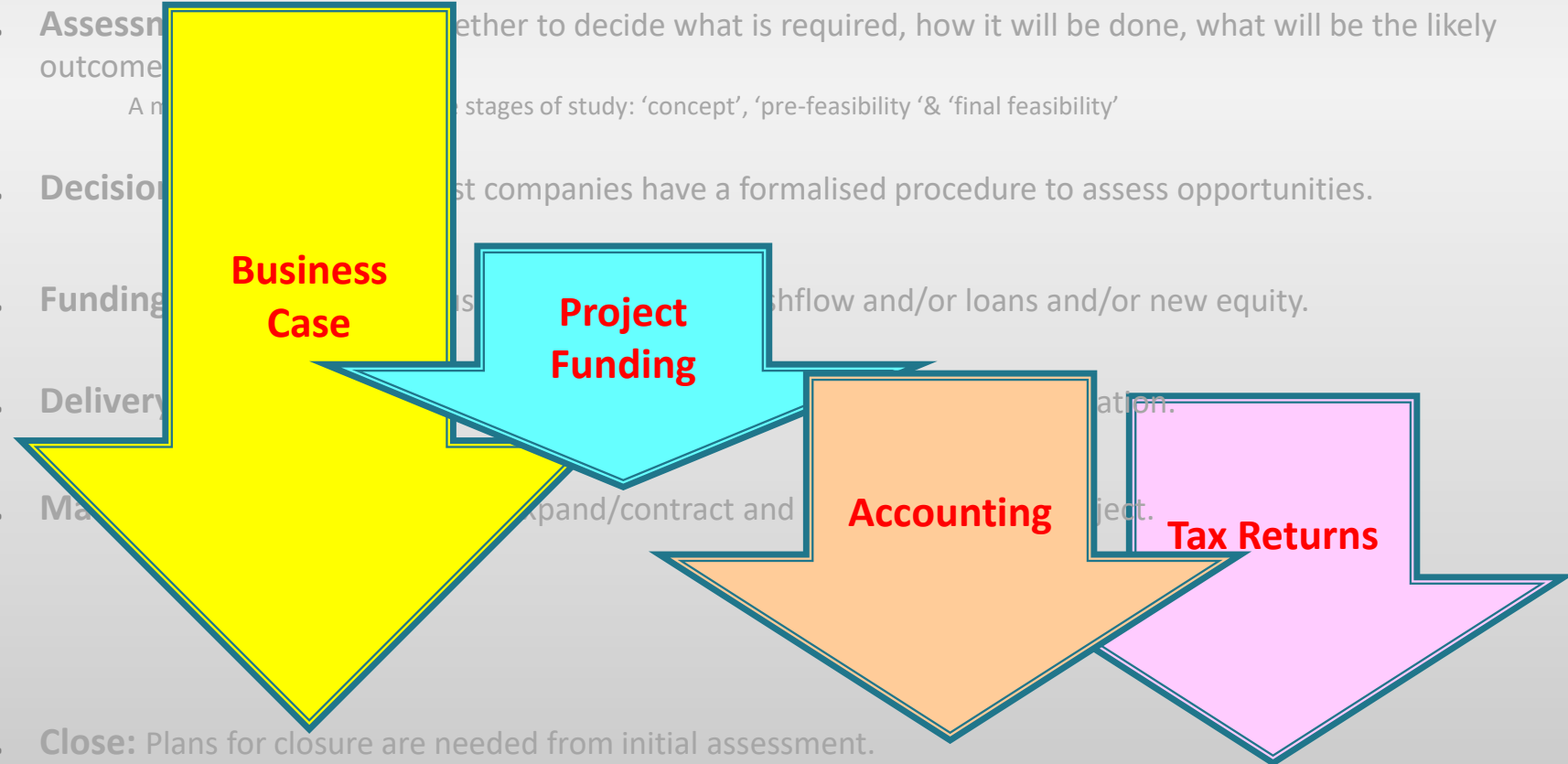
**During the project's life, there will be four key activities dealing with money.**

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## They are ....

1. **Idea:** People decide to try to make a good idea work.
2. **Assessment:** People decide whether to decide what is required, how it will be done, what will be the likely outcome.  
A number of stages of study: 'concept', 'pre-feasibility' & 'final feasibility'
3. **Decision:** Most companies have a formalised procedure to assess opportunities.
4. **Funding:** Companies need cashflow and/or loans and/or new equity.
5. **Delivery:** Companies need to deliver the project.
6. **Management:** Companies need to expand/contract and manage the project.
7. **Close:** Plans for closure are needed from initial assessment.





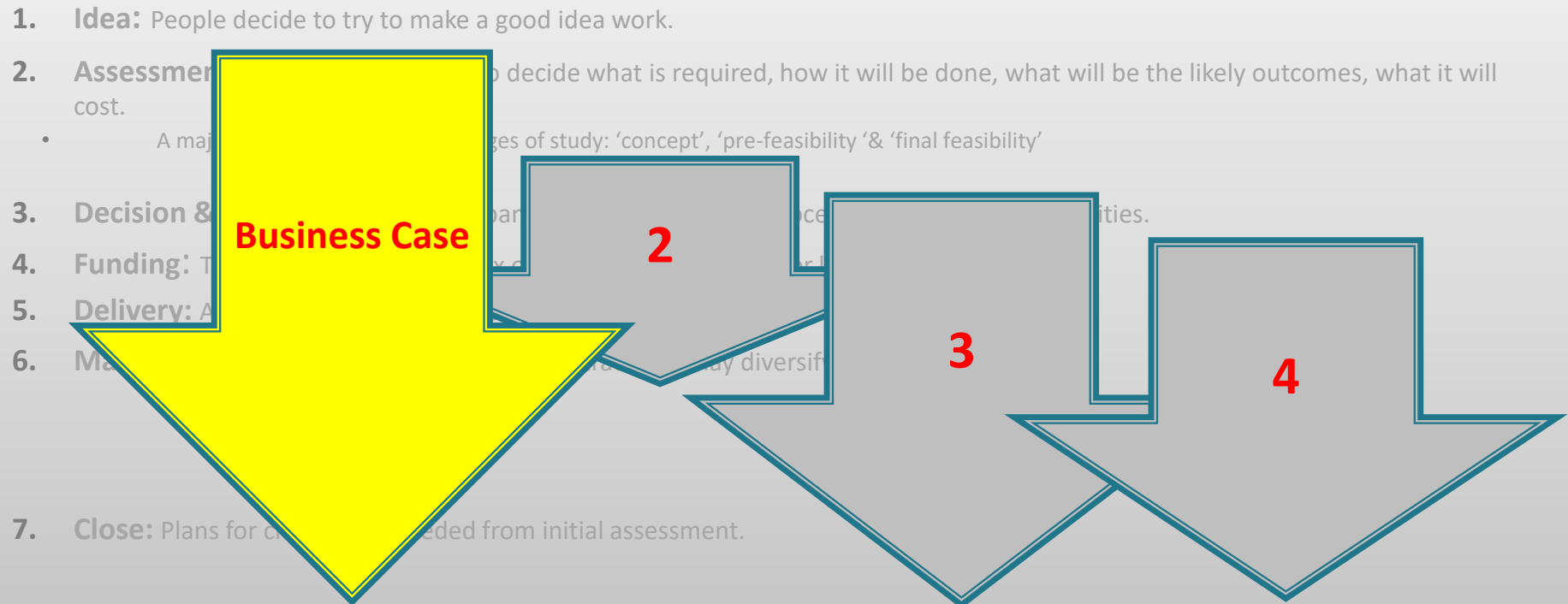
## First, is the business case or economic evaluation

It gives an easy-to-understand, 'helicopter' view of the project or acquisition

It is under the control of the leaders of the project and becomes their 'steering wheel'.

- It uses everyday language, practical concepts and is by far the easiest of the four to understand
- The main working tool is a business model ('economic model') of the project in Excel or Google sheets
- It shows how the project is shaping up and what needs to be done to succeed.
- It recognises money only as it is spent and any surplus cash only as it is generated – unlike accounting.
- It should be commenced as soon as the project is conceived.

*It will give direction, speed, efficiency and substance to the hard work ahead*

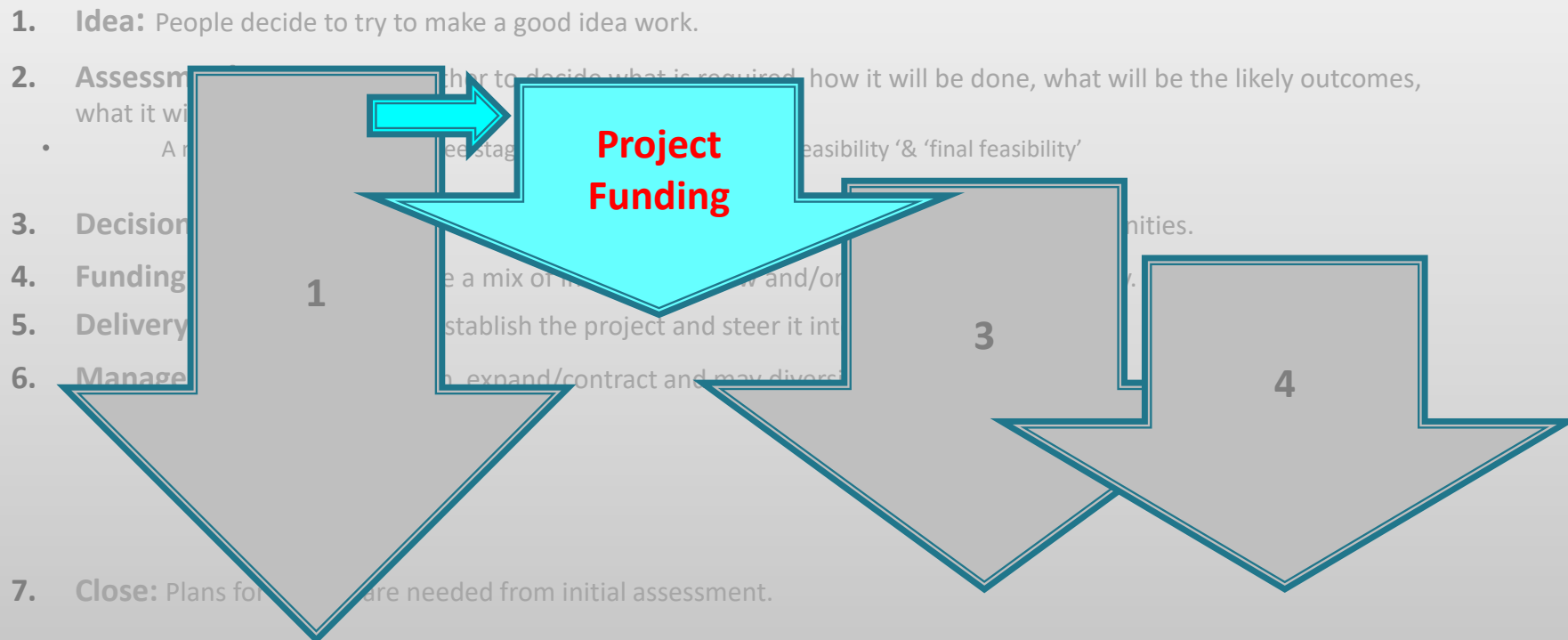


## Second, comes the Project Funding or Project Financing

If the project or acquisition is small compared with the cash generated within the company then financing should be a background activity.

If the project or acquisition is major for the company then it probably would be funded by some mix of internal cashflow, borrowings (debt) and/or cash from existing & new shareholders (equity).

The 'pro's and cons' of various mixes usually will be investigated by the company's treasurer and the optimum mix will be selected by the Management and Board.





## Third is the Accounting

Accounting has a very different purpose and very different methodology to the Business Case.

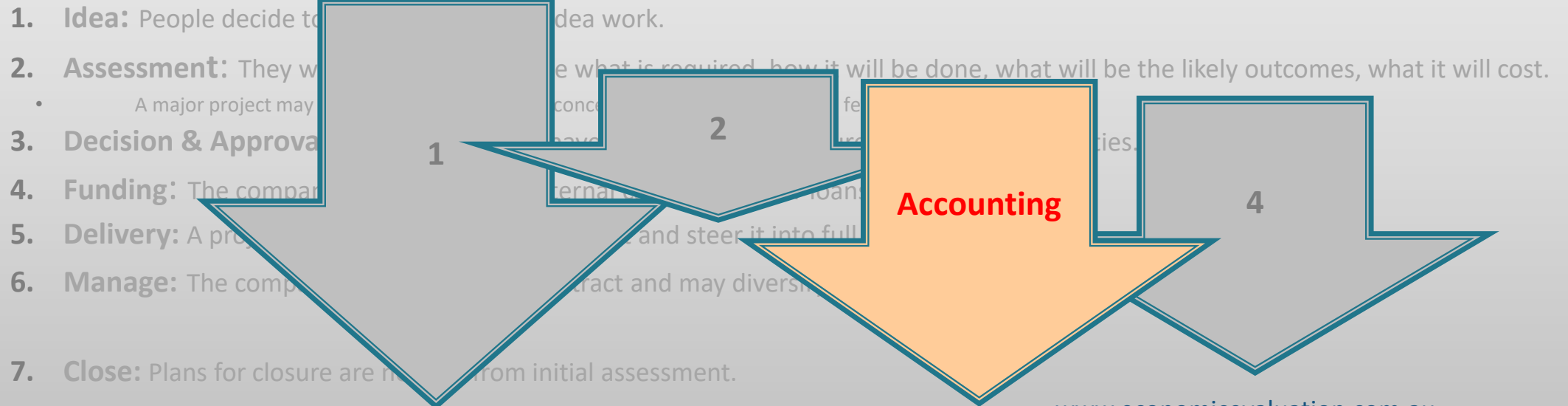
It usually measures the financial performance of the project over a shorter period.

It usually computes the past performance over months/year and makes a forecast of the next months/year against a 'budget'.

It is a key tool for managers, shareholders, lenders, governments, communities and others who want to monitor the project/business.

Most importantly and unlike the business model, Accounting: -

- measures financial performance over a set period, taking into account:
  1. a portion of the money already spent in the past (business models do not include past cash outlays)
  2. a portion of any liabilities in the future (business models include all liabilities only as they are paid out in cash.)
- 'matches' the revenue from the sales of goods and services with the resources needed to produce them. (business models do not)
- is very detailed and precise (whereas a business case may use approximations for less important parameters)
- does not necessarily recognise cash as it is actually spent and generated, but uses accounting concepts like 'depreciation' and 'accrual' to match costs with sales. These can be puzzling for non-accountants.
- These 'non-cash' concepts are entirely valid and sensible when understood.



## Lastly come various tax returns: -

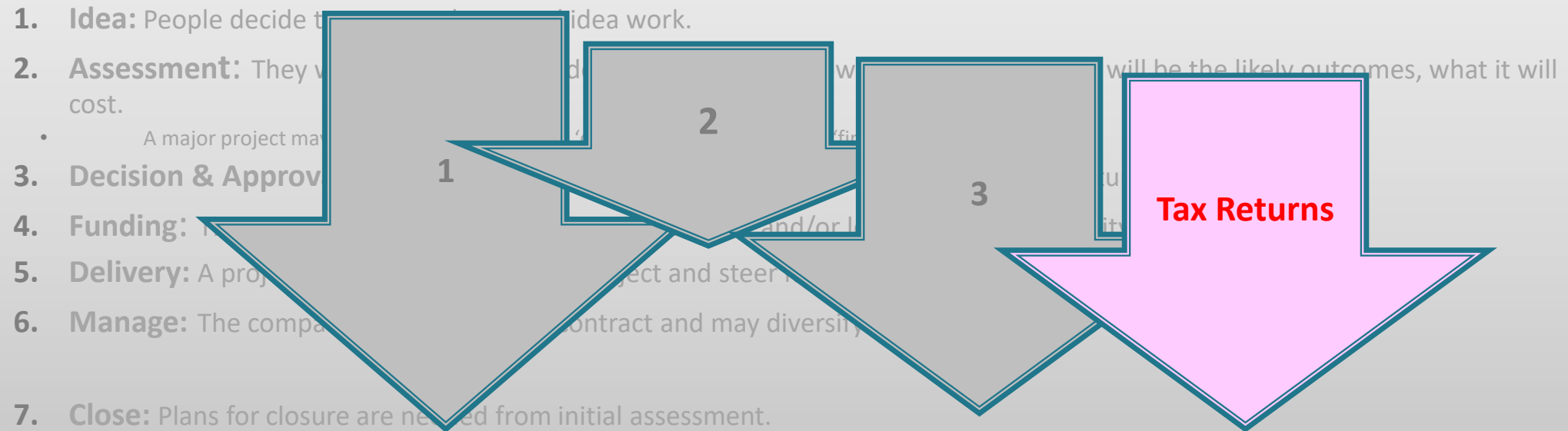
Most countries will take a share of the 'surplus' money generated, plus put a tax on selected sales and costs.

**The calculation of each of these taxes will be specified in government legislation.** (Research these via the internet, esp via accounting companies)

- **Income tax** normally is a percentage of the surplus money after deducting the expenses of generating that surplus. (Like Accounting, it matches costs with sales)
- **Royalties in mining** frequently are a simple percentages of the revenue (before deducting costs). **Otherwise they can be quite complex computations.**
- **Indirect taxes on materials, energy, labour and value-add** normally are incorporated in these items (and usually not computed annually for payment like income tax.)

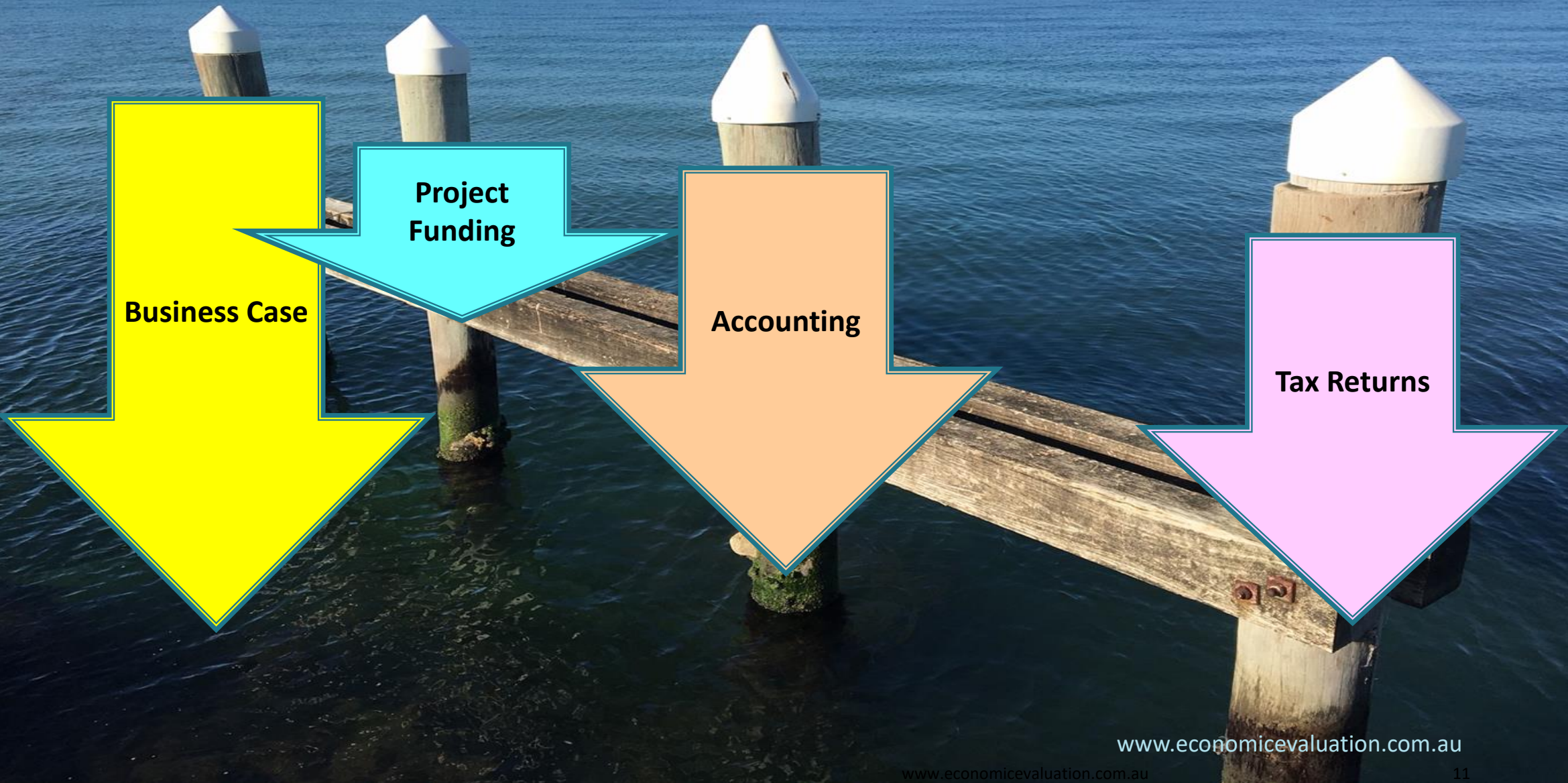
**Most importantly, the business case is likely to approximate the calculation of income tax. The business case is unlikely to need to go to the extremes of precision and detail needed by the company to complete it's own income tax return because:**

1. The approximations of income tax in the business case can get suitably close - especially when the differences are the timings between years
2. So many key assumptions in the business case - especially about sales volumes, price, operating performance and costs - will swamp the fine details of precise tax computations.
3. The time required is unwarranted and would usually be better spent focussing on the key assumptions.

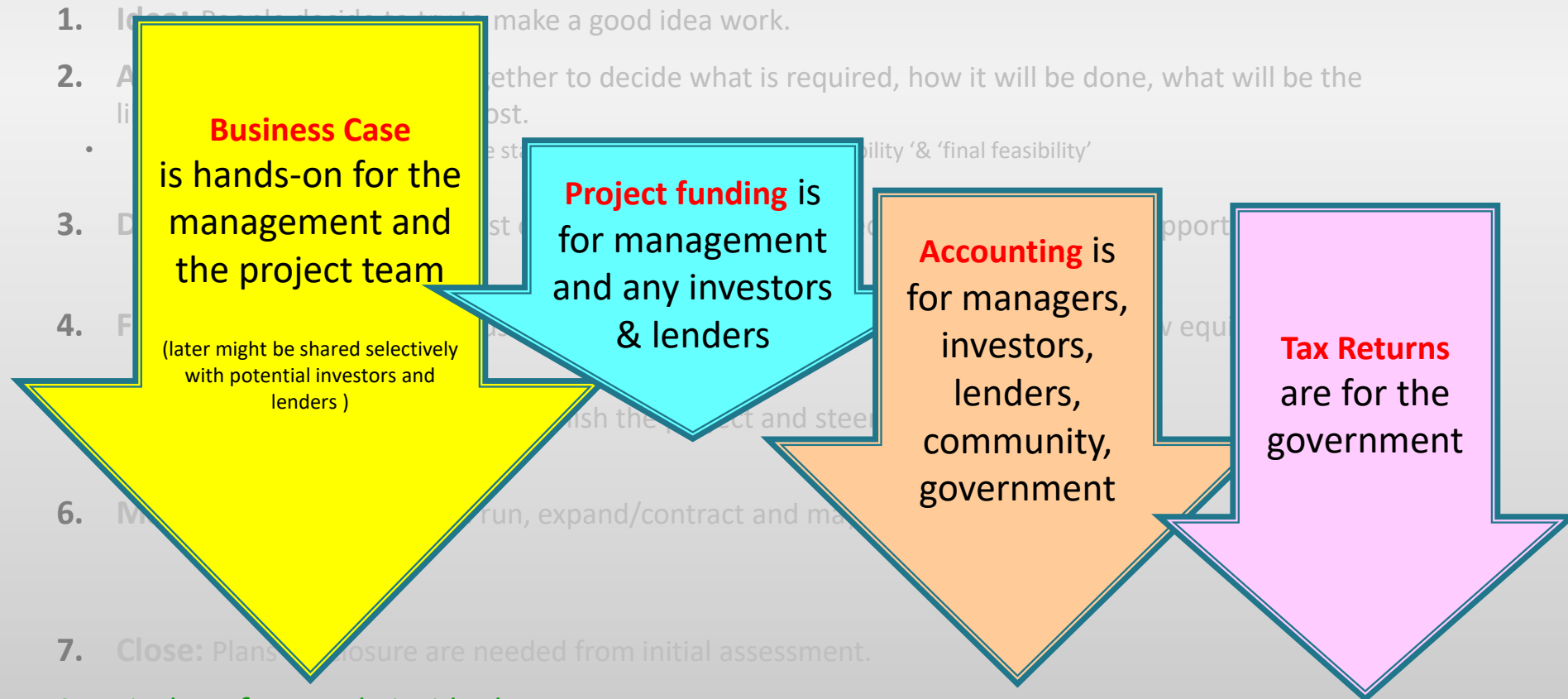


**Each of these four is essential:** one is not more important than the other

**Each has a different purpose:** but they all use much the same data in different ways



## Different people/organisations are targeted by each: -



*The Business Case is done for people inside the company*

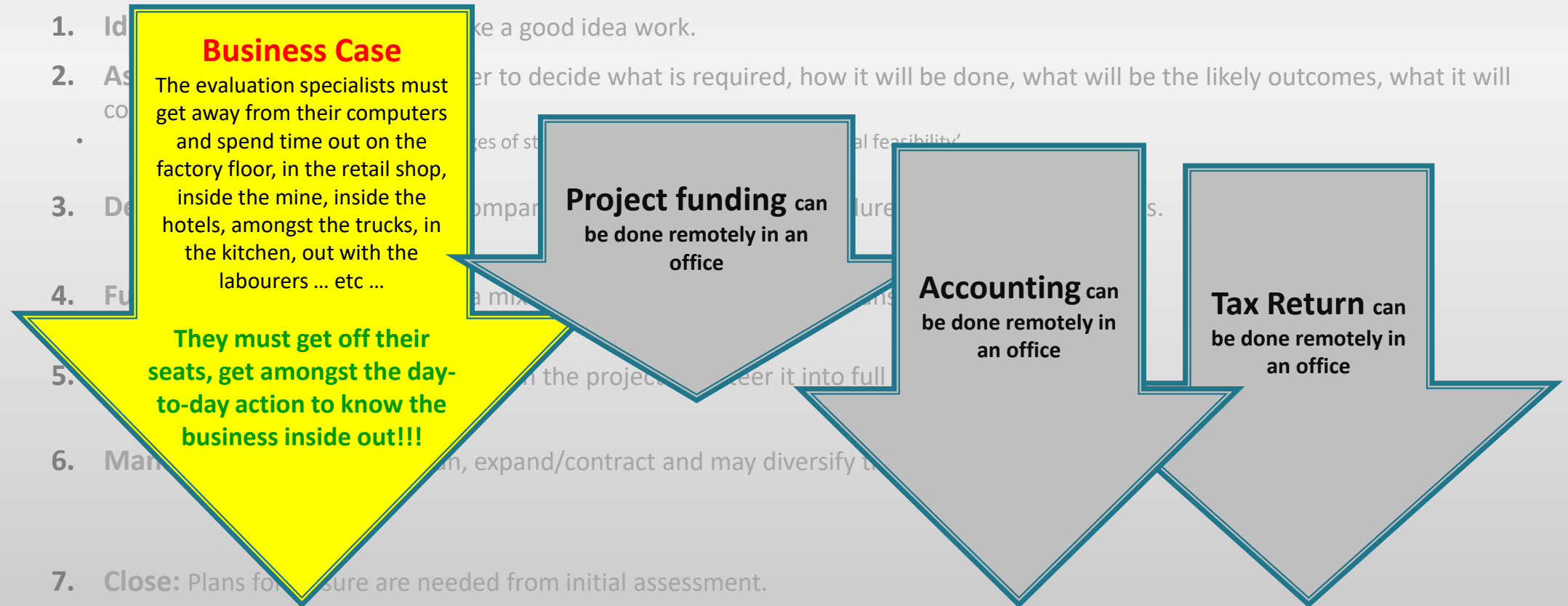
*The other three are for internal people and external organisations*



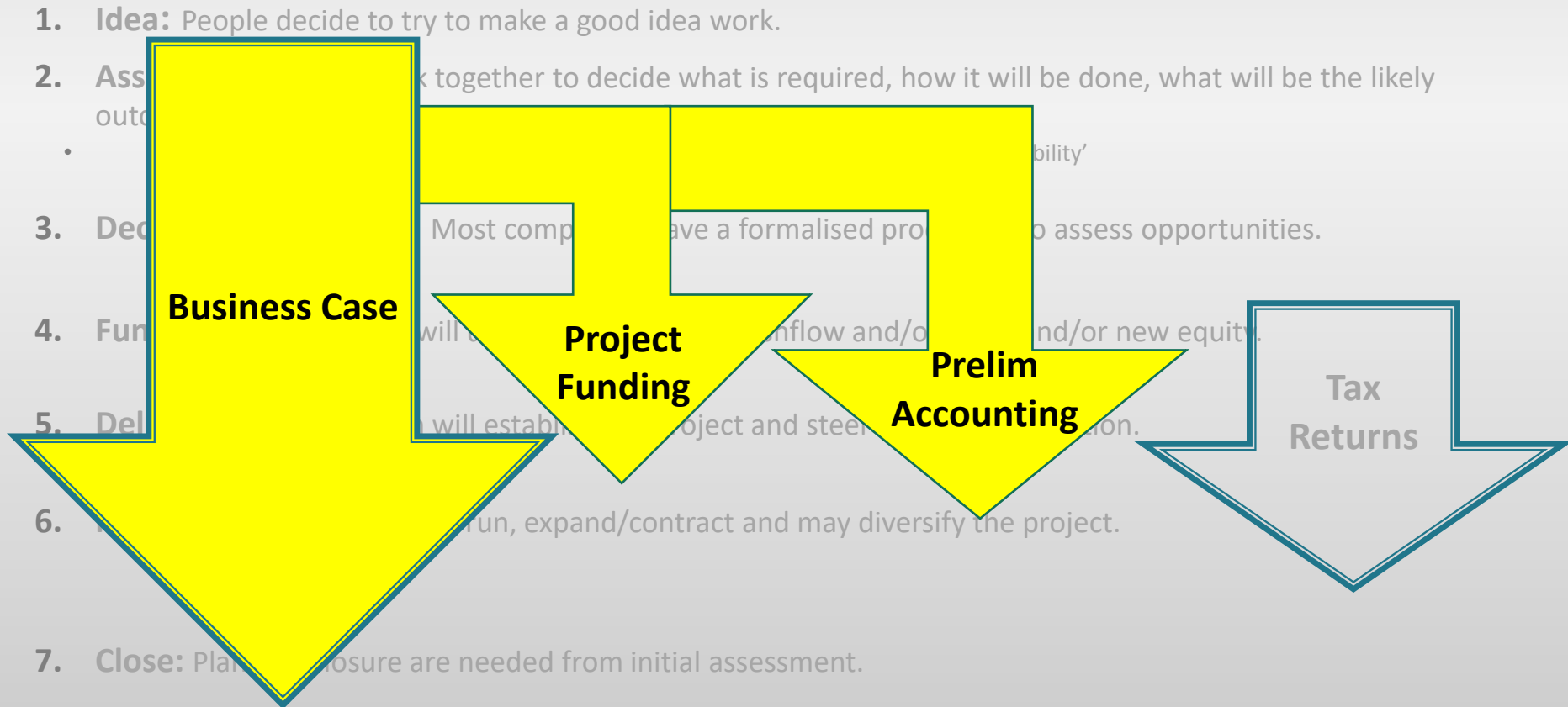
## Therefore different skills and different people are required in each: -



**Most Important → The business evaluations specialist must get out of the office and in amongst the day-to-day activities of the business.** (Unlike Project Funding, Accounting, and Tax Returns which can be done in remote offices)



## Later you will see how the Business Case will feed the Project Funding and preliminary Accounting



## Two different money terms are used.

**The business case usually is in “real” terms** – that is to exclude inflation.

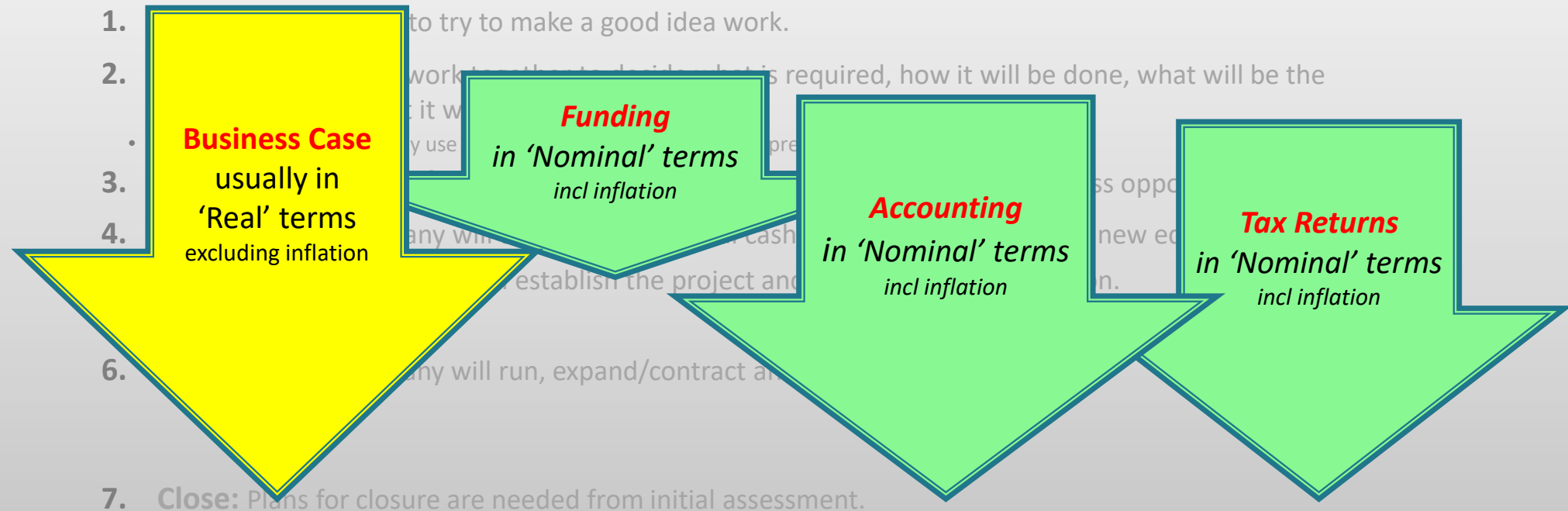
For example, if a cost is \$2.50 today it may be \$2.50 in five years time.

It is easier to understand and errors are far more obvious.

***The other three use “nominal” terms*** – they do incorporate inflation so are ‘dollars of the day’.

*For example, if a cost is \$2.50 today it may be \$3.17 in five years after inflation.*

*This website uses italics to indicate nominal terms and vertical font for real terms.*

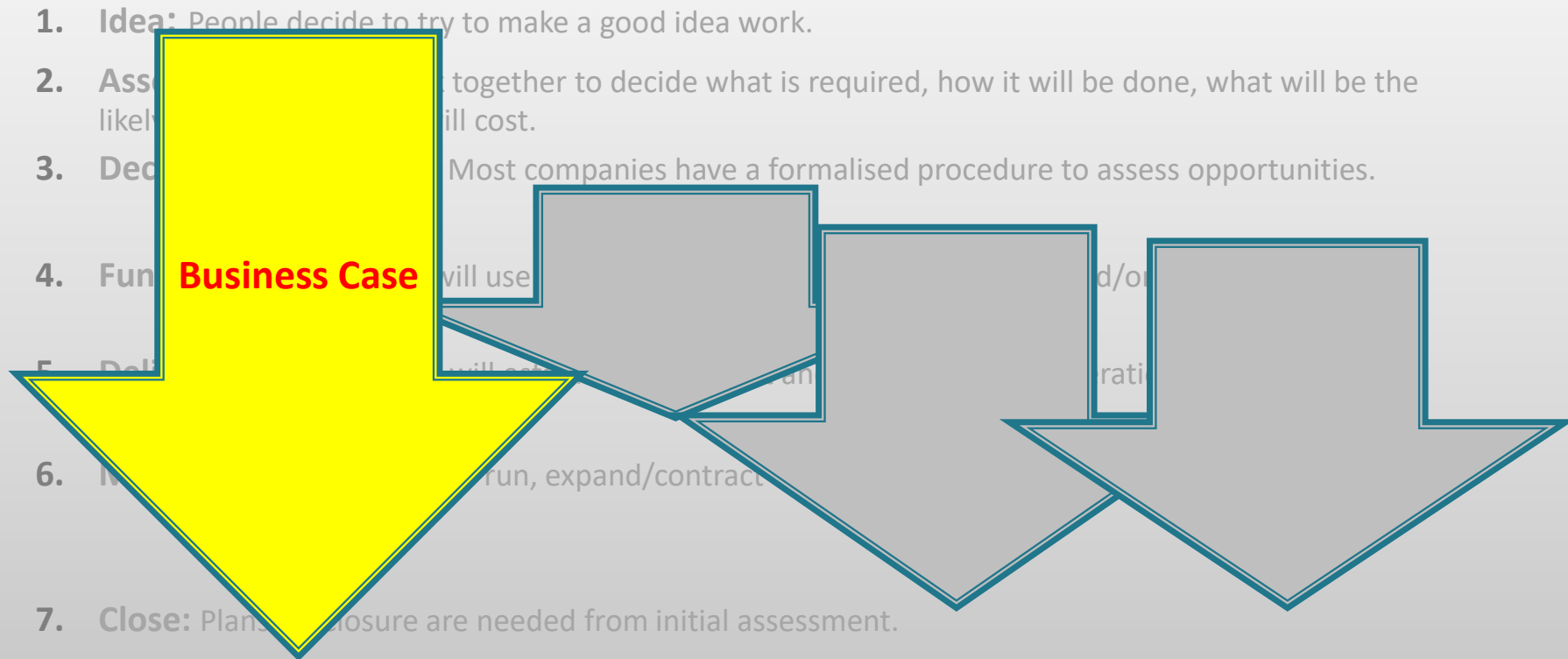




## So almost anyone should be able to follow the business case.

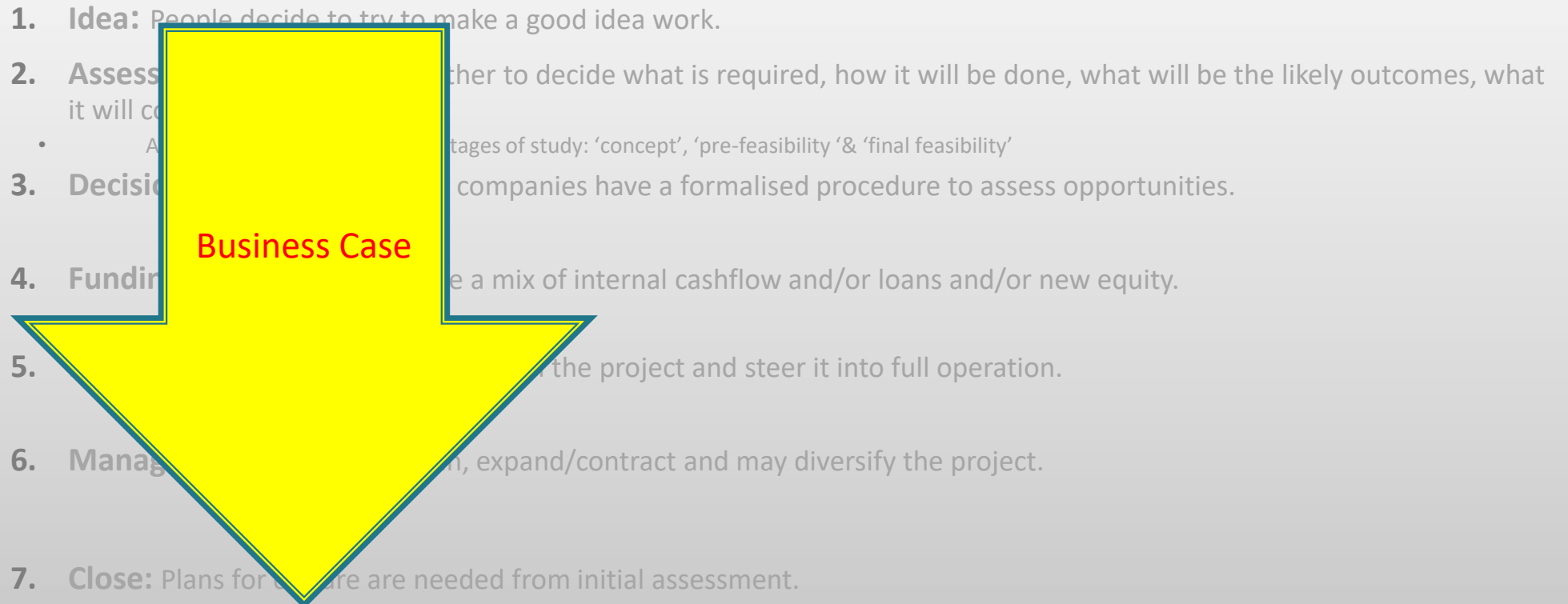
- Everything is just as it is in real life
- There are no accounting concepts that seem abstract or puzzling to non-accountants.
- Money is in real terms

→ *The other three require accounting knowledge*



# From the beginning, the business case is a 'helicopter' view of the project or acquisition.

- It allows the team to investigate various scenarios and to test ideas,
- It allows the team to focus its activities, to take control, avoid wasting time and to steer.
- **It becomes the team's key working tool and steering wheel.**





Glossary	
Real terms	Before applying inflation – example \$2.50 today and still \$2.50 in 5 years
Nominal terms or 'Dollars of the Day'	After applying inflation – example \$2.50 today becomes \$3.17 in 5 years