

Topic 7 – Dollars and Sense

Managing the Numbers in Your Business



Importance of Organising Finances

Some of the fundamental aspects of financial planning required for the effective management of your business venture are:

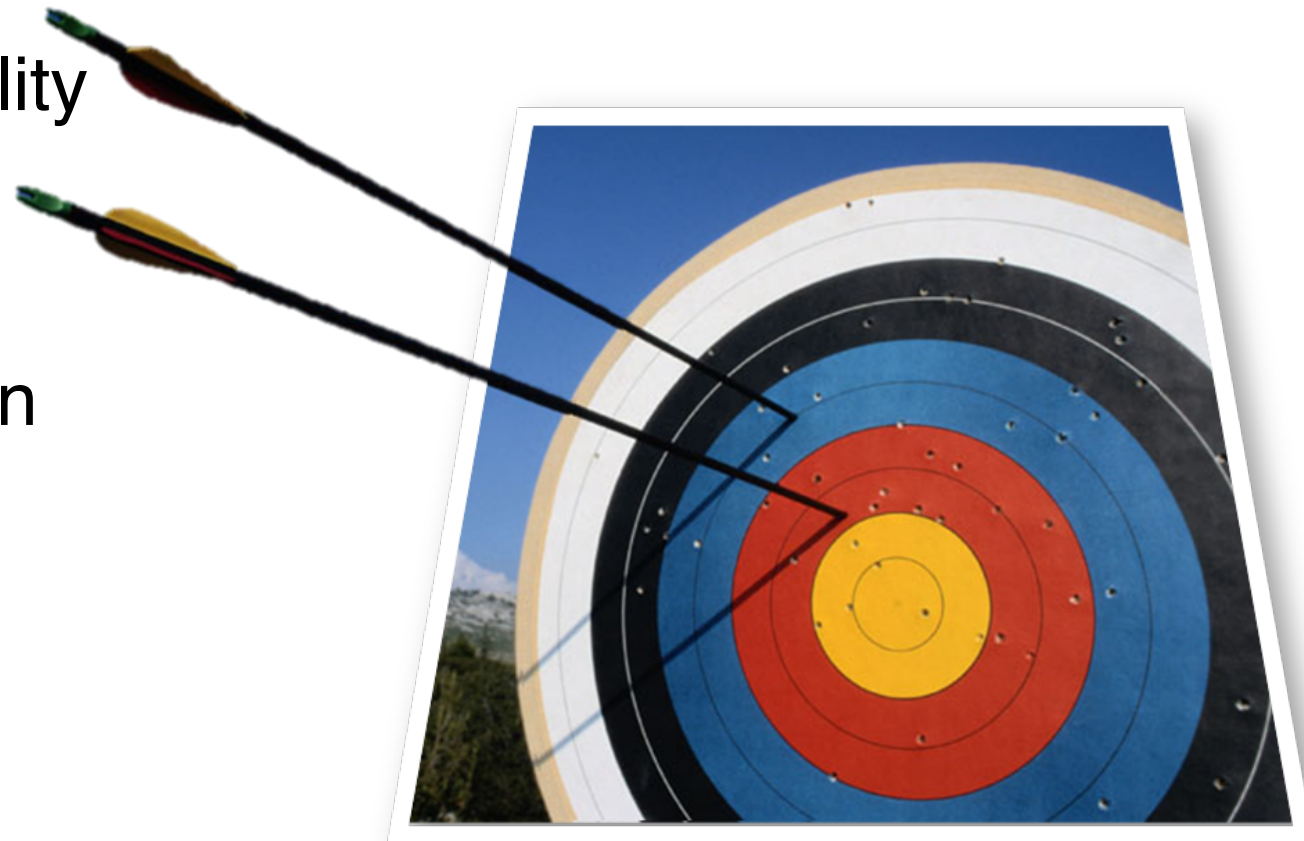
- ✓ determining personal and business finances
- ✓ estimating establishment costs
- ✓ estimating a sales mix
- ✓ determining typical business expenses
- ✓ forecasting cash flow
- ✓ projecting profits
- ✓ applying for finance.



Your Financial Goals

Two universal financial goals in small business.

- **Liquidity:** refers to the availability of cash, or assets which can be converted into cash.
- **Profitability:** refers to the return on capital invested.



Financial Requirements of Your Business

Sales' Prices
and Costs

Budget
Control

Break even
Analysis

Budget
Preparation

Establishment
Costs

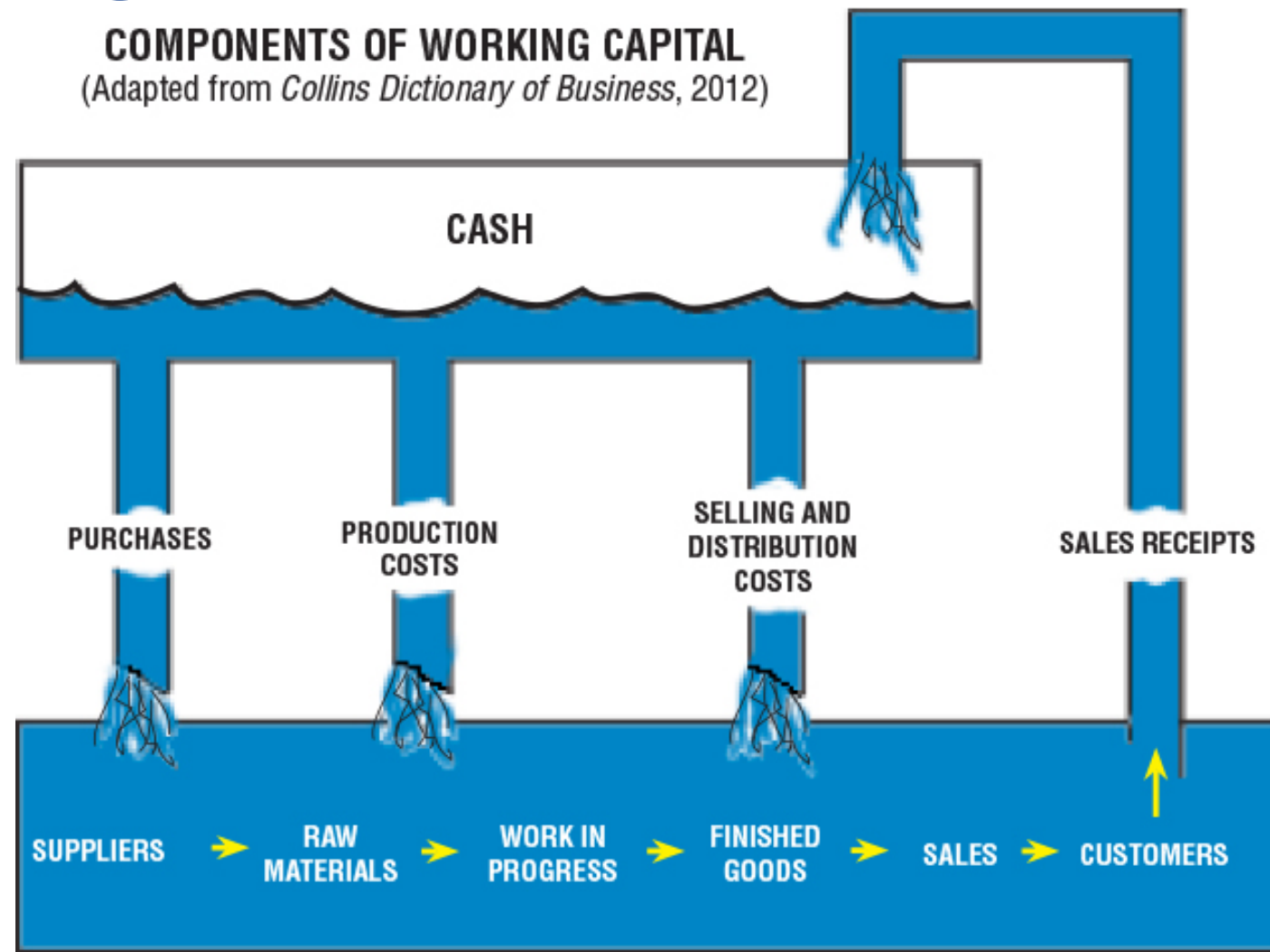
Working
Capital

When planning to start a new business, or the future of an existing one, it is essential to know what finance will be required, where the money will come from, and how you plan to spend it.



Working Capital

Working capital refers to the funds used in operating a business on a daily basis. This includes money needed for stock, raw materials, cash to meet general overheads, funds required to carry debtors, and money to pay yourself and/or employees a wage.



$$\text{WORKING CAPITAL} = \text{CURRENT ASSETS} - \text{CURRENT LIABILITIES}$$

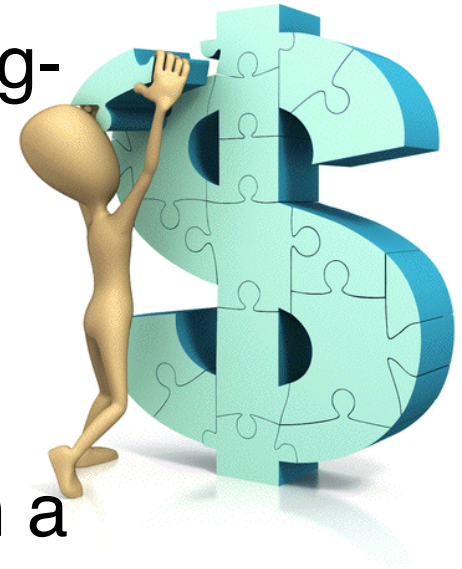
Establishment Costs

Establishment costs are often referred to as start-up costs.

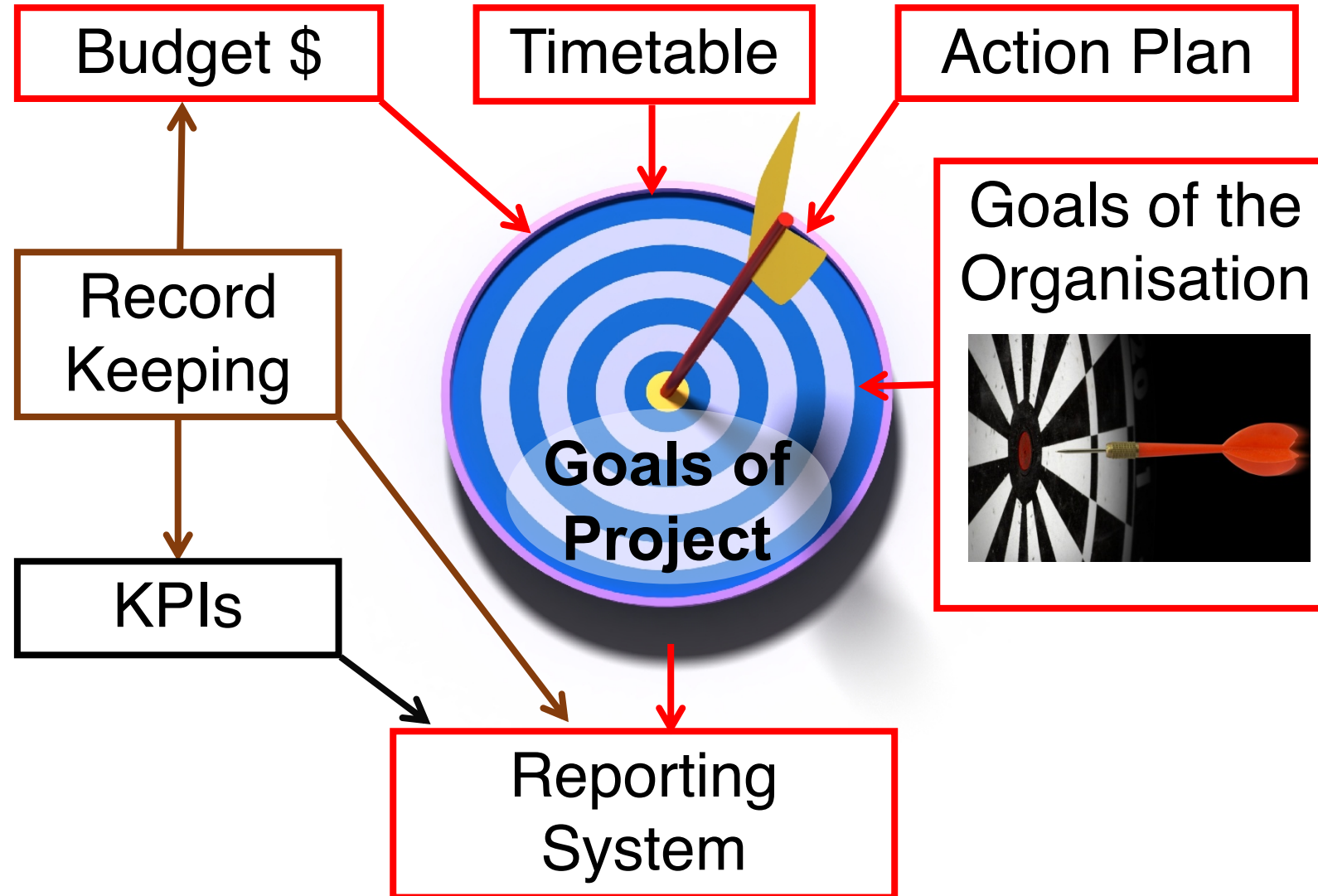
They are costs faced before the business operations begin.

Specific costs relate to:

- **Fixed assets:** items bought by the business for their long-term use.
- **Expense items:** such as initial rent/lease payments, licences, insurances, fees, training etc.
- **Working capital:** funds used to operate the business on a daily basis.



The Control Process



Budgeting



Budgeting is the process of estimating the income and expenditure for a project over a given period (usually a financial year).

A budget provides both a plan for activities and a means of comparison when actual performance is reviewed.

Budget Steps

- Construct
- Co-ordinate
- Control
 - Review
 - React
 - Revise



What You Will Need To Do

- Identify the data that needs to be collected
- Identify the appropriate sources of the data
- Ensure currency, reliability and validity of data
- Calculate costs, profit/loss or breakeven etc.
- Assess results and provide formal/informal reports
- Keep accurate and secure records of



Sales Budget

In order to complete your **Sales Budget** you will need to determine the following:

- the products/services to be sold
- the number of items (products/services) sold per month
- the selling price for these products/services



Cashflow

[illegible]

	JUL		AUG		SEP		OCT		NOV		DEC		TOTAL
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
INCOME													
Cash Sales	\$3,500.00	\$0.00	\$4,000.00	\$0.00	\$4,000.00	\$0.00	\$5,000.00	\$0.00	\$6,000.00	\$0.00	\$7,500.00	\$0.00	\$30,000.00
Bank Loans	\$5,000.00	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	\$5,000.00
Other Income		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	\$0.00
TOTAL INCOME	\$8,500.00	\$0.00	\$4,000.00	\$0.00	\$4,000.00	\$0.00	\$5,000.00	\$0.00	\$6,000.00	\$0.00	\$7,500.00	\$0.00	\$35,000.00

EXPENSES													
Advertising	\$100.00	\$0.00	\$100.00	\$0.00	\$100.00	\$0.00	\$50.00	\$0.00	\$50.00	\$0.00	\$50.00	\$0.00	\$450.00
Bank Charges	\$10.00	\$0.00	\$10.00	\$0.00	\$10.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$90.00
Electricity/gas		\$0.00		\$0.00	\$100.00	\$0.00		\$0.00		\$0.00	\$100.00	\$0.00	\$200.00
Insurance	\$50.00	\$0.00	\$50.00	\$0.00	\$50.00	\$0.00	\$50.00	\$0.00	\$150.00	\$0.00	\$50.00	\$0.00	\$400.00
Loan Repayments	\$60.00	\$0.00	\$60.00	\$0.00	\$60.00	\$0.00	\$60.00	\$0.00	\$60.00	\$0.00	\$60.00	\$0.00	\$360.00
Motor vehicle	\$150.00	\$0.00	\$150.00	\$0.00	\$260.00	\$0.00	\$150.00	\$0.00	\$150.00	\$0.00	\$260.00	\$0.00	\$1,120.00
Printing and postage	\$50.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$20.00	\$0.00	\$150.00
Purchase of Equipment	\$3,900.00	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	\$3,900.00
Purchase of Materials	\$400.00	\$0.00	\$125.00	\$0.00	\$125.00	\$0.00	\$125.00	\$0.00	\$125.00	\$0.00	\$125.00	\$0.00	\$1,025.00
Stationary	\$95.00	\$0.00	\$15.00	\$0.00	\$15.00	\$0.00	\$15.00	\$0.00	\$15.00	\$0.00	\$15.00	\$0.00	\$170.00
Telephone	\$40.00	\$0.00	\$40.00	\$0.00	\$40.00	\$0.00	\$40.00	\$0.00	\$40.00	\$0.00	\$40.00	\$0.00	\$240.00
Owners Drawings	\$3,500.00	\$0.00	\$3,500.00	\$0.00	\$3,500.00	\$0.00	\$3,500.00	\$0.00	\$3,500.00	\$0.00	\$3,500.00	\$0.00	\$21,000.00
TOTAL EXPENSES	\$8,355.00	\$0.00	\$4,070.00	\$0.00	\$4,280.00	\$0.00	\$4,030.00	\$0.00	\$4,130.00	\$0.00	\$4,240.00	\$0.00	\$29,105.00

CASHFLOW	\$145.00	\$0.00	-\$70.00	\$0.00	-\$280.00	\$0.00	\$970.00	\$0.00	\$1,870.00	\$0.00	\$3,260.00	\$0.00	\$5,895.00
Opening Bank Balance	\$600.00		\$745.00		\$675.00		\$395.00		\$1,365.00		\$3,235.00		
Closing Bank Balance	\$745.00	\$0.00	\$675.00	\$0.00	\$395.00	\$0.00	\$1,365.00	\$0.00	\$3,235.00	\$0.00	\$6,495.00	\$0.00	

Factors Influencing Your Cash Position

The **cash position** of your business is influenced by *controllable factors*:

- the amount of stock kept on hand.
- the timing of supply purchases
- the credit terms offered by suppliers
- the credit terms you offer to your customers.

And *external factors* beyond your control, such as:

- general economic climate
- industry trends
- competition



Strategies to Control Your Business Performance

Strategies which may assist include:

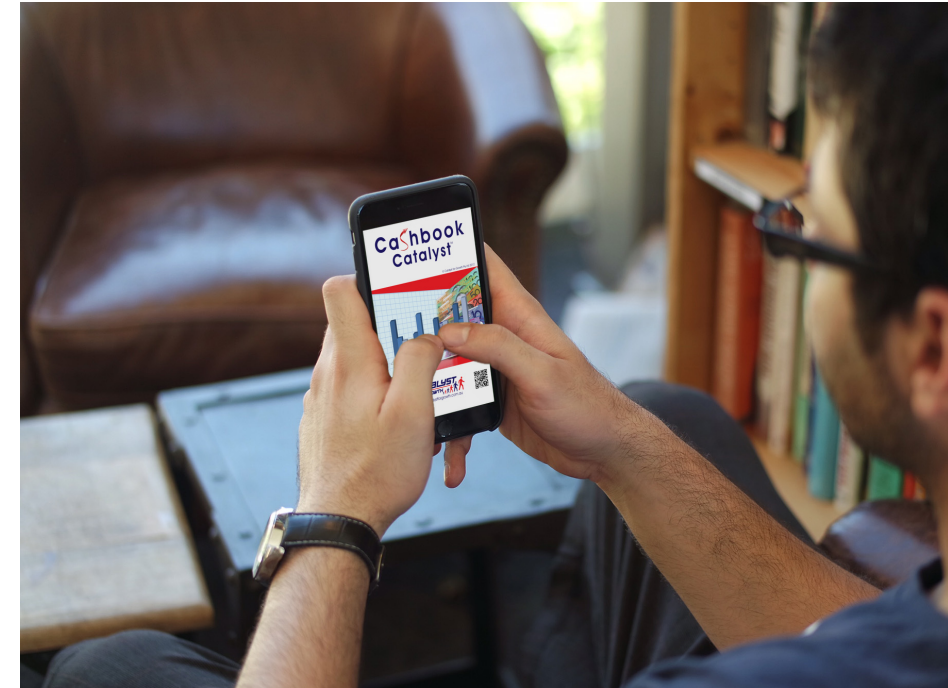
- realistically evaluate and plan for your anticipated working capital requirements
- maximise receipts
- plan the timing of outgoings
- manage inventory
- review pricing of products/services
- manage your overheads.



Financial Information Requirements

An accurate and complete **set of financial records** will assist you in:

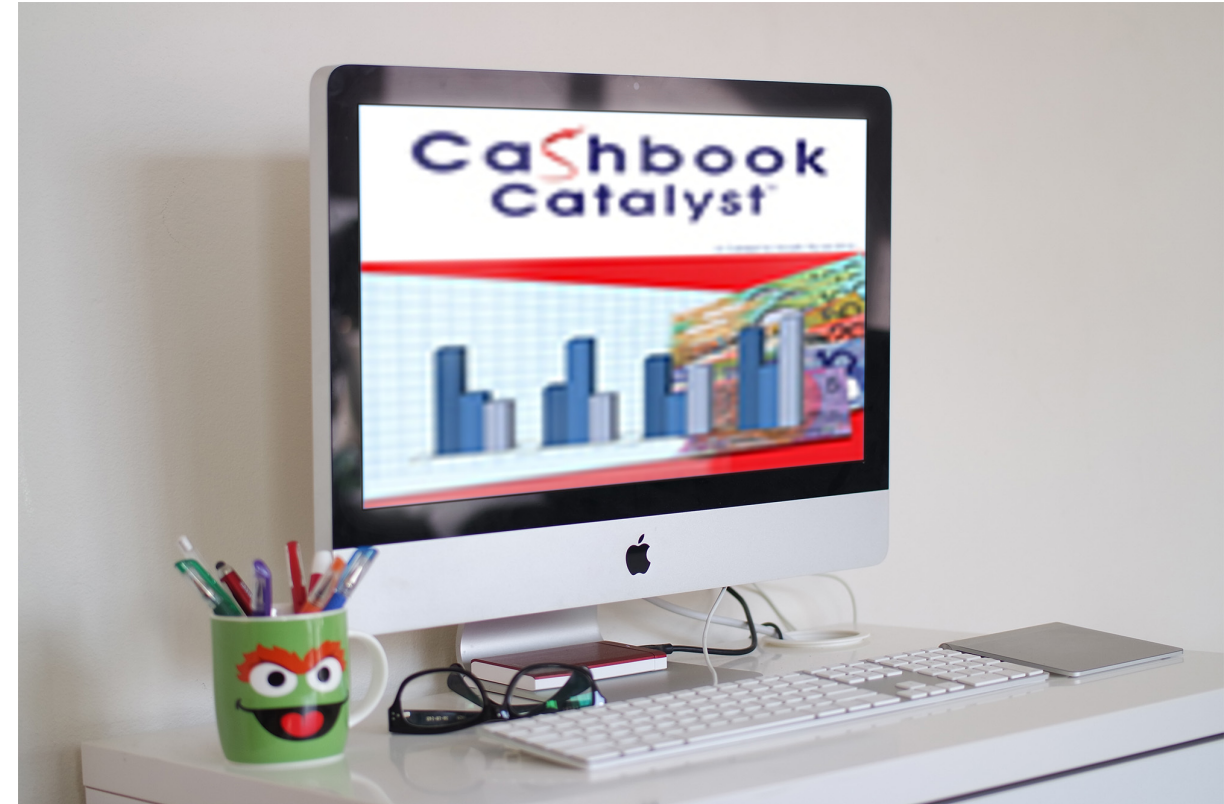
- assessing the overall state of your business
- maximising your chances of business success
- determining how much cash you have available at any time
- identifying money owed to you by customers
- identifying which accounts you need to pay
- monitoring and controlling your overheads
- controlling the cost of goods and services



Financial Information Requirements

An accurate and complete **set of financial records** will assist you in:

- determining your profit levels
- discovering reasons for poor profit
- comparing your business performance over time
- seeing the results of decisions you have made
- applying for finance
- negotiating with your bank manager



Financial Information Requirements

An accurate and complete **set of financial records** will assist you in:

- making insurance claims
- deciding when to purchase new plant and equipment
- deciding when to plan for expansion
- selling the business
- reducing accounting fees
- Meeting ATO requirements



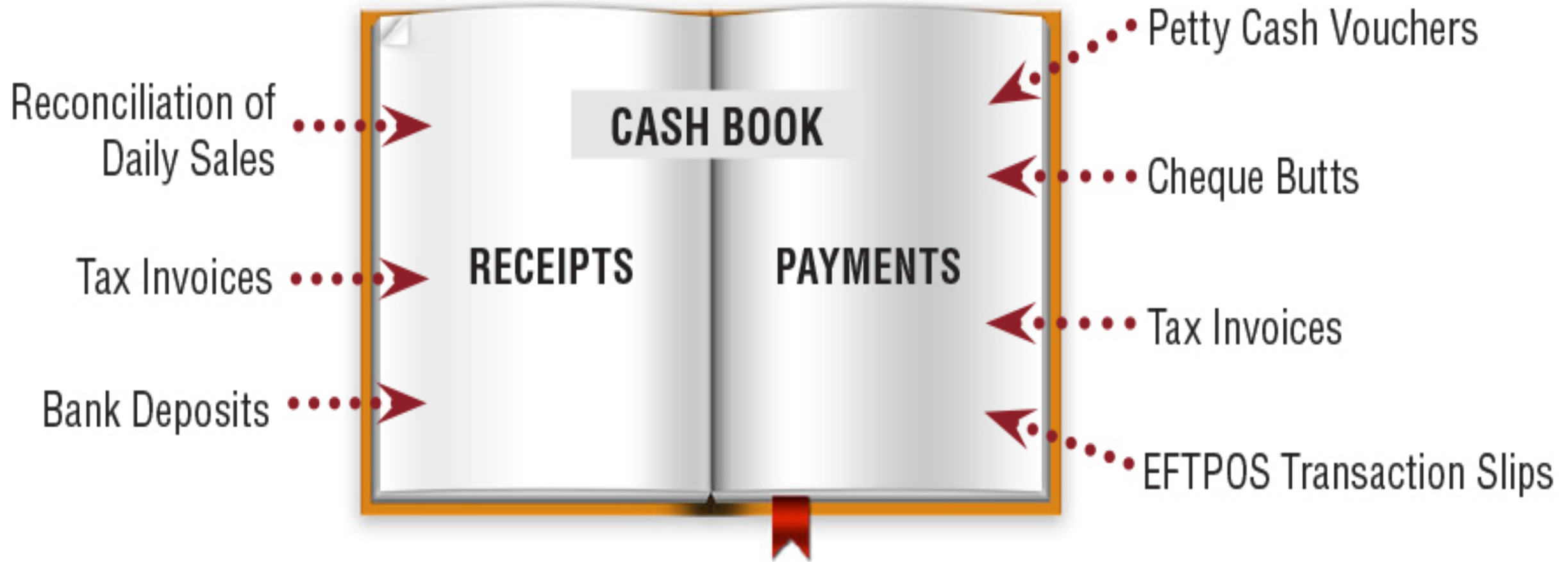
Developing a Record Keeping System

Regardless of the particular system you develop, it is important to remember that an effective **record keeping system** is one which:

- is as simple as possible
- enables required information to be quickly obtained
- contains accurate data
- maps a path for linking individual records and cross-checking
- separates business and private finances.



The Cash Book



Profit and Loss Projection

The **Profit and Loss Projection** is the financial record that summarises the activities of a business over a period of time.

- If your receipts are greater than your expenses, there will be a **profit**.
- If your expenses are greater than your receipts, there will be a **loss**.



Profit and Loss Projection

A Profit and Loss Projection generally includes:

- **Total Business Income**
- **Cost of Sales**
- **Gross Profit (Gross Profit = Sales - Cost Of Sales)**
- **Total Expenses**
- **Net Profit: (Net Profit = Gross Profit - Total Expenses)**
- **Coverage**
- **Profit Reserves: (Profit Reserves = Net Profit - Total Coverage)**

Profit and Loss



TOTAL Income		<input type="text"/>
Less Cost of Sale		
Materials		
Direct Labour		
TOTAL COS		<input type="text"/>
GROSS PROFIT		<input type="text"/>
EXPENSES		
Advertising		
Bank Charges		
Depreciation		
Electricity/gas		
Insurance		
Interest	<input type="text"/>	
Motor vehicle		
Printing and postage		
Stationary		
Telephone		
TOTAL EXPENSES		<input type="text"/>
NET PROFIT/LOSS		<input type="text"/>

Profit and Loss Exercise



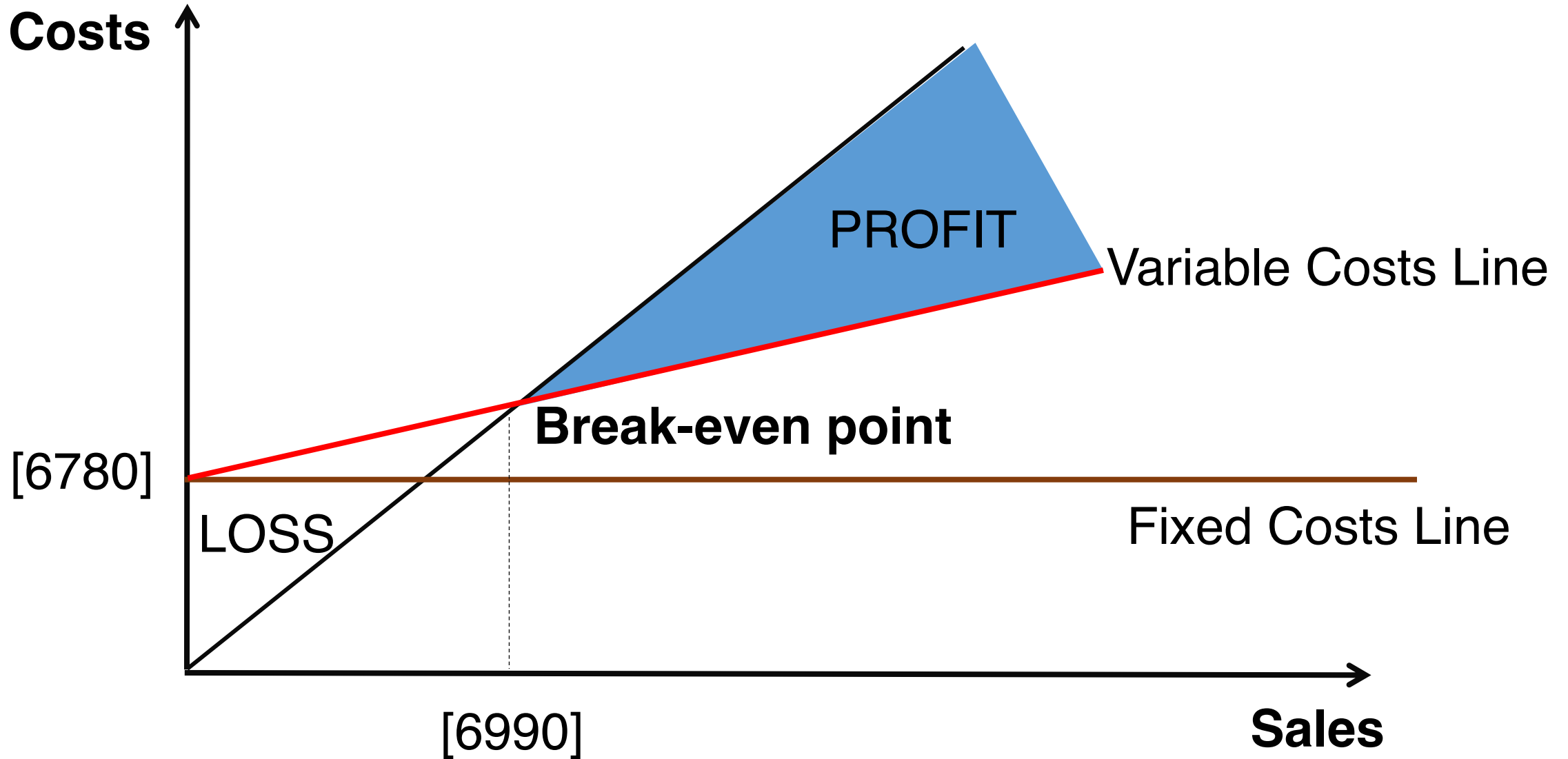
TOTAL Income	\$30,000.00
Less Cost of Sale	
Materials	\$1,025.00
Direct Labour	\$0.00
TOTAL COS	\$1,025.00
GROSS PROFIT	\$28,975.00
EXPENSES	
Advertising	\$450.00
Bank Charges	\$90.00
Depreciation	\$3,900.00
Electricity/gas	\$200.00
Insurance	\$400.00
Interest	\$60.00
Motor vehicle	\$1,120.00
Printing and postage	\$150.00
Stationary	\$170.00
Telephone	\$240.00
TOTAL EXPENSES	\$6,780.00
NET PROFIT/LOSS	\$22,195.00

Breakeven Analysis

$$\text{Contribution Margin} = 1 - \frac{\text{Variable Costs}}{\text{Total Sales}} = 1 - \frac{1025}{30000} = .97$$

$$\text{Sales at Breakeven} = \frac{\text{Fixed Costs}}{\text{Contribution Margin}} = \frac{6780}{0.97} = \$6990$$

Break-even Graph



Balance Sheet



CURRENT ASSETS

Cash	\$ -
Debtors	\$ -
Stock on hand	\$ -

TOTAL CURRENT ASSETS

\$ -

FIXED ASSETS

Land	\$ -
Buildings	\$ -
Plant and equipment	\$ -
Vehicle(s)	\$ -

Other	\$ -
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TOTAL FIXED ASSETS

\$ -

INTANGIBLE ASSETS

Goodwill	\$ -
Patents, copyright, etc.	\$ -

TOTAL INTANGIBLE ASSETS

\$ -

TOTAL ASSETS

\$ -

NET ASSETS (TOTAL ASSETS - TOTAL LIABILITIES)

REPRESENTED BY: OWNER'S EQUITY

Opening equity	\$ -
Retained profit	\$ -

TOTAL EQUITY

\$ -

CURRENT LIABILITIES

Creditors	\$ -
Bank overdraft	\$ -
Short-term loans	\$ -

TOTAL CURRENT LIABILITIES

\$ -

NON-CURRENT LIABILITIES

Long-term loans	\$ -
Mortgage	\$ -

TOTAL NON-CURRENT LIABILITIES

\$ -

TOTAL LIABILITIES

\$ -

NET LIABILITIES (TOTAL LIABILITIES - TOTAL EQUITY)

\$ -

Your Homework

At home and discuss your Financial arrangements with your family and friends.

Come back tomorrow and share your comments with our group.

Tomorrow: Topic 3 –
Brand and Design

