

# **MPU3232**

## **Entrepreneurship**

### **Chapter 8**

## **Financial Management**



# Financial Management

- **Financial management** deals with two things:
  - i. **raising money** → sources of funds
  - ii. **managing a company's finances** to achieve the highest rate of return.



# The Process of Financial Management

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To assess **whether its financial objectives are being met**, the firm relies heavily on analysis of:

- **Financial statements**
- **Forecasts**
- **Budgets**



# Financial statement

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**Financial statement** is a **written report** that quantitatively describes a firm's **financial health**.

- **Income statement**
  - **Balance sheet**, and
  - **Statement of cash flows**
- **Pro forma (or projected) financial statements**
    - The **heart** of the financial section of a business plan.
    - Statements that **look forward to start a venture**

# Forecasts

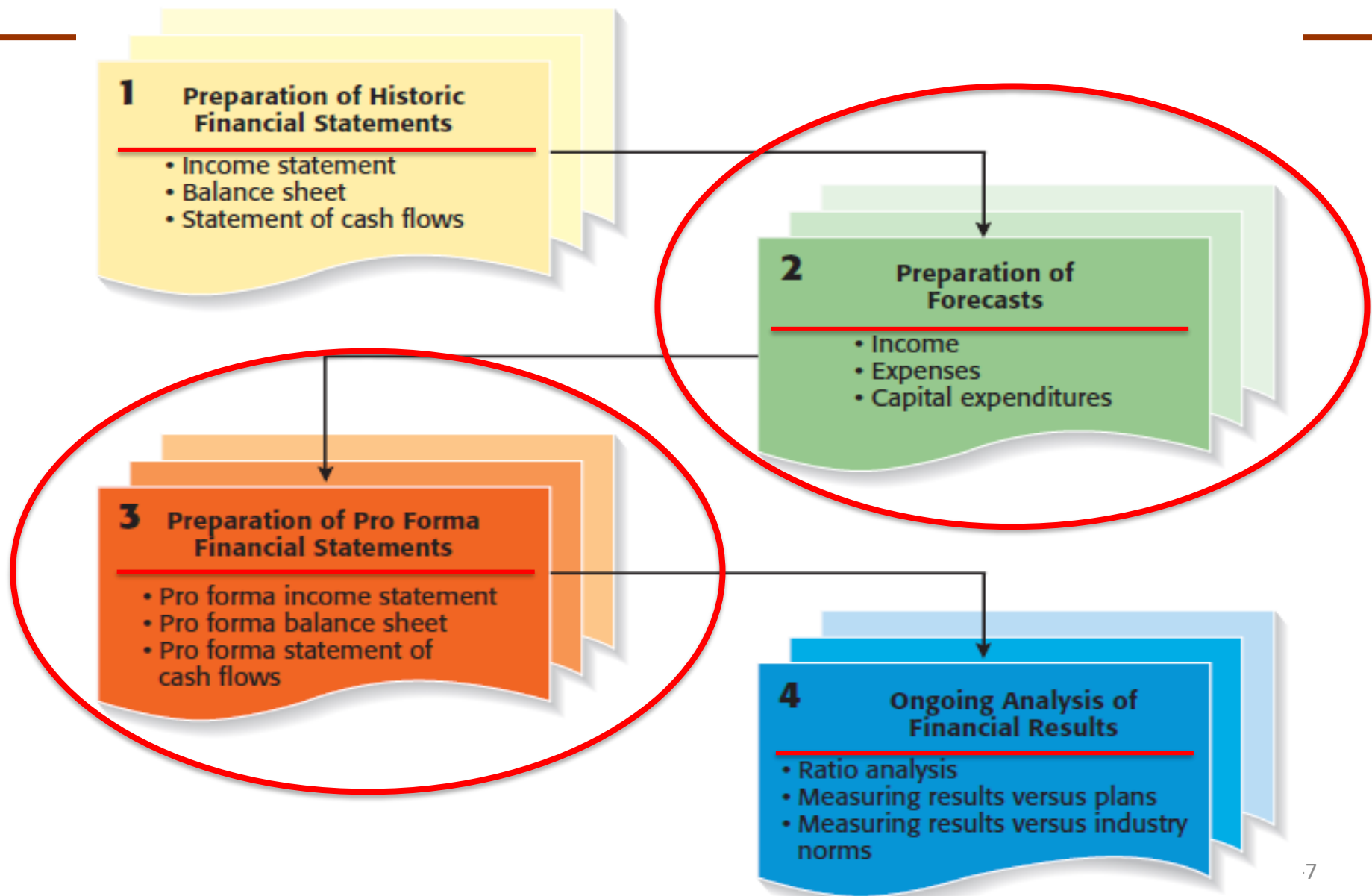
- **Forecasts** are an **estimate** of a firm's **future income and expenses**, based on **past performance**, its **current circumstances**, and its **future plans**.
- New ventures typically base their forecasts on:
  - i. **their estimate of sales**
  - ii. **industry averages of costing**
  - ii. **the experiences of similar start-ups regarding the cost of goods and expenses**

# Budgets

- **Budgets** are **itemized forecasts** of a company's **income, expenses, and capital needs**
- An important tool for financial **planning and control.**



# The Process of Financial Management



# The Process of Financial Management

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- A completely **new venture** would start at **step 2** (→ Preparation of Forecasts).
- Items involved:
  - Income – sources of funds, sales and revenue
  - Expenses – costs of goods, operations, etc.
  - Capital expenditures – physical assets



# Financial Projections

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## Financial Projections

- The final section of a business plan is to present the firm's pro forma (or projected) financial projections.
  - Financial projections come **last**.
  - Its easy to see after having completed the earlier sections of the plan.
- Investors take the plans that have developed and **express them in financial terms**.

# Financial Projections

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- **Financial Projections**
  - Items to include in this section:
    - Sources and uses of funds
    - Assumptions sheet
    - Pro forma income statements
    - Pro forma balance sheets
    - Pro forma cash flows

(For your coursework, you just need to provide Assumption Sheet for income statement 1<sup>st</sup> year only)

# Financial Projections

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- **Sources and uses of funds**
  - → **how much money** a firm needs, **where** the money come from and **what** the money will be used for
  - → **Start-up budget** (in your **assignment**)
- **Assumptions sheet**
  - → explanation of the most **critical assumptions** that your financial statements are based on.

# STARTUP COSTS

Itemize startup costs.

- equipment and supplies
- furniture and fixtures
- vehicles
- Remodeling / Renovation
- legal and accounting fees
- licensing fees
- Rental deposits

## STARTUP COSTS Walters Electric

Item	Estimated Cost
<b>Equipment and supplies</b>	
Computers (3 @ \$1,500)	\$ 4,500
Scanner	175
Cash registers (2 @ \$1,800)	3,600
Printer	400
Supplies	300
Subtotal	<u>\$ 8,975</u>
<b>Furniture and Fixtures</b>	
Desks (4 @ \$400)	\$ 1,600
Chairs (8 @ \$75)	600
Subtotal	<u>\$ 2,200</u>
<b>Vehicles</b>	
Delivery truck	\$10,000
Automobile	8,000
Subtotal	<u>\$18,000</u>
<b>Remodeling</b>	
Drywall replacement	\$ 1,000
Electrical work	2,500
Paint	1,000
Carpet	3,000
Subtotal	<u>\$ 7,500</u>
<b>Legal and accounting fees</b>	<u>\$ 3,000</u>
<b>Total</b>	<u><u>\$39,675</u></u>

## Projected Start-up Expenditure

Table 7.0: The nine start-up expenditures of the O-zoned enterprise.

Expenditure	Cost (RM)
Computer	27,500.00
Equipment	6245.00
Office supplies	349.24
Software	5535.00
Website development	3000.00
Furniture	8836.80
Renovation/Remodelling	7741.00
Other expenses	1624.00
Business license and permits	310.00
Rental deposit	9800.00
<b>Total</b>	<b>70,941.04</b>

# Financial Statements and Forecasts

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- **Pro Forma Financial Statements**
  - Are **projections** for future periods based on **forecasts** and are typically completed for two to three years in the future.
  - Just **for planning**
  - Most companies consider their pro forma statements as **confidential**

# Income Statement

- Reflects the **results of the operations** of a firm over a specified period of time.
- Records all the **revenues** and **expenses** for the given period and shows whether the firm is making a **profit** or is experience a **loss**.

# Income Statement

- 3 important numbers:
  - i. **Net sales** → **total sales minus allowances** for returned goods and discounts.
  - ii. **Cost of sales** (or **cost of goods sold**) → all the **direct costs** related to producing or delivering a product/service, including the material costs and direct labour.
  - iii. **Operating expenses** → marketing, administrative costs, and other expenses **not directly related** to producing a product/service.



# Income Statements (Historical / Pro Forma)

Income Statement					
Enter your Company name here					
Income Statement					
	2022		2023		2024
	1 Jan - 31Dec		1 Jan - 31 Dec		1 Jan - 31Dec
REVENUES (SALES)					
Product/Service 1 ...	10				
Product/Service 2 ...					
Product/Service 3 ...					
Other Revenue					
TOTAL REVENUES	10.00		-		-
COST OF GOODS SOLD					
Product/Service 1 ...					-
Product/Service 2 ...	3.00		-		-
Product/Service 3 ...			-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
	-		-		-
TOTAL COST OF GOODS SOLD	3.00		-		-

# Balance Sheet

- Is a snapshot of a company's **assets**, **liabilities**, and **owners' equity** at a **specific point** in time.
- Major categories of **assets**:
  - i. **Current assets**
  - ii. **Fixed assets**
  - iii. **Other assets**

# Balance Sheet

- Major categories of **liabilities**:
  - i. Current liabilities
  - ii. Long-term liabilities
- Owners' equity
  - i. Equity invested
  - ii. Accumulated **earnings retained**
- Basic formula of a balance sheet:  
$$\text{Assets} = \text{liabilities} + \text{owner's equity}$$

# Balance Sheets (Historical / Pro Forma)

1 of 2

## Balance Sheet

Enter your Company name here				
Balance Sheet				
	2022	2023	2024	
	1 Jan - 31 Dec	1 Jan - 31 Dec	1 Jan - 31 Dec	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash				
Bank	-	-	-	
Accounts Receivables	-	-	-	
Inventory	-	-	-	
Prepaid Expenses	-	-	-	
Employee Advances	-	-	-	
Temporary Investments	-	-	-	
<b>Total Current Assets</b>	-	-		-
<b>Fixed Assets:</b>				
Building	-	-		-
Machine/Equipment	-	-		-
Furniture and Fittings	-	-		-
Computer Equipment	-	-		-
Vehicles	-	-		-

# Statement of Cash Flows

- Summarizes the **changes in a firm's cash position** for a specified period of time and details **why the changes** occurred.
- Reveals **how much cash is on hand** at the end of the month, **how the cash was acquired and spent** during the month.

# Statement of Cash Flows

3 separate activities:

- i. **Operating activities** → net income (loss), depreciation, changes in current assets and current liabilities
- ii. **Investing activities** → purchase, sale, investment in fixed assets
- iii. **Financing activities** → cash raised by borrowing money or selling stock, cash used by paying dividends, buying back outstanding debt or bond

# Statement of Cash Flows (Historical / Pro Forma)

## Statement of Cash Flows

Enter your Company's name here

Statement of Cash Flows

	2022	2023	2024
	1 Jan - 31 Dec	1 Jan - 31 Dec	1 Jan - 31 Dec
<b>BEGINNING CASH ON HAND</b>	-		
From capital (equity)			
<b>ADD: CASH RECEIPTS</b>			
Cash Sales		-	-
Collections from Customer Credit Accounts	-		-
Loan or Other Cash Injection	-	-	-
Interest Income	-	-	-
Rent received	-	-	-
Misc. Cash Receipts	-	-	-
<b>TOTAL CASH RECEIPTS</b>	-	-	-
<b>LESS: CASH PAYMENTS</b>			
<b>COST OF GOODS SOLD:</b>			

# Question & Answer





