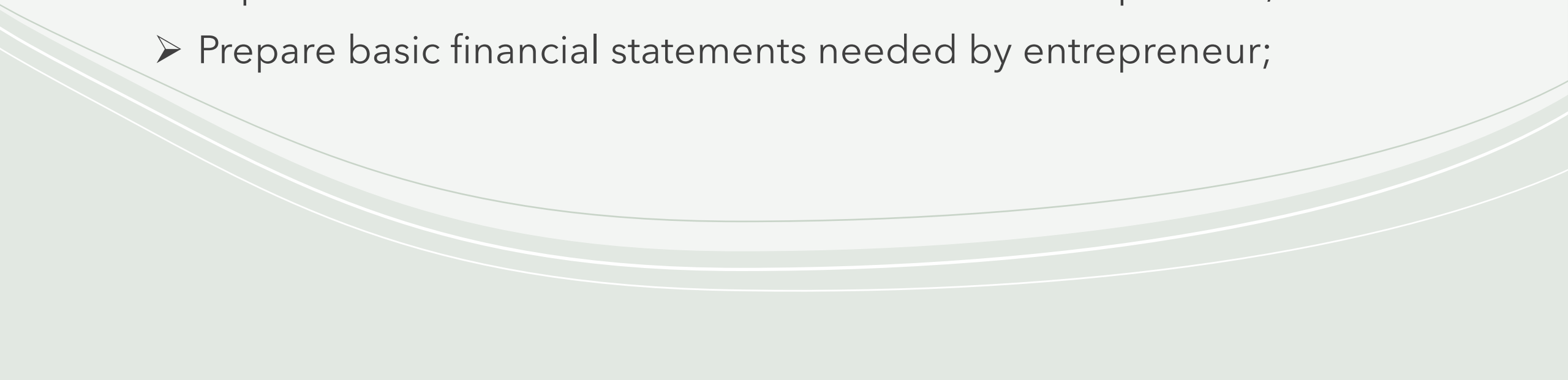


# **FINANCIAL AND FINANCING ASPECTS FOR ENTREPRENEURS**

Lesson 8

# Learning Objectives

- Define the financial aspects for entrepreneurs;
  - Identify the different financial statements related to entrepreneurs;
  - Explain the nature of the income statement and its components;
  - Explain the nature of the cash flow statement and its components;
  - Explain the nature of the balance sheet and its components; and
  - Prepare basic financial statements needed by entrepreneur;
- 

# Introduction

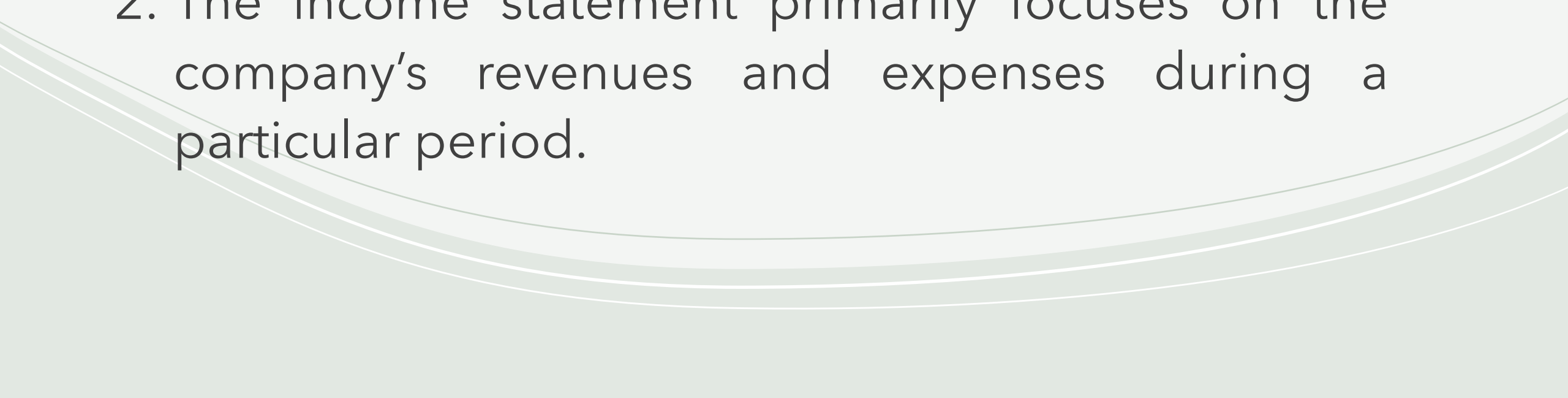
- Many people wish to run their own company for a variety of reasons, including the flexibility and control it affords. Running a successful firm, in any event, demands a full understanding of its financial components.
- A financial plan is the final step in designing a business strategy. The plan includes a projected profit-and-loss statement as well as a cash flow statement for the next three to five years. Sometimes a balance sheet and a break-even analysis are included. The financial plan is essential since it establishes the company's financial goals.
- This lesson will provide you with a better understanding of entrepreneurs' financial aspects and construct your financials when starting a business.

# What are financial statements?

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc., to ensure accuracy and tax, financing, or investing purposes. Financial statements include:

- a. Balance Sheet
- b. Income statement
- c. Cash flow statement

# What are financial statements?

1. The balance sheet provides an overview of assets, liabilities, and stockholders' equity as a snapshot.
  2. The income statement primarily focuses on the company's revenues and expenses during a particular period.
- 

# What are financial statements?

3. The cash flow statement (CFS) measures how well a company generates cash to pay its debt obligations, fund its operating expenses, and fund investments.

4. Financial statements represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance effects of business transactions and events on the entity.

# Profit and Loss Statement

1. The **income statement** or sometimes called the **profit and loss statement** is a financial record that summarizes the activities of a business over some time.
2. It reports the **revenue** of the business and the **expenses** incurred in obtaining the revenues, and it shows the **profit and loss resulting** from the activities. The income Statement complements the **balance sheet**.

# Profit and Loss Statement

3. **Critical Terms** under the income statement are the following:

- a. **Sales-** result of the purchase of the customer. You will get the sales when the **selling price is multiplied by the quantity sold of specific items.**
- b. **Cost of goods sold** - it refers to the cost of goods sold from the product you sold to the customer mainly, this refers to raw materials.
- c. **Gross Profit Margin-** this item is often expressed as the percentage of sales, as well as in peso figure
- d. **Operating Expenses** - Some typical operating expenses are salaries and wages, electricity, depreciation, rent, administrative expenses, supplies, bad debts, advertising, interest payments, etc.
- e. **Net Profit-** when operating expenses are deducted from gross profit, the remainder is net profit.



# Profit and Loss Statement

THE HOUSE OF SWEET - J&J DELIGHTS						
Profit and Loss Statement						
For the years ending 2019-2023						
		2019	2020	2021	2022	2023
Sales		PHP 9,363,920	PHP 10,300,312	PHP 11,330,343	PHP 12,463,378	PHP 13,709,715
Less: Cost of Goods Sold		PHP 885,960	PHP 930,258	PHP 976,771	PHP 1,025,609	PHP 1,076,890
Gross Profit		PHP 8,477,960	PHP 9,370,054	PHP 10,353,572	PHP 11,437,768	PHP 12,632,825
Less: Operating Expenses						
	Permits and Licenses	PHP 16,265	PHP 17,078	PHP 17,932	PHP 18,828	PHP 19,770
	Office Supplies	PHP 15,000	PHP 15,750	PHP 16,538	PHP 17,364	PHP 18,233
	Store Supplies	PHP 50,734	PHP 53,271	PHP 55,934	PHP 58,731	PHP 61,667
	Kitchen Supplies	PHP 57,500	PHP 60,375	PHP 63,394	PHP 66,563	PHP 69,892
	Equipment	PHP 320,000	PHP 323,264	PHP 326,561	PHP 329,892	PHP 333,257
	Furniture and Fixture	PHP 76,000	PHP 76,775	PHP 77,558	PHP 78,349	PHP 79,149
	Depreciation Expense	PHP 157,753	PHP 157,753	PHP 157,753	PHP 157,753	PHP 157,753
	Utilities Expense	PHP 177,000	PHP 185,850	PHP 195,143	PHP 204,900	PHP 215,145
	Rental Expense	PHP 720,000	PHP 720,000	PHP 720,000	PHP 720,000	PHP 720,000
Revenue before Tax		PHP 4,953,053	PHP 5,738,050	PHP 6,609,278	PHP 7,575,730	PHP 8,647,321
x 30% Corporate Income Tax		PHP 1,485,916	PHP 1,721,415	PHP 1,982,783	PHP 2,272,719	PHP 2,594,196
Net Income after Tax		PHP 3,467,137	PHP 4,016,635	PHP 4,626,494	PHP 5,303,011	PHP 6,053,125

# Balance Sheet

1. A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder's equity at a specific point in time and provides a basis for computing rates of return and evaluating its capital structure.
2. When the balance sheet is constructed in a two-column format, the assets appear in the left-hand column, and the claims against the asset (the liabilities and owners' equity) are in the right hand. The balance sheet is an itemized or detailed account of the basic question: **ASSETS = LIABILITIES + OWNERS' EQUITY.**

# Assets

An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit. Assets are reported on a company's balance sheet and are bought or created to increase a firm's value or benefit the firm's operations. An asset can be thought of as something that, in the future, can generate cash flow, reduce expenses, or improve sales, regardless of whether it is manufacturing equipment or a patent.

# Assets

**Assets** are divided into two categories: **Current Asset** and **Non-Current Asset**.

1. **Current assets** are considered short-term assets because they generally are convertible to cash within a firm's fiscal year and are the resources that a company needs to run its day-to-day operations and pay its current expenses.
2. **Non-Current assets** are a company's long-term investments that have a useful life of more than one year.

# Current Assets

1. **Cash** consists of funds that are immediately available to use without restrictions. Cash should be large enough to meet obligations that are immediately due.

2. **Accounts Receivable** are amounts owed to the business by its customer as a results of sales. Essentially, these accounts are the result of granting credit to the customers. **The more outstanding the accounts receivable, the less money is available to meet current needs.**


# Current Assets

3. **Inventory or Stocks** is defined as those items which are held for sale in the ordinary course of business or which are to be consumed in the production of goods and services that are to be sold.

4. **Prepaid Expenses** represent assets paid for in advance but whose usefulness will usually expire in a short time.

# **Fixed Assets**

Fixed assets are items owned by the business that has a relatively long life. These assets are used in the production or sale of other goods and services.

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# Other Assets

This is a miscellaneous category. It accounts for any firm's investments in securities, such as shares in other private companies or debentures. It also includes tangible assets such as goodwill, patents, and franchise cost.



# EXAMPLES OF CURRENT ASSETS VS. FIXED ASSETS

## CURRENT ASSETS



Cash



Accounts Receivable



Inventory



Short-term Investments



Prepaid Expenses

## FIXED ASSETS



Cars and trucks



Land



Furniture



Buildings



Machinery

# On Physical Existence

Categorizing assets based on how tangible or intangible they are

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Tangible assets	Intangible assets
Cash, currency and coins	Intellectual property
Houses and cars	Patents and copyrights
Real estate and land	Franchise or lease agreements
Precious metals and precious stones	Trademark and trade names
Equipment, machinery, and office	Accounts receivable
Artwork and collectibles etc.	

# On Usage

Categorizing assets basis their usage/purpose for business operations such as operating assets and non-operating assets.

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## •Operating Assets:

As the name suggests, operating assets is a class of Assets that are required in conducting of the daily operations of the business like cash, machiner, plant etc are called operating assets

## •Non Operating assets:

A non-operating assets are the assets that are not required for the daily operations of a business. Like a pice of vacant land or some unused machinery. These assets have value but are not contributing to the daily operations of the organisation.

# LIABILITIES

Liabilities are the amounts of money owed by the business to people other than the owner-entrepreneur. They are claims against the total assets, although they are not usually claims against any specific assets except mortgages. Essentially, liabilities are divided into current liabilities and long-term liabilities.

# Current Liabilities

The term “current liabilities” describes those claims of outsiders on the business that will occur within one year.

1. **Accounts Payable** or **Trade Creditors** represents the amounts owed to vendors, wholesalers, and other suppliers from whom the business has bought items for the account.

# Current Liabilities

2. **Short-term loans** are loans from individuals, banks, overdrafts, and loans from finance companies or other lending institutions that fall due within a year.
3. **Accrued Expenses** are obligations which the company has incurred but for which there has been no formal account as yet.
4. **Long-term Liabilities** These liabilities are the **mortgages** and **long-term loans** from individuals, banks, and others from whom the business may borrow money.

# Example of Assets and Liabilities

ORDER TO LIQUIDITY		ORDER TO PERMANENCE	
Assets	Liabilities	Assets	Liabilities
Cash	Sundry Creditors	Goodwill	Partner's
Bills Receivable	Bills Payable	Patents and Trade	Capital Accounts
Sundry Debtors	Bank Loan	Marks	Current Accounts
Prepayments	Outstanding	Land & Buildings	Loan on Mortgages
Stock	Expenses	Plant and	Outstanding
Investments	Income Received in	Machinery	Expenses
Furniture and	Advance	Furniture and	Income Received in
Fittings	Loan on Mortgages	Fittings	Advance
Plant & Machinery	Partner's	Investments	Bank Loan
Land & Buildings	Current Accounts	Stock	Bills Payable
Patents	Capital Accounts	Prepayments	Sundry Creditors
Trade Marks		Sundry Debtors	
Goodwill		Bills Receivable	
		Cash	

Source: Tutorhelpdesk

# OWNER'S EQUITY

The owner's equity section is located on the right hand of the two-column balance sheet underneath the listing of liabilities. **It shows the claims of the owners of the company.**

1. Essentially, this is the money that was getting from the asset after the liability claims were organized.
2. For sole proprietorship, owner's equity is often shown as one entry with no distinction being made.



# OWNER'S EQUITY

Casa De Duque					
Statement of Financial Position					
For the years ending 2019-2023					
	2019	2020	2021	2022	2023
<b>Current Assets</b>					
Cash	PHP 3,473,115.00	PHP 4,259,316.15	PHP 5,275,671.98	PHP 6,550,491.31	PHP 8,115,178.53
Inventory	312,521.84	292,574.43	271,629.64	249,637.61	226,545.98
Store Supplies	16,448.52	15,398.65	14,296.30	13,138.82	11,923.47
<b>Total Current Assets</b>	<b>PHP 3,802,085.36</b>	<b>PHP 4,567,289.23</b>	<b>PHP 5,561,597.91</b>	<b>PHP 6,813,267.74</b>	<b>PHP 8,353,647.98</b>
<b>Non Current Assets</b>					
Automobile	PHP 450,000.00	PHP 450,000.00	PHP 450,000.00	PHP 450,000.00	PHP 450,000.00
Accumulated Depreciation	90,000.00	180,000.00	270,000.00	360,000.00	450,000.00
Office Equipment	89,766.00	89,766.00	89,766.00	89,766.00	89,766.00
Accumulated Depreciation	17,953.20	35,906.40	53,859.60	71,812.80	89,766.00
Leasehold Improvement	49,000.00	49,000.00	49,000.00	49,000.00	49,000.00
Accumulated Depreciation	9,800.00	19,600.00	29,400.00	39,200.00	49,000.00
Furniture and Fixtures	200,000.00	200,000.00	200,000.00	200,000.00	200,000.00
Accumulated Depreciation	40,000.00	80,000.00	120,000.00	160,000.00	200,000.00
<b>Total NonCurrent Assets</b>	<b>PHP 631,012.80</b>	<b>PHP 473,259.60</b>	<b>PHP 315,506.40</b>	<b>PHP 157,753.20</b>	<b>PHP -</b>
<b>TOTAL ASSETS</b>	<b>PHP 4,433,098.16</b>	<b>PHP 5,040,548.83</b>	<b>PHP 5,877,104.31</b>	<b>PHP 6,971,020.94</b>	<b>PHP 8,353,647.98</b>
<b>Current Liabilities</b>					
Tax Payable	PHP 247,346.56	PHP 259,713.89	PHP 272,699.58	PHP 286,334.56	PHP 300,651.29
SSS/PagIbig/PhilHealth	308,414.40	323,835.12	340,026.88	357,028.22	374,879.63
<b>Total Current Liabilities</b>	<b>PHP 555,760.96</b>	<b>PHP 583,549.01</b>	<b>PHP 612,726.46</b>	<b>PHP 643,362.78</b>	<b>PHP 675,530.92</b>
<b>Non Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>PHP 555,760.96</b>	<b>PHP 583,549.01</b>	<b>PHP 612,726.46</b>	<b>PHP 643,362.78</b>	<b>PHP 675,530.92</b>
<b>Partner's Equity</b>					
Partner's Beginning Capital	PHP 3,500,000.00	PHP 3,877,337.20	PHP 4,456,999.82	PHP 5,264,377.85	PHP 6,327,658.16
Add: Net Income	377,337.20	579,662.62	807,378.03	1,063,280.31	1,350,458.90
<b>Total Capital</b>	<b>PHP 3,877,337.20</b>	<b>PHP 4,456,999.82</b>	<b>PHP 5,264,377.85</b>	<b>PHP 6,327,658.16</b>	<b>PHP 7,678,117.06</b>
<b>TOTAL LIABILITIES AND PARTNER'S EQUITY</b>	<b>PHP 4,433,098.16</b>	<b>PHP 5,040,548.83</b>	<b>PHP 5,877,104.31</b>	<b>PHP 6,971,020.94</b>	<b>PHP 8,353,647.98</b>

# CAPITAL MANAGEMENT

In any business, an entrepreneur must know two financial objectives: **Profitability** and **Liquidity**.

- 1. Profitability** is concerned with the amount of income left over after all expenses, particularly concerning the investment base, which produces that income
- 2. Liquidity** refers to having sufficient cash to meet obligations as they are due.

# CASH FLOW

The statement of cash flows, or the cash flow statement, is a financial statement that summarizes the amount of cash and cash equivalents entering and leaving a company. The cash flow statement (CFS) measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses. The cash flow statement complements the balance sheet and income statement and is a mandatory part of a company's financial reports since 1987.

# Sources of Cash

1. New equity
2. New debt
3. Sales of fixed assets
4. Sales of goods and services

Cash Management, meaning controlling the cash flow, is vital to businesses of all sizes. Small entrepreneurs are especially vulnerable to cash flow problems if they operate with inadequate cash reserves. It is not easy to get your cash flow under control. Some businesses never achieve cash flow control. These businesses are always in trouble. That is why cash flow management is essential.

# Steps in Cash Flow Management

- 1. Forecast sales** - estimate how much you expect to sell using forecasting.
- 2. Identify cash inflows** - new equity, new debt.
- 3. Identify cash outflows** - expenses, cost.
4. Determine the net effect when cash flows in and out.
5. Determine your cash position over time.



# Steps in Cash Flow Management

Casa De Duque Cash Flows Statement For the years ending 2019-2023						
Cash Flow from Operating Activities						
	2019	2020	2021	2022	2023	
Collection from Customers	PHP 4,363,920.00	PHP 4,800,312.00	PHP 5,280,343.20	PHP 5,808,377.52	PHP 6,389,215.27	
Less:						
Permits and Licenses	(16,264.50)	(17,077.73)	(17,931.61)	(18,828.19)	(19,769.60)	
Office Supplies	(15,000.00)	(1,287,652.71)	(1,352,035.35)	(1,419,637.11)	(1,490,618.97)	
Store Supplies	(50,734.00)	(53,270.70)	(55,934.24)	(58,730.95)	(61,667.49)	
Kitchen Supplies	(57,500.00)	(60,375.00)	(63,393.75)	(66,563.44)	(69,891.61)	
Equipment	(320,000.00)	(336,000.00)	(352,800.00)	(370,440.00)	(388,962.00)	
Furniture and Fixture	(76,000.00)	157,753.20	165,640.86	173,922.90	182,619.05	
Depreciation Expense	(157,753.20)	(165,640.86)	(173,922.90)	(182,619.05)	(191,750.00)	
Utilities Expense	(177,000.00)	(185,850.00)	(195,142.50)	(204,899.63)	(215,144.61)	
Rental Expense	(720,000.00)	(720,000.00)	(756,000.00)	(793,800.00)	(833,490.00)	
Marketing Expense	(87,000.00)	(91,350.00)	(95,917.50)	(100,713.38)	(105,749.04)	
Salaries Expense	(1,252,363.80)	(1,314,981.99)	(1,380,731.09)	(1,449,767.64)	(1,522,256.03)	
SSS/PagIbig/PhilHealth	(175,024.80)	(183,776.04)	(192,964.84)	(202,613.08)	(212,743.74)	
Training and Development	(35,000.00)	(36,750.00)	(38,587.50)	(40,516.88)	(42,542.72)	
13th Month Pay	(75,000.00)	(78,750.00)	(82,687.50)	(86,821.88)	(91,162.97)	
14th Month Pay, VL, SL others	(80,000.00)	(84,000.00)	(88,200.00)	(92,610.00)	(97,240.50)	
VAT	(230,266.56)	(241,779.89)	(253,868.88)	(266,562.33)	(279,890.44)	
<b>Net Cash From Operation</b>	<b>PHP 761,881.00</b>	<b>PHP 786,201.15</b>	<b>PHP 1,016,355.83</b>	<b>PHP 1,274,819.33</b>	<b>PHP 1,564,687.22</b>	
<b>Cash Flow from Financing Activities</b>						
Partners' Investment	PHP 3,500,000.00	-	-	-	-	
<b>Net Cash Flow From Financing</b>	<b>PHP 3,500,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Cash Flow from Investing Activities</b>						
Purchase of Automobile	PHP 450,000.00	-	-	-	-	
Purchase of Office Equipment	89,766.00	-	-	-	-	
Leasehold Improvement	49,000.00	-	-	-	-	
Purchase of Furniture and Fixtures	200,000.00	-	-	-	-	
<b>Net Cash Flow from Investing</b>	<b>PHP (788,766.00)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>NET CASH FLOW</b>	<b>PHP 3,473,115.00</b>	<b>PHP 786,201.15</b>	<b>PHP 1,016,355.83</b>	<b>PHP 1,274,819.33</b>	<b>PHP 1,564,687.22</b>	
Add: Beginning Cash Balance	-	3,473,115.00	4,259,316.15	5,275,671.98	6,550,491.31	
<b>Ending Cash Balance</b>	<b>PHP 3,473,115.00</b>	<b>PHP 4,259,316.15</b>	<b>PHP 5,275,671.98</b>	<b>PHP 6,550,491.31</b>	<b>PHP 8,115,178.53</b>	

# DEFINITION OF FINANCIAL TERMS

- 1. Capital** – comprises the total assets of a business. It is the total sum invested in the business.
- 2. Working Capital** – These are the funds required in the day-to-day operation of the business.
- 3. Fixed capital** is the part of the total capital invested in the fixed assets such as land, buildings, machinery, equipment, and fixtures.

# DEFINITION OF FINANCIAL TERMS

**4. Equity Capital** – The capital, furnished or invested in the business by the owner-entrepreneur is known as equity capital.

**5. Debt Capital** is the funds borrowed or owned by the start-up entrepreneur he puts into the business.

**6. Capital Structure** refers to the entire makeup of capital of a business owned by the entrepreneur.



# TYPES OF CAPITAL

- 1. Short-term Loans** – commonly defined as borrowed funds to be repaid in less than one year.
- 2. Intermediate-Term Loans** – It provides capital for a period of one to five years.
- 3. Long-term Loans** – the type of loan in which payable is up to more than five years.

# SOURCES OF CAPITAL

- 1. Internal Funds** - obtained from the income of the business
- 2. Trade Credit** - receivables from the customer. Usually, credits are within 7,15,30,60,90, or COD.
- 3. Equity** - investment
- 4. Banks**
- 5. Term loans**
- 6. Leasing** - method of acquiring business equipment without capital outlay.

# **SOURCES OF CAPITAL**

7. Commercial Bills

8. Personal Installment Loans

9. Finance Companies

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Thank you

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