



# Basics of Finance for Entrepreneurs

## Snapshot of Financial System

→ Financial System : It is a system where who offer funds meet who request funds.

- Financial Institutions
  - Banks
  - Insurance Companies
  - Faktoring Companies
  - Financial Leasing Companies
  - Intermediary Institutions
  - Consumer Finance and Asset Management Companies
- Financial Tools
  - Cheques
    - Breaking cheque : Cashing a check before its due date
  - Promissory Notes
  - Stocks
  - Bank Loans
  - Bonds
- Legal and Administrative Institutions (Turkish Institutions)
  - Central Bank
  - Ministry of Treasury
  - TMSF (Tasarruf Mevduati Sigorta Fonu)
  - SPK (Sermaye Piyasasi Kurumu)
  - BDDK (Bankacilik Denetleme Kurmu)
  - SEDDK (Sigortacilik Denetleme Kurulu)

→ Financial reports are used with different purpose by every institutions and people

→ Financial reports are prepared for determined period of time and they are temporary and does not include any information belongs to the company.

## **Important Points In Business Establishment Process**

→ Feasibility Work : Conducting technically and financially necessary research and evaluations.

→ Feasibility Report

- Product - Service Definition
- Organization Structure
- Financial Projection
- Risk Factors
- Advantages - Disadvantages
- Necessary investment and investors

→ Business Analysis and Determining Business Cycle

- Production
- Supply Chain
- Management
- Sales
- Advertisement
- Finance
- External Support Service

→ Accountant Selection

- Independent Accountant

- Setting up an Accountant Department
- Partnership Structure
  - Mission definition of people in management team
  - Share distribution of the partners
- Selection of Company Type
  - According to Business Plan
  - According to Feasibility Report
  - Help may be taken from lawyers and accountants
- Selection of Business Location
  - Cost Factors
  - Technoparks
  - According to Business Analysis
  - According to Supplier Locations
  - According to Trade Zone Locations
- Timing

## Reasons for Business Failure

- Failure : Failed to reach target profit, failed investment, make a loss
- There are 2 types of main mistakes : Management and External Factors
  - Management Factors
    - Getting into wrong market
    - Making wrong investments
    - Production
      - More than you need : Storage cost and products may be broken in time
      - Less than you need : Missing the market opportunities
    - Wrong financial planning and resource usage

- Excessive and rapid growth in Business
- Wrong profit share policy (No - Self-Financing)
  - Investment
  - RnD
  - Partner's Profit
- Not enough or no development of a new product
- External Factors
  - Excessive and destructive competition in market
  - Contraction in the economy
  - Natural disasters
  - Country-wide energy problems
  - New regulations and taxes

→ Financial states of business and owners are different and should be managed as they are different.

- Accounting
- Debt and Receivables Management
- Creating Financial Reports Regularly
- Internal Control and Supervision Mechanism

## Accounting for Businesses

→ Accounting : Definition and management of economical processes

→ Accounting records are used by internal departments, external institutions and people

- External Institutions
  - Financial Institutions
  - Government

- Customers
- Investors
- Internal Departments
  - Sales
  - Human Resources
  - Management
  - Finance
  - Advertisement
  - RnD

#### → Benefits of Accounting Processes

- Correct financial information
- Avoiding possible waste, loss, theft, and such negative effects
- Following up with the tax payments and regulations

#### → Responsibilities of Independent Accountant

- Record financial transactions related to the ledger
- Editing tax returns
- Processing invoices into accounting programs
- Preparing the salary records of the employees
- To organize the financial statements
- To follow the Insurance transaction of employee
- Preparing bank reconciliations
- Consulting on accounting, tax and finance issues
- Performing business organization operations

#### → Certified Public Accountant

- Controlling and supervising of financial transaction for government
- Helps businesses set up accounting systems

- Validates financial statements and if tax regulations are followed or not

→ Regulations and Ledger that Businesses are responsible for;

- Every company are responsible for giving financial statements, keeping ledgers and documents, paying taxes and so on.
- Fiscal year : 1 year (1 January - 31 December)
- Accounting reports and processes should not be used as a purpose, it should be used as a management tool for our company.

→ Benefits of keeping financial ledgers

- It gives comprehensive information about the business
- It can be used to prove Commercial disputes between any institution
- It can be used in the detection of fraudulent and defective bankruptcies
- It provides convenience in the collection, determination and collection of government tax receivables
- Time period of keeping ledgers are differs between 5-10 years.
  - Tax Procedure Law : 5 years
  - Turkish Trade Law : 10 years
  - It is beneficial to keep them longer than it must be

→ Ledgers to be kept

- Inventory book
- Wages book
- There some other books and ledger must be kept according to type of business
- These books must be notarized before we start using and after we finish it
- All the books and ledgers must be kept are given and explained in the Turkish Trade Law and Tax Procedure Law.

# Company Types and Establishment Process

→ Its important that your business and company type is compatible

→ Important point while establishing Business

- Market Research
- Business Plan
- Location
- Company Title
- Core Team Selection

→ Commercial Companies

- Companies may be started as individual based and then turned into equity based companies.
- If investment is on the table, equity based company type is more suitable.
- Individual Based Companies
  - Beginner Level - easy to set up
  - Real People Partnership
  - Partners have infinite responsibilities
- Equity Based Companies
  - Advanced Level
  - Director of Boards
  - Share percentage depends on equity they put

# Operation Cycle

→ An operating cycle refers to the time it takes a company to buy goods, sell them and receive cash from the sale of said goods.

→ Understanding operation cycle goes through understanding operation field and type.

- Business get divided into 3 categories
  - Production Business
  - Service Business
  - Trading Business

→ Stock Turnover Rate : **dividing the cost of goods sold by the average inventory balance for the corresponding period.** (Product Cost / Average Stock)

- Factors that effects Stock Turnover Rate;
  - Volume of Sales
  - Making the production according to the order
  - Product Type (Non- spoilable product)
  - Storage Opportunities
  - Production Variety
- If it is low;
  - Storage cost increases
  - Stocks may break down
  - Stocks may go out of fashion
- If it is high;
  - Customer demand can not be met
  - Ordering cost increases



→ Receivables Turnover Rate : It is calculated by dividing net credit sales by average accounts receivable. (Credited Sales / Commercial Receivables)

- If it is slow;
  - Company will have difficulty taking receivables
  - Company will have low competitiveness in the market
  - Company does not have efficient receivable policy

→ Debt Turnover Rate : It indicates the total number of times debtors are changed into cash during one financial year (Net Sales / Average short term liabilities)

- If the debt turnover rate is high, this means company has to pay it's debts in short term.
- Debt Turnover Rate increases, Requirement (need) of cash (resource) increases

→ Where do we get cheapest debt?

- Cheapest and easiest credit you can take is always buying long-term goods from your supplier, you take the merchandise for free and you turn it into money and pay it back.

→ Net Operating Capital : Capital that company needs to maintain daily operations. It is good, if we may keep it positive. (spent < daily estimated)

## Financial Resources and Risk Tools

→ Why do we need Financial Resources?

- Growth of our business
- Loss or not enough profit
- Difficulties in sales - Increasing outgoings
- Operating Capital needs for daily operations

#### → Financial Resources

- Bank Credits
- Grants and Incentives
- Venture Capital
- Capital Market
- Angel Investors : For generally start-ups, they may offer mentoring and consulting

→ Debt to Suppliers: It will be more profitable taking on debt by buying goods and paying off these debts in the long term by selling those goods. On the other hand, shortening the term of our receivables will reduce our financing needs.

#### → Capital Market and Tools

- Going IPO (Going public)
- Long Term Debt With Bonds - More than 1 year (Tahvil)
- Short Term Debt With Bonds - Less than 1 year (Bono)

#### → Grant and Incentives

- Grant does not need to be paid back
- Incentives needs to be paid back (with none or small interest rate)

#### → Venture Capital

- Venture capitals make investments to maximize their profit and minimize their loss
- Generally, they are more interested in start-ups cause they have more potential of growth than other big firms.

### → Corporate Relations Between Businesses and Financial Institutions

- It should be open and transparent.
- It should not be forgotten that banks are also Commercial Enterprises and they are responsible for government regulations.
- Every transaction and everything related with banks should be consulted to bank officials.

### → Why do we need to work with banks?

- To provide trust to customers and other businesses
- For salary and tax payments
- Credit, cheque, bond processes and transactions
- Letter of guarantee for some auctions and customers
  - For determined time / Infinite time
  - This letter is not given for free
    - Cost of letter depends on some criteria such as time choice, and company factors
  - It is needed some auctions and customers
- Financial help and security for International Trade

### → Factor for Banks for giving out credits

- Financial Data
  - Liquidity
  - Equity Structure
  - Resource Usage Structure and Debts
  - Efficiency, growth and consistency of Sales
- Non-Financial Data
  - Mortality of Partners (Experience, Personal History, Ethics)
  - Partnership Structure

- Management Structure and Experience
- Operation Cycles
- Sales and advertisement qualifications
- International trade possibility
- Client / Customer Profile

→ Faktoring Companies : It is a type of company that helps us to get our long term receivables in short time.

- Financial Service
- Guarantee Service
- Payment Service

→ Financial Renting : It is approach for buying equipment and tools used in business in time period. It is transfer of the rights of equipments and tools to the user like paying rent until the payment of the tool is completed.

→ Barter System : Trading goods or service between one or more parties without using any money

## Cash Management

→ Cash flow potential = Company Value

→ Cash Flow Table : Analysis of cash flow

- Finance Operations
- Investment Operations
- Business Operations

→ Cash Income

- Sales of product or service
- Credits and interest incomes
- Dividend income
- Sales of fixed assets

→ Cash Outgoings

- Payments for purchasing stocks
- Salary payments
- Tax payments
- Interest payments of credits
- Supplier payments

## Budget Preparation and Management

→ Budget : It is the expression of future operations with figures (Resources of company for future operations)

- Budget is not an actual result that happened.
- Reaching budget goals are not %100 certain
- Budget should be used as a tool that shows direction to the business

→ Main purpose of preparing budget

- Determining the expectation from fiscal year
- Communication between departments according to goals
- Helps evaluations of success
- Helps planning for fiscal year
- Helps realizing the expenditure and income

→ For well planned budget

- Well organized data belongs to past
- Tolerance allowance should be included
- Common budget form that every department can use, should be prepared
- First of all, sales budget should be prepared so income may be known.
- Budget is prepared annually.

→ Budget Tree

- Operations Budget
  - Sales Budget
  - Production Budget
  - Advertisement Budget
  - Distribution Budget
  - Finance Budget
  - Management Budget
- Investment Budget

→ Balance Sheet (Bilanço) : It is a financial statement that reports a company's assets, liabilities, and shareholder equity.

## Tax Processing

→ Some of the definitions of tax related words

- Tax payer (Vergi Mükellefi) : The person who is obligated to pay taxes
- Tax Officer (Vergi Sorumlusu ) : The person who pays taxes for someone
- Tarh (Turkish term) : Determination of taxes by tax authority

- Tahakkuk (Turkish term) : Finalization of the amount tax
- Tahsil (Turkish term) : Paying the taxes

→ Some type of taxes in Turkiye;

- Institution's Tax (Kurumlar Vergisi): Tax taken from businesses' income
- Sales Tax (KDV) : Tax taken from sales of product and service
- Stamp Tax (Damga Vergisi) : Tax paid for agreements, legal and registry documents
- Income Tax (Gelir Vergisi) : Tax taken from individuals income

→ Tax Exemption : Some of the businesses or people are kept out of the tax regulations due to special reasons.

→ A company's biggest source of income should be the core business it focuses on. However, temporary jobs that are not related to its core business may be gotten for a short period of time.

## References

Oyun ve Uygulama Akademisi

 <https://oyunveuygulamaakademisi.com/>



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## SerhatKumas - Overview

Computer engineering student who loves coding in different fields instead of focusing on a one specific area. - SerhatKumas

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