



## BuSH 6008: Technological Innovation and Entrepreneurship Management

**Module 2/ BUSH 6005: ENTREPRENEURSHIP AND MANAGEMENT**

**@ Liliane Pasape**

BSc. Animal Science, MBA (International Business) & PhD- BA (Marketing & Business Strategies)

**4 August 2022**

# ENTREPRENEURSHIP AND MANAGEMENT: RECAP I-III

## I) Management:

- Theories , principles, objectives (efficiency & return on capital) functions & roles of the managers (Planning)
- Decision making process & strategic planning (planning, controlling , monitoring and evaluation of financial resources & investments)

## 2) Organizing & Leadership Management

- Organizational design decisions (planning & financial forecasting) , Leadership Styles (in relation to financial related resources) Motivating Employees (salaries, wages , insurance/ social security),

## 3) Entrepreneurship and Business Development

- The nature of organization change( when to increase / cut down expenses), Stimulating innovations (when to invest in R&D), Entrepreneurship & theories of entrepreneurship (risk taking in investment, financial school of thoughts: capital), development of business plan and growth (realization of the business plans)



# FINANCIAL MANAGEMENT



## Contents:

- Introduction to Finance
- Financial Forecasting and Budgeting
- Business Financing Options
- Basic Financial Statement
- Financial Performance Analysis (ratio)

# 1. INTRODUCTION TO FINANCE

A Finance refers to:



- The process of how to **get and use money**
- The actual process of **attracting and management of funds**
- The study of how people and businesses **evaluate investments and raise capital**

# INTRODUCTION TO FINANCE...



A Financial Management refers to:

- to the strategic ways of *planning, organising, directing, and controlling of financial undertakings* in an organisation in order to make informed business decisions.

# WHY STUDY FINANCE?

## ❑ Personal financing

- Financial stability
- Budgeting
- Resources reallocation
- College planning,
- Day-to-day cash flow issues
- Salary and employment
- Savings
- Debts management
- Investment
- Insurance: Life and Health
- Mortgage
- Retirement planning



# WHY STUDY FINANCE?...

## Management purposes

- Strategic thinking,
- Job performance,
- Profitability
- Resources allocation e.t.c



# WHY STUDY FINANCE?...

# Marketing

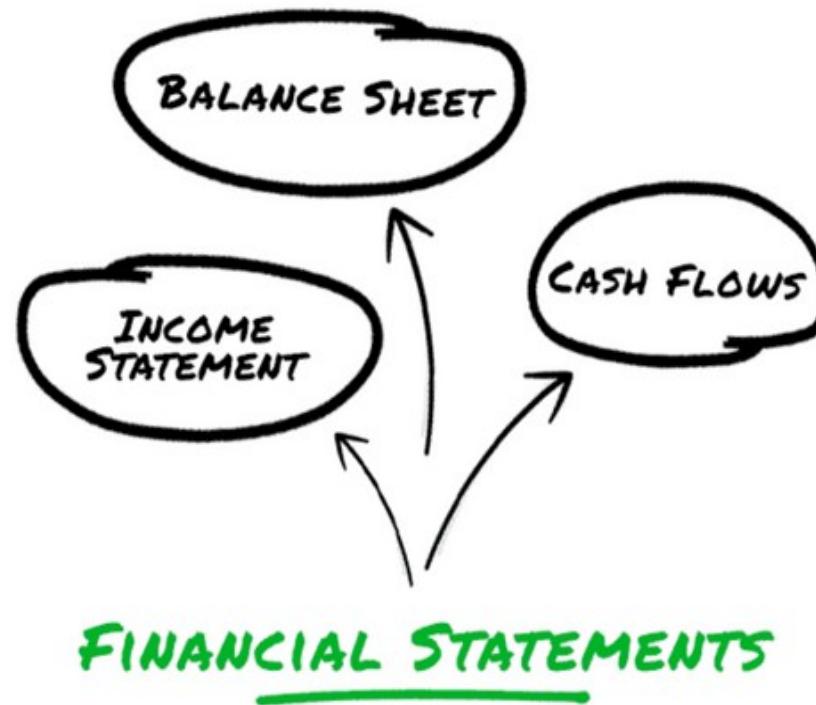
- Budgeting and forecasting,
  - Marketing research and analysis,
  - Sales and Marketing
  - Branding
  - Customer Relationship Marketing
  - E.t.c



# WHY STUDY FINANCE?...

## □ Accounting

- Dual accounting and finance function,
- Preparation of financial statements



# BASIC AREAS OF FINANCE



# BASIC AREAS OF FINANCE

## i. Personal Finance:

- Finance-retirement provision, saving plans etc.,;



# BASIC AREAS OF FINANCE...

## ii. Corporate/ Business finance:

- Sources of fund, raising funds, utilization, investment decisions , financial management



# BASIC AREAS OF FINANCE...

## iii. Public Finance:

- Managing public needs, Public expenditure management , sources of Public Revenues , Finance-income distribution, inequality management,, expenditure management, sources of revenues, national debt management , stability plans : price and economy : e.g Fiscal and Monetary Policies etc



# BASIC AREAS OF FINANCE...

## iv Investments:

- Financial investment e.g Types and value of assets e.g equity shares, money market, stocks , debenture/bonds, venture capital, hedge funds
- Economic Investments: e.g Real estate: agriculture land, raw materials, machinery



# BASIC AREAS OF FINANCE...

## v Financial institutions:

- Federal/ Government/ Central Banks
- Banks – commercial and investment,
- Micro Finance Institutions (MFI's)
- Insurance companies
- Pension Funds
- Security Companies
- Brokerage Companies
- Mortgage Companies



# BASIC AREAS OF FINANCE...

## vi International finance:

- Exchange rates ,
- Customs,
- Political risk



# **FINANCIAL MANAGEMENT DECISIONS**

# FINANCIAL MANAGEMENT DECISIONS

- i. Asset Management Decisions
  - How do we manage existing assets efficiently?
- ii. Capital budgeting
  - What long-term investments or projects should the business take on?
- iii. Capital structure
  - How should we pay for our assets?
  - Should we use debt or equity?
- iv. Working capital management
  - How do we manage the day-to-day finances of the firm?

# **FINANCIAL MANAGEMENT DECISIONS...**

## **vi. Financing decisions:**

- when, where and how should a business acquire funds
- **Equity** ( a security representing an ownership claim on a firm's cash flow which typically includes ability to influence operations) vs
- **Debit Financing** (an obligation created when a borrower receives money from a lender (or debit holders) which it agrees to pay back a future time, typically with interest.

# **FINANCIAL MANAGEMENT DECISIONS...**

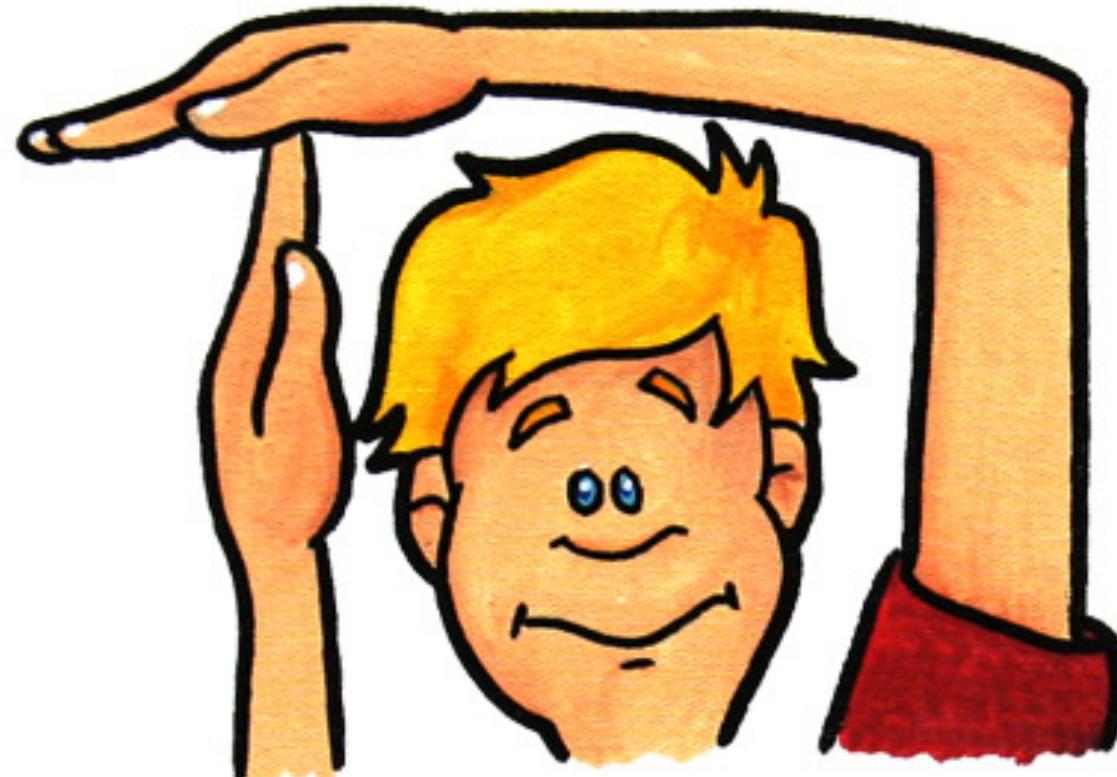
## **vi. Investment decisions**

- **capital allocations** to different assets & using funds obtained from selling firms assets

## **vii. Dividend**

- when to **distribute all the profits to the shareholder or retain all the profits** ; or distribute part of the profits to the shareholder and retain the other half in the business

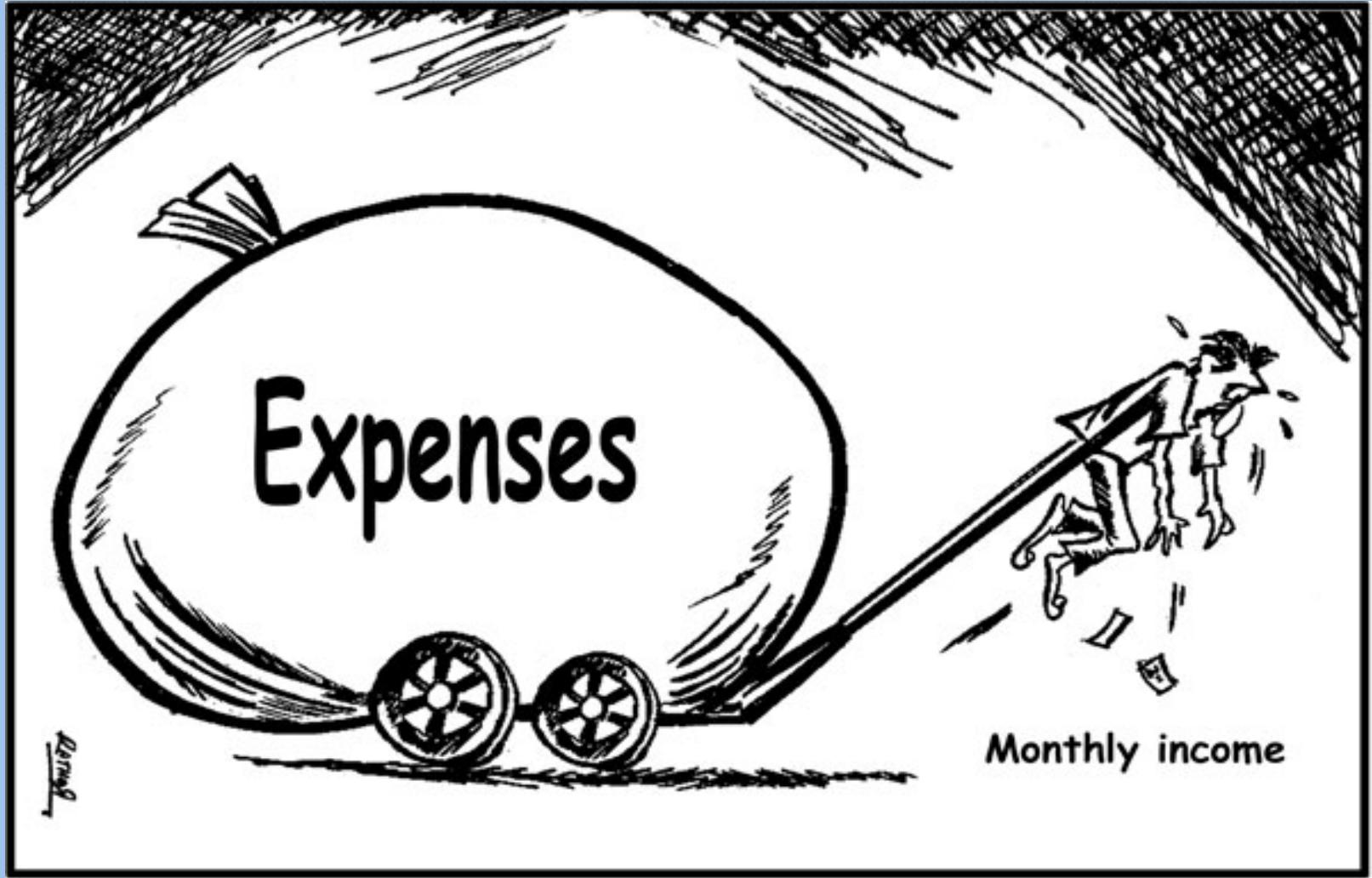




## 2. FINANCIAL FORECASTING AND BUDGETING



# FINANCIAL FORECAST & BUDGET



# **FINANCIAL FORECASTING AND BUDGET:**

## **□ Financial Forecast**

- Project **sales revenues and expenses**
- Estimate current assets and fixed assets necessary to support projected sales
- Process of predicting future performance



# **FINANCIAL FORECASTING AND BUDGET:**

## Budget

- How to spend your money
- indicate the amount and timing of future financing needs
- the formalized plan, stated in financial terms, describing how the organization expects to carry out its activities and meet the established financial goals over a given time frame.

# **FINANCIAL FORECASTING AND BUDGET:**

## Budget...

- provide a basis for performance evaluation and corrective measures if budgeted and actual figures do not match
- Deals with income/ revenue, expenses and savings

# PURPOSES OF BUDGETING

- Management planning
- Evaluation
- Control of resource and activities
- Communication
- Coordination of activities
- Motivation
- Evaluate managers' performance
- E.t.c

# **BUDGETARY SYSTEM**

## **Sound Features.**

- Participatory budgeting
- Realistic standards
- Flexible budgeting
- Controllability
- Frequent feedback on performance
- Multiple measures of performance

# THE MASTER AND OPERATING BUDGET

- A **master budget** is part of an overall organization plan for the next year made up of three components:
  - the organization goals,
  - the strategic long-range profit plan, and
  - the tactical short-range profit plan.
  
- Comprised of a collection of various types of **operating budgets** e.g
  - Sales
  - Production
  - Purchases (Direct materials)
  - Labor
  - Manufacturing overhead
  - Administrative
  - Cash

# BUDGETING APPROACHES

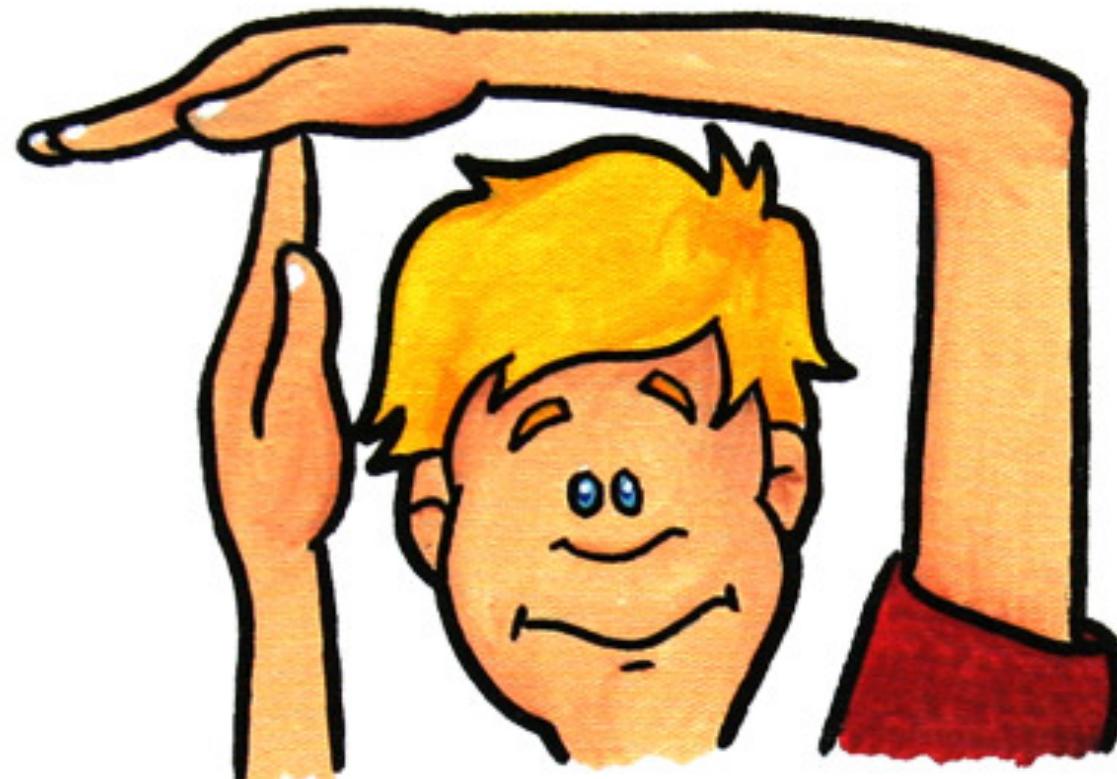
## ❑ Incremental budgeting

- A budgeting approach that assumes the starting point for each budget item is the amount spent on it in the previous budget
- The new budget is seen as last year's +/- a specified increment
- Less costly but may not be strategically sound

## ❑ Zero-based budgeting

- A budgeting approach that assumes the starting point for each budget item is zero
- Essential feature is a review of the necessity of each expenditure element/activity as part of the budgeting process
- More costly but more strategically sound.





### 3. BUSINESS FINANCING OPTIONS



# BUSINESS FINANCING OPTIONS

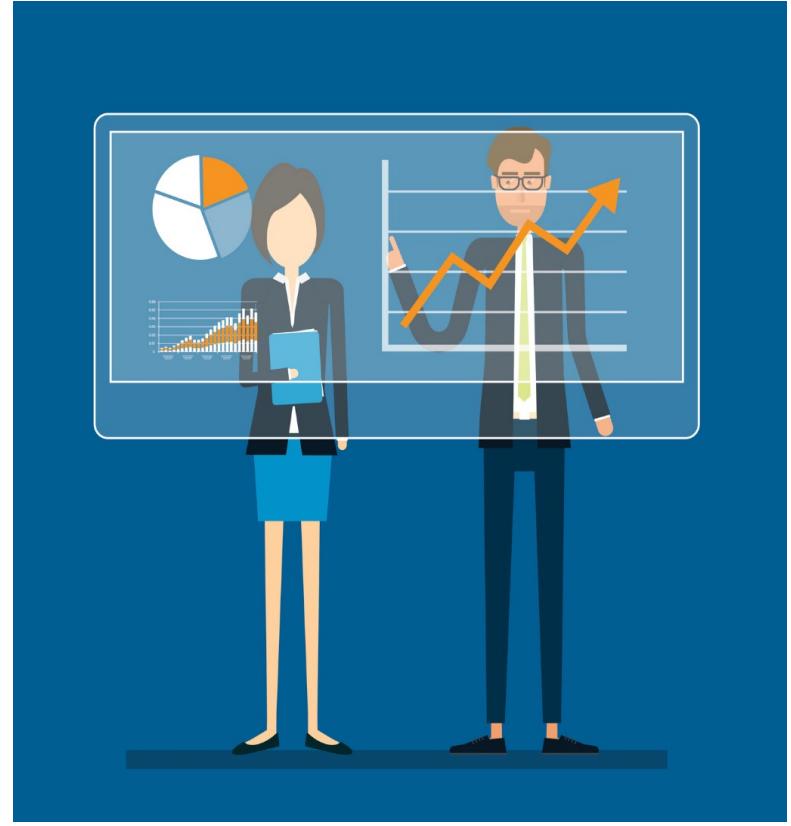


# **BUSINESS FINANCING OPTIONS**

## **Before looking for business funding**

- Amount: Determine how much money is needed to start your company
- Source: Where to get business financing
- Credibility: Prove to your investor that your company requires the predetermined amount of money
- Associated Costs: Offer incentives, interest, or collateral for the investor's contribution
- Payment Mode: Make arrangements to pay back the loan
- Risks: Associated risks
- Backup Plan e.t.c

# TYPES OF BUSINESS FINANCING



Working Capital Vs Growth Capital

# TYPES OF BUSINESS FINANCING...



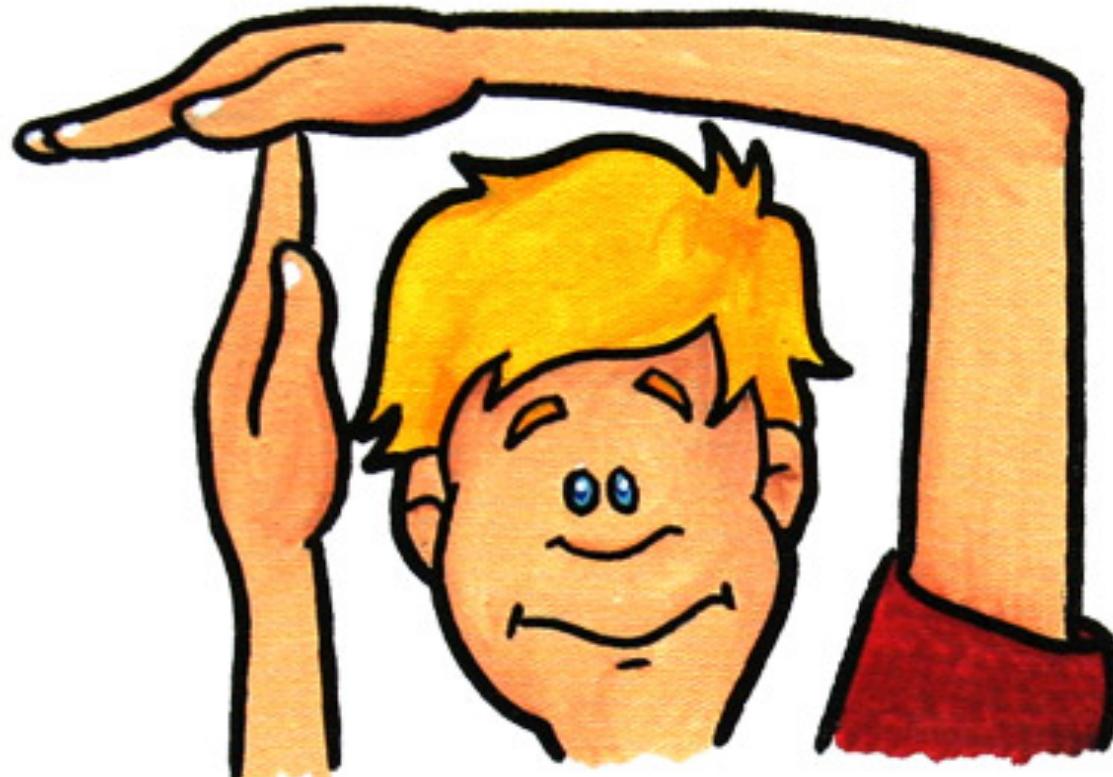
“We've been doing some genealogical research. We appear to be distantly related. Could we borrow some money for our new business? ”

# **TYPES OF BUSINESS FINANCING...**

- Sales of assets
- Retained profits
- Reduce stocks
- Equity capital\*
- Debt/loans\*
- Friends
- Family

# **TYPES OF BUSINESS FINANCING...**

- Venture capital
- Angel capital
- Sales of shares
- Banks loans
- Bank Overdraft
- Debentures
- Leasing companies
- Government agencies
- Commercial Mortgage



## 4. FINANCIAL STATEMENTS

# **BASIC FINANCIAL STATEMENTS**

- ❑ is a quantitative way of showing how a company is doing.
- ❖ Reflect company's expenditure (costs) and revenue

# **EXPENSES vs REVENUE**

## **Expense**

### Fixed Cost

- Rent payments
- Salaried employees
- Capital Investments
- Utilities (phone, water, electric,
- Insurance
- Property Taxes

### Variable Cost

- Materials Cost
- Supplies
- Production Wages
- Contracted labor
- Sales Commissions /  
Distribution Costs
- Equipment Maintenance

## **Revenue**

### Sales

- Interest from firm's investments (e.g., a company bank savings account)

- Royalty and Licensing payments for appropriate use of firm's intellectual property

# WAYS TO REPRESENT FINANCIAL STATEMENT

## Cash Flow/ Cash Management

Show:

- 1) Ability of the company to **meet its obligations**.
- 2) Availability of **enough cash** to allow company has to run the business

Is a statement shows **beginning cash balance**, **cash inflows**, **cash outflows** and **ending cash balance**

| in USD   |  |            |            |            |
|----------|--|------------|------------|------------|
|          | CASH IN  | IHI        | TENERU     | KARANGAI   |
| 1        | Beginning Cash balance (from last financial reports)           | 20         | 10         | 0          |
| 2        | Cash in through Sales  | 100        | 100        | 0          |
| 3        | Account receivable collections (advance payment from customer) | 15         | 20         | 20         |
| 4        | New Loan from CRDB   | 15         | 55         | 200        |
| 5        | Return from KQ Investment                                      | 10         | 5          | 0          |
| 6        | <b>Total Cash In (1+2+3+4+5)</b>                               | <b>160</b> | <b>190</b> | <b>220</b> |
|          |  |            |            |            |
| CASH OUT |  |            |            |            |
| 7        | Machinery purchase   | 40         | 90         | 180        |
| 8        | Production expenses paid                                       | 25         | 45         | 50         |
| 9        | Inventory on hand  | 12         | 2          | 0          |
| 10       | Principal payable  | 3          | 13         | 10         |
| 11       | <b>Total Cash Out</b>  | <b>80</b>  | <b>150</b> | <b>240</b> |
|          |  |            |            |            |
|          | <b>ENDING CASH BALANCE(6-11)</b>                               | <b>80</b>  | <b>40</b>  | <b>-20</b> |
|          |  |            |            |            |

# WAYS TO REPRESENT FINANCIAL STATEMENT...

## Income Statement/ Profitability

- Show
  - 1) Ability of the company to make money?
  - 2) Profitability of the company.
- Refers to the statement compares the profitability of the firm to prior years i.e Total (yearly) revenues minus total (yearly) expenditures

| INCOME STATEMENT OF NM AIST LTD FOR THE YEAR ENDED DEC31, 2019 (IN USD) |  |           |            |
|---|--|-----------|------------|
|   |  | IHI       | TENGERU    |
| 1   | Sales  | 100       | 100        |
| 2   | Cost of good sold                                | 75        | 76         |
| 3   | <b>Gross Profit (1-2)</b>                        | <b>25</b> | <b>24</b>  |
|   | <u>Operating expenses</u>                        |           |            |
| 4   | Selling expenses                                 | 10        | 7          |
| 5   | Administrative expenses                          | 12        | 9          |
| 6   | <b>Total Operating expenses (4+5)</b>            | <b>22</b> | <b>16</b>  |
| 7   | <b>Operating Income</b>                          |           |            |
|   | Gross Profit- Total Operating Expenses (3-6)     | 3         | 8          |
| 8   | Interest expenses                                | 1         | 2.4        |
| 9   | <b>Income before tax</b>                         |           |            |
|   | <b>Operating Income- Interest expenses (7-8)</b> | <b>2</b>  | <b>5.6</b> |
| 10  | Income tax expenses                              | 1         | 1          |
| 11  | <b>Net income after taxes</b>                    |           |            |
|   | Income before tax -income tax expenses (9-10)    | 1         | 4.6        |

# WAYS TO REPRESENT FINANCIAL STATEMENT...

## Balance Sheet:

*Responds to issues on*

What **size** is my assets?

- E.g Land and Capital Equipment less accrued depreciation, IP, Cash on Hand, Accounts Receivable, Inventory, Retained Earnings from previous years

How much **debt** do I have and How big is company's debts

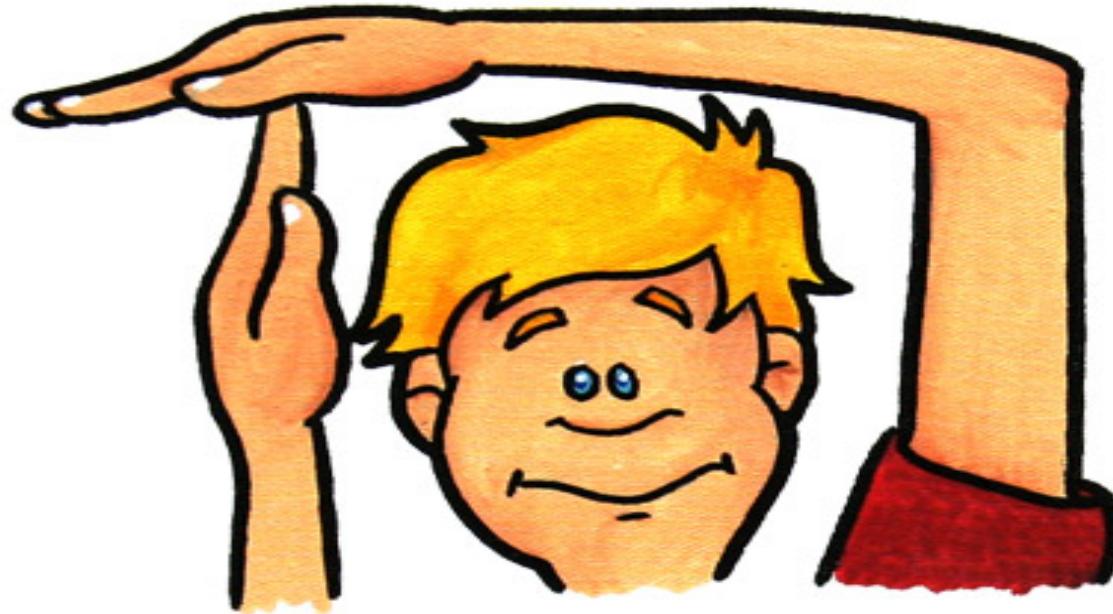
- Short Term Debt (loans), Long Term Debt (bond issues, etc), Accounts Payable, Interest Payable, Taxes Payable

\*\*\*\*\*

| ASSETS                                    | LIABILITIES & NET WORTH |
|---|-------------------------|
| <b>Current Assets</b>                     |                         |
| Cash in Bank                              | \$ 42,600               |
| Inventory                                 | 4,500                   |
| Prepaid Expenses                          | 2,400                   |
| <b>Total Current Assets</b>               | <b>\$ 49,500</b>        |
| <b>Noncurrent Assets</b>                  |                         |
| Land                                      | 20,000                  |
| <b>Total Noncurrent Assets</b>            | <b>\$ 20,000</b>        |
|   |                         |
| <b>Total Assets</b>                       | <b>\$ 69,500</b>        |
|   |                         |
| <b>Current Liabilities</b>                |                         |
| Accounts Payable                          | \$ 1,500                |
| Current Portion Long-term Debt            | 900                     |
| <b>Total Current Liabilities</b>          | <b>\$ 2,400</b>         |
| <b>Long-term Liabilities</b>              |                         |
| Mortgage Payable (greater than 12 months) | \$ 18,000               |
| Less: Short-term Portion                  | (900)                   |
| <b>Total Long-term Liabilities</b>        | <b>\$ 17,100</b>        |
|   |                         |
| <b>Total Liabilities</b>                  | <b>\$ 19,500</b>        |
|   |                         |
| Owners' Equity (Net Worth)                | \$ 50,000               |
|   |                         |
| <b>Total Liabilities &amp; Net Worth</b>  | <b>\$ 69,500</b>        |

\*

**Total Asset – Total Liabilities = Equity**



INDEPENDENT STUDY:  
**5. FINANCIAL PERFORMANCE: FORMULA AND IMPLICATIONS**

<https://corporatefinanceinstitute.com/assets/CFI-Financial-Ratios-Cheat-Sheet-eBook.pdf>

[https://www.gov.mb.ca/agriculture/farm-management/transition-planning/  
pubs/ch3-t7-financial-performance.pdf](https://www.gov.mb.ca/agriculture/farm-management/transition-planning/pubs/ch3-t7-financial-performance.pdf)

# 5 FINANCIAL PERFORMANCE ANALYSIS (RATIOS)

- Indicators of financial performance of the firm/ business
- Helps to understand the financial statements\*
- Measures of “business sense” i.e how well are we conducting our business?
- Assess how well the resources are utilized
- Evaluating the **performance** and **financial** health of a **company** / organization
- Provide trends and comparisons with similar size business.
- Therefore Performance Ratios
  
- Sources of data:
  - Balance Sheet
  - Income Statement
  - Statement of Cash Flow
  - Statement of Retained Earnings

# 5 FINANCIAL PERFORMANCE ANALYSIS (RATIOS)...

- Therefore Performance Ratios look at
  - how well a company **turns its assets into revenue**
  - how efficiently a company **converts its sales into cash**
- Management of various performance indicators e.g
  - **Assets and liability** e.g current ratios (ability of the business to meet its obligations as they come)
  - **Inventory** (how fast your inventory/ stock in your business is moving and generate sales)
  - **Debts** e.g debt structure ie current debt/total debt (what % of total debt is due within a year time); e.g Debtors turn over ratios (number of times your debtors pay you ) or
  - **Credit** e.g creditors turn over ratios (how many times you make payment to your suppliers)
  - **Solvency** e.g debt ratio (measure the amount of business debt relative to the amount of owner's capital invested in the business).
  - **Profitability** e.g return on asset (what return is generated by the business as % of capital assets)
  - **Efficiency** e.g Net Profit Margin (what is acceptable profit margin as % of revenue)

# FINANCIAL PERFORMANCE ANALYSIS (RATIO)..

## □ Types and Purpose of financial ratios

### i. **Activity / efficiency ratios:**

- Measure ability of the firm to convert different accounts within its balance sheets (e.g assets and liabilities) into cash or sales.
- In order to remain in operation , often a highly efficient firm minimized its net investment in assets, and thus requires less capital and debts.
- E.g fixed asset turn over, total asset turnover ratio, inventory turn over, accounts receivable turnover, working capital ratio.

# FINANCIAL PERFORMANCE ANALYSIS (RATIO)..

## □ Types and Purpose of financial ratios

### ii. Liquidity ratios:

- measure the availability of cash to pay its short term debts; i.e the ratio between the liquid assets and the liabilities of a bank or other institution.
- E.g current ratio, acid test ratio /quick ratio, and cash ratio
- The target liquidity ratio is above 1.0.

# FINANCIAL PERFORMANCE ANALYSIS (RATIO)..

## □ Types and Purpose of financial ratios

### iii. Solvency /Leverage ratios :

- measure an enterprise's health is an ability to meet its long term debt obligations
- e.g debt ratio, equity ratio and debt to equity ratio

# FINANCIAL PERFORMANCE ANALYSIS (RATIO)..

## □ Types and Purpose of financial ratios

### iv. Profitability ratios.

- Measure ability of the business to use of its assets, control of its expenses and generate earnings relative to its revenue/ an acceptable rate of return.
- Represent shareholder profits earned for each dollar invested in the firm's stock
- E.g gross profit margin, operating profit margin, and net profit margin.

# FINANCIAL PERFORMANCE ANALYSIS (RATIO)..

## □ Types and Purpose of financial ratios

### v. Market / Valuation ratios :

- measure the cost of issuing stock and the relationship between return and the value of an investment in company's shares. Thus deal with shareholder audiences i.e evaluate the current share price of a publicly-held company's stock. .
- Calculated as the total dividends paid per year, divided by the market price of the stock.

# SESSION RECAP

## Introduction to Finance

- Concept: obtaining , usage, management, evaluation e.t.c
- Reasons: Personal, Business management, marketing, Accounting
- Areas: Personal, Corporate, Public, Investment, Fin. Inst & Inter. Fin.
- Fin. Management Decision: Assets, Capital, Investment & Dividends

## Financial forecasting and budgeting

- Financial forecast/ prediction
- Budget: Master & Operating; Zero & Incremental

## Business Financing options

- Groups: Internal vs External; Debt vs Equity; Capital , Working
- Individuals: Sales of assets, retained profits, bonds, family, banks e.t.c

## Basic financial statement

- Cash flow, Income/ profit and Loss; Balance Sheet

## Financial performance analysis (ratios)

- Efficiency, Liquidity, Solvency, Profitability & Market ratios

# NEXT SESSION...



## The STP Process

