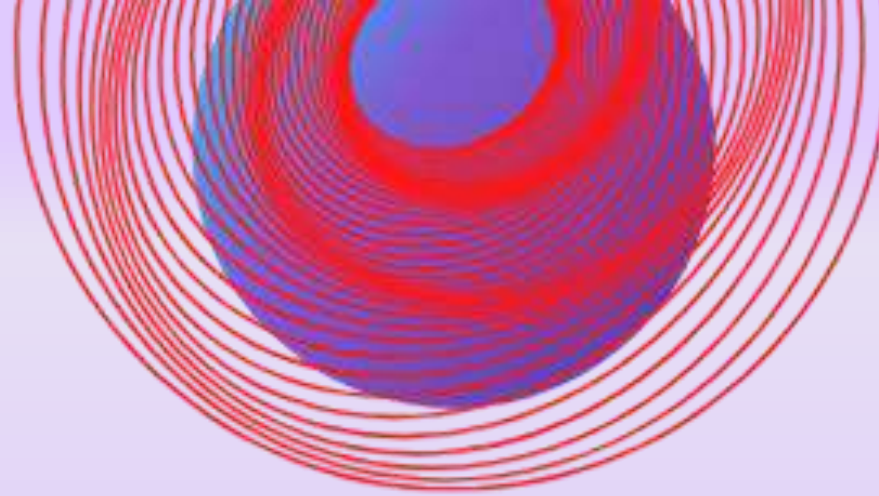




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CONSULTANT TRAINING TOOLKIT-FINANCIAL SKILLS

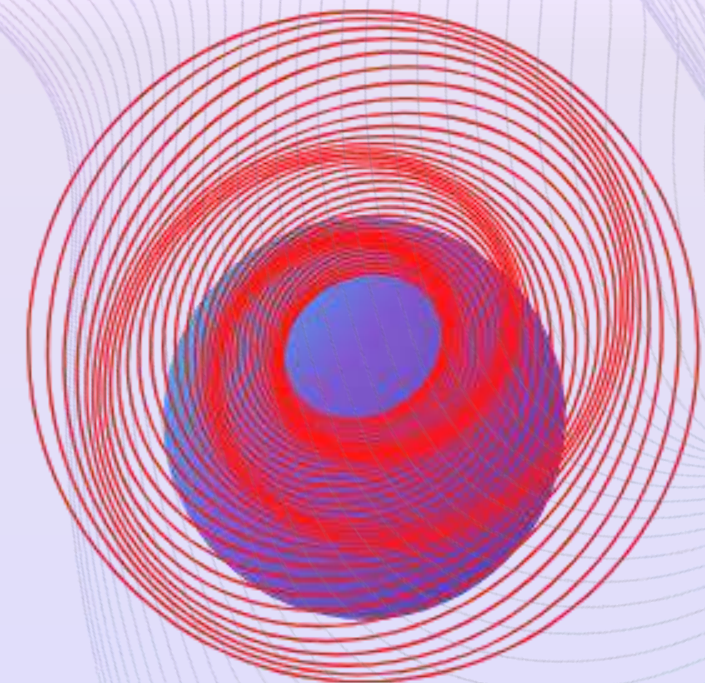
CHAPTER 8

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CONSULTANT TRAINING TOOLKIT

CHAPTER 8

Financial Skills



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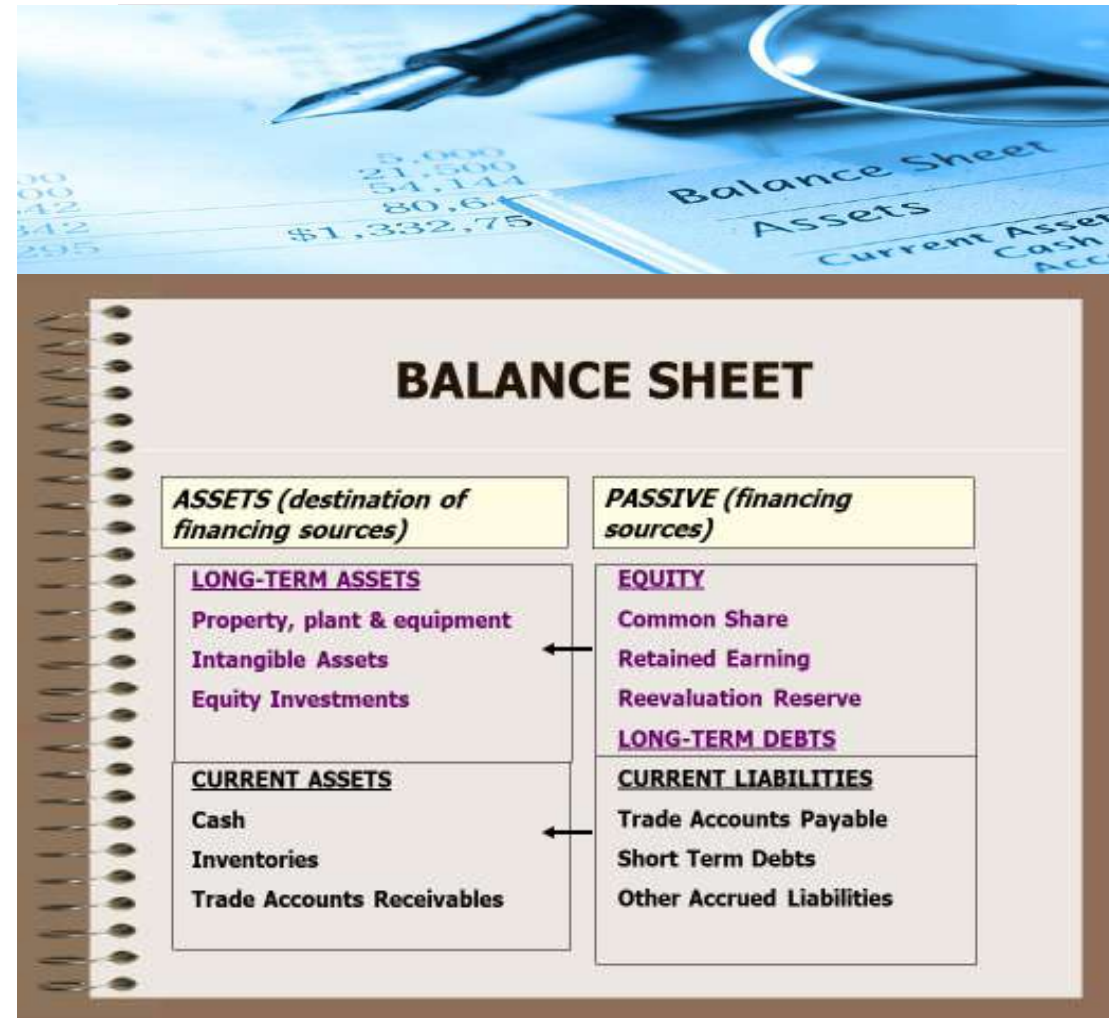
Financial Skills

Understanding the Financial Statements



1. Understanding the Financial Statements Balance Sheet

The **BALANCE SHEET**, also called the statement of financial position, is an overview of the **COMPANY HERITAGE/ NET ASSET**, including information about the assets, liabilities and shareholder's equity at the end of the fiscal year



Understanding the Financial Statements

Balance Sheet

ASSETS = RESOURCES THAT GENERATE FUTURE PROFITS

LONG TERM ASSETS: buildings, equipment, leasehold improvements, vehicles, long-term notes receivable, intangible assets (software, goodwill, trademarks, property rights etc.)



CURRENT ASSETS: cash, accounts receivables, inventories, prepaid expenses



LIABILITIES = ALL THE DEBTS OF THE COMPANY

-LONG – TERM LIABILITIES: loans payable, mortgage payable, notes payable

-CURRENT LIABILITIES: accounts payable, accrued expenses, unearned revenues, lines of credit



Understanding the Financial Statements

Balance Sheet

Indicators calculated based on the balance sheet information:

CURRENT LIQUIDITY = CURRENT ASSETS / CURRENT LIABILITIES

This indicator shows us if the business has enough liquidities to cover its current debts and it is recommended to be supra-unitary (> 1)

GENERAL SOLVABILITY = ASSETS / LIABILITIES

This indicator shows us if the business has enough resources to meet all debts, both long-term and short-term and it is recommended to be supra-unitary (> 1)

Balance Sheet			Company Name		
ASSETS			LIABILITIES		
Current Assets :			Current Liabilities :		
Cash	-	-	Short-Term Debt	-	-
Trade Accounts Receivable	-	-	Trade Accounts Payable	-	-
Inventories	-	-	Other Accrued Liabilities	-	-
			Total Current Liabilities	-	-
			Non-Current Liabilities	-	-
			Long-Term Debt	-	-
Total Current Assets	-	-	Total Liabilities	-	-
Non Current Assets			Equity		
Property, Plant & Equipment	-	-	Common Shares	-	-
Intangible Assets	-	-	Retained Earnings	-	-
Equity Investments	-	-	Revaluation Reserve	-	-
Total Non-Current Assets	-	-	Total Equity	-	-
Total Assets	-	-	Total Liabilities & Equity	-	-



Understanding the Financial Statements

Income Statement

An overview of the **REVENUES and EXPENSES**, and net income recorded during the fiscal year reported and is used for establishing the **NET PROFIT** of the company and to calculate different profitability indicators

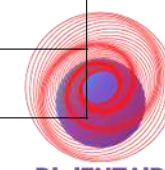
Usefulness:

PROFITABILITY ANALYSIS

ANALYSIS OF EXPENSES OPPORTUNITY

INCOME & EXPENDITURES BUDGET FORECAST

Explanations / Period	Year 1	Year 2	Year 3
I.OPERATING INCOME			
II.OPERATING EXPENSES- total, out of which :			
<u>Variable expenses</u> Raw and auxiliary materials Direct wages			
<u>Fixed expenses</u> Fixed wages Rent Utilities Depreciation Promotion Other services Administrative expenses Interest rates Other expenses			
III.GROSS PROFIT (I-II)			
IV.TAX ON PROFIT			
V.NET PROFIT (III-IV)			



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Understanding the Financial Statements



Understanding the Financial Statements

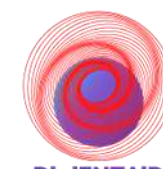
Cash Flow Statement

An overview of **the way the cash was generated** during the fiscal year reported, to pay the debts.

Usefulness:

FORECAST AND TRACK RECEIPTS AND PAYMENTS related to the running of the business

EXPLANATIONS / PERIOD	YEAR 1	YEAR 2	YEAR 3
1. REVENUE COLLECTED			
2. OPERATING EXPENSES			
3. INTEREST EXPENSES			
4. DEPRECIATION			
5. OPERATING NET CASH FLOW (1-2-3+4)			
6. LOANS			
7. OWN SOURCES			
I. TOTAL CASH INFLOWS (5+6+7)			
8. INVESTMENT EXPENSES			
9. LOANS REIMBURSEMENTS			
II. TOTAL CASH OUTFLOWS (8+9)			
III. NET CASH FLOW (I – II)			



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Financial Skills

Budgeting the activity



2. Budgeting the activity

ESTIMATING REVENUES- ASPECTS TO CONSIDER:

- the production capacity owned
- the level of the prices charged on the market in the case of the products/services we offer
- the number of potential clients that could be interested in our products/services, according to the information gathered from the market analysis
- recurrence of certain revenues



Sales Forecast Template - Multi-Year

	2022	2023	2024	2025	2026	Five Year Totals
Units in Pipeline	120,000	132,000	147,840	170,016	200,619	770,475
Pipeline Growth Rate		10%	12%	15%	18%	
Conversion Rate	30%	32%	34%	36%	38%	
Annual Units Sold	36,000	42,240	50,266	61,206	76,235	265,947
Price per unit	\$50.00	\$50.00	\$55.00	\$55.00	\$60.00	\$50.00
Revenue	\$1,800,000	\$2,112,000	\$2,764,608	\$3,366,317	\$4,574,110	\$14,617,035

Budgeting the activity

ESTIMATING EXPENSES- ASPECTS TO CONSIDER:

- expenses with raw materials and utilities - the unit supply prices and average consumption
- expenses with wages - the average monthly salary for each category of staff
- expenses with rent - the total surface that will be rented and the average rental rate per sqm.



Company Name	
Cost Sheet Template	
Description	Amount
Opening Stock - Raw Material	-
Add: Purchase - Raw Material	-
Add: Other Purchase Expenses - Raw Material	-
Add: Raw Material Utilised	-
Add: Direct Labour/Wages	-
Add: Other Direct Expenses	-
Less: Closing Stock - Raw Material	-
PRIME COST (A)	-

Budgeting the activity

ESTIMATING EXPENSES- ASPECTS TO CONSIDER:

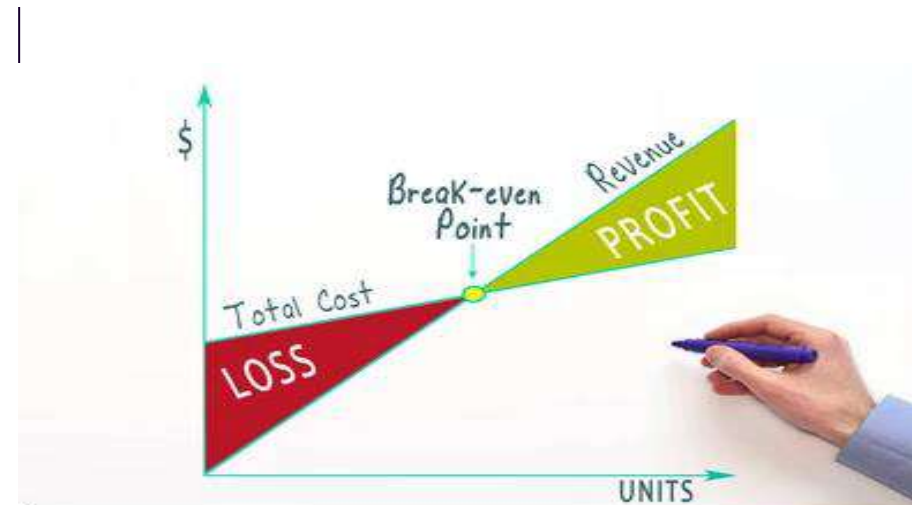
- expenses with equipment depreciation - the average duration of use (in some countries, like Romania, this is legally regulated)
- expenses with the interest rate - the interest rate applied by our bank or average interest rates on the interbank market, adding covering percentages
- expenses with insurance - the insured value and the percentage applied by the insurance companies



Company Name	
Cost Sheet Template	
Description	Amount
Opening Stock - Raw Material	-
Add: Purchase - Raw Material	-
Add: Other Purchase Expenses - Raw Material	-
Add: Raw Material Utilised	-
Add: Direct Labour/Wages	-
Add: Other Direct Expenses	-
Less: Closing Stock - Raw Material	-
PRIME COST (A)	-

Financial Skills

Break Even Point (Critical Point of Sales)

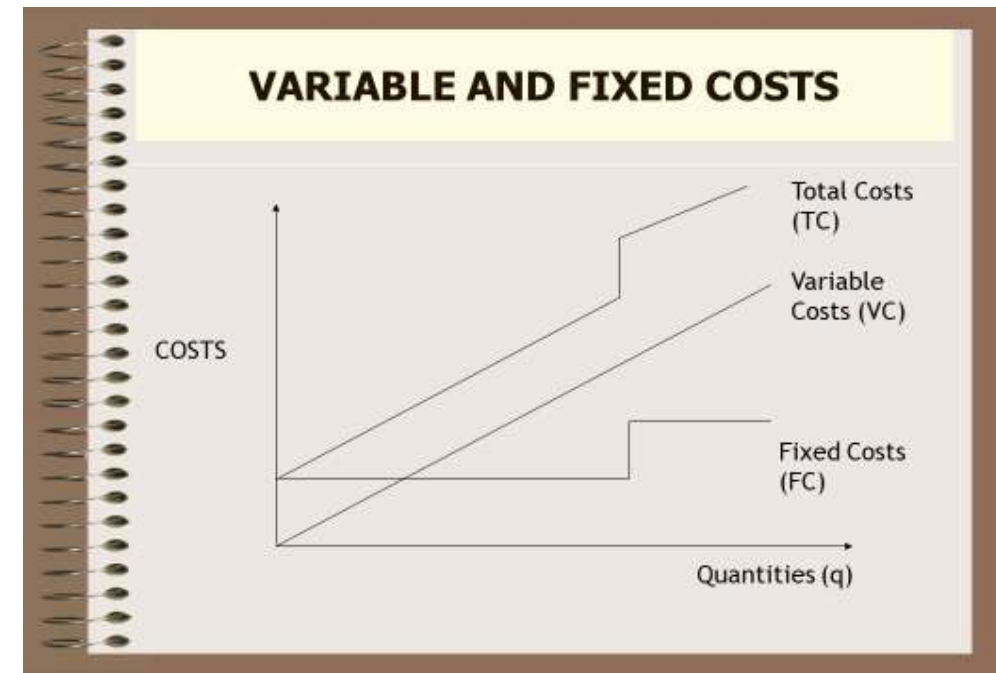


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3. Break Even Point

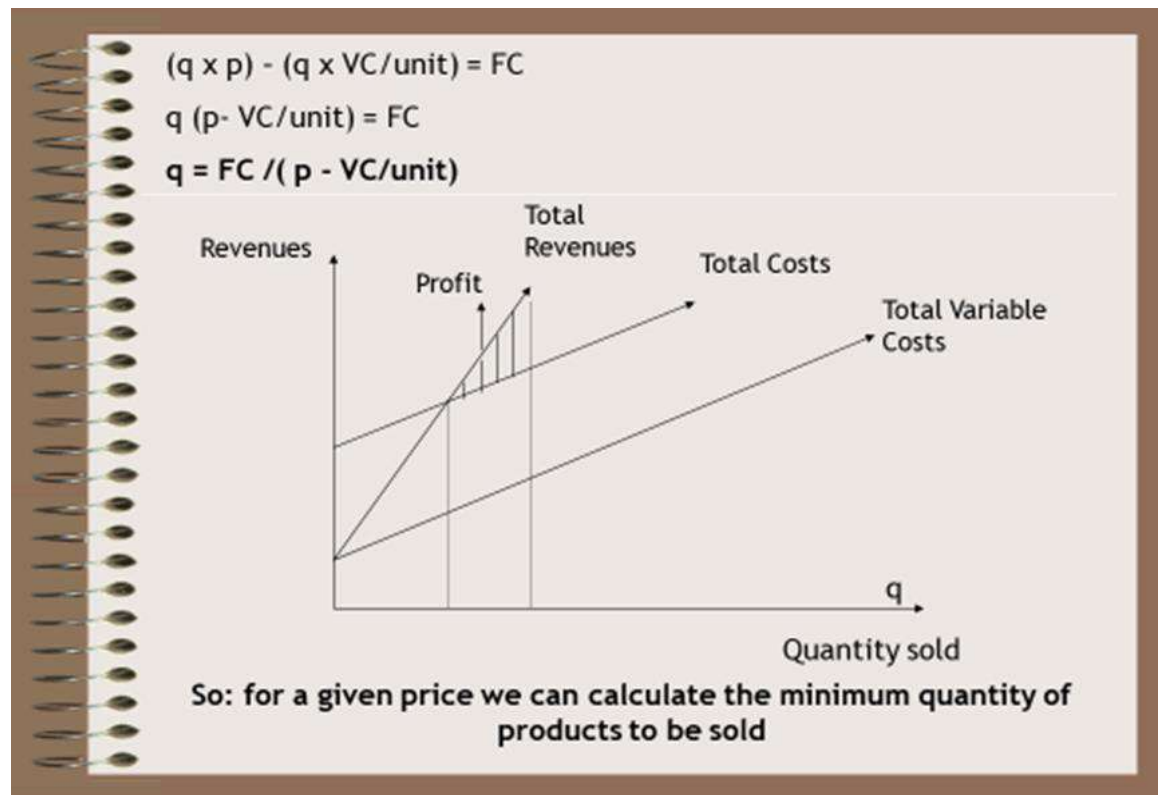
THE MINIMUM VOLUME OF SALES THAT COVERS THE TOTAL COSTS OF A COMPANY

Sales (revenue) = Variable expenses + Fixed expenses
(sales must cover total expenses)



Break Even Point

Sales (revenue) = Variable expenses + Fixed expenses
(sales must cover total expenses)



Break Even Point

It is a **simple profit-planning tool**

For example, if a company makes a product under the following conditions:

$p = 25 \text{ EUR/piece}$

$VC/\text{unit} = 18 \text{ EUR/piece}$

$CF = 100.000 \text{ EUR/an}$

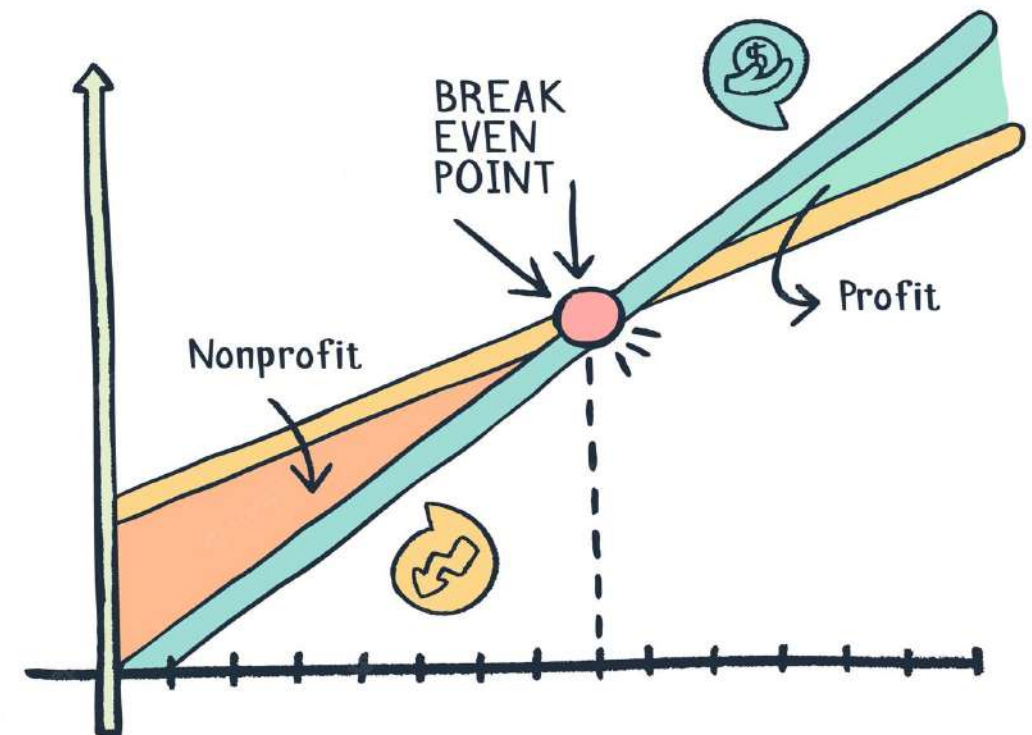
we can determine the physical volume of sales for which we obtain an annual gross profit of 10.000 EUR, thus:

$$10.000 \text{ EUR} = q \times 25 \text{ EUR/piece} - (q \times 18 \text{ EUR/piece} + 100.000 \text{ EUR})$$

It results $q = 15.714 \text{ pieces/year}$

This quantity should be sold by the company in order to obtain an annual gross profit of 10.000 EUR.

BREAK EVEN POINT GRAPH



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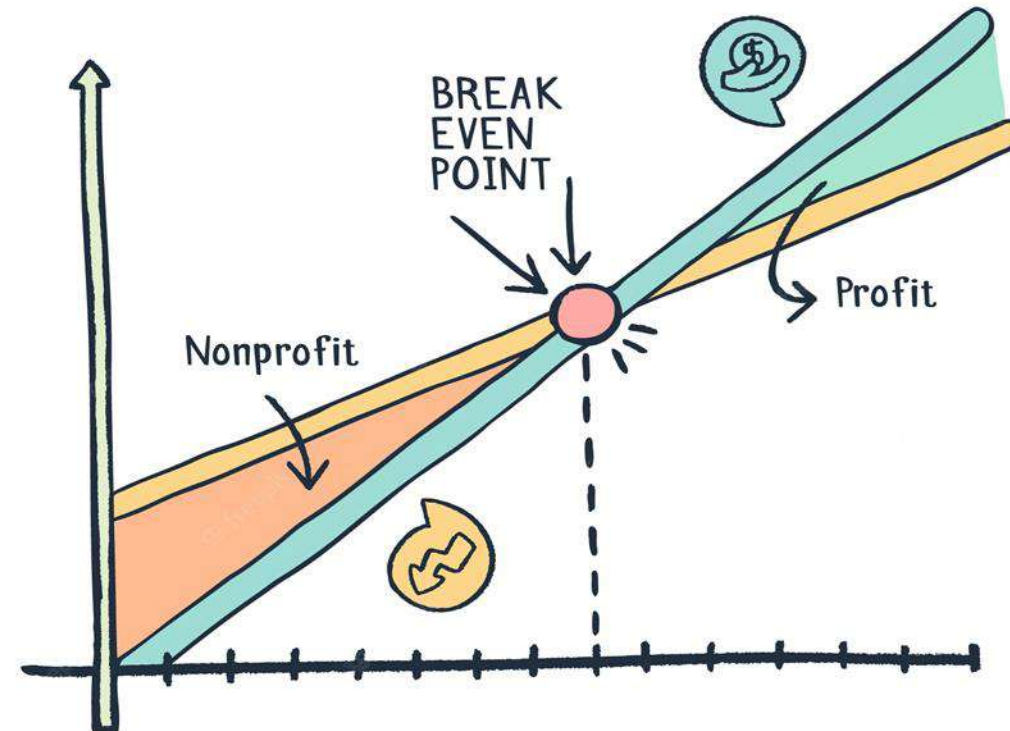
Break Even Point

A break-even point is a **tool for assessing the development opportunity**

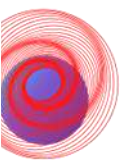
Considering the above example, if an investment is considered, which will increase fixed costs by 20% (due to depreciation), assuming the above data are maintained, it follows that to obtain an annual gross profit of EUR 10,000, the physical volume of sales should be:

$$q = (10.000 \text{ EUR} + 120.000 \text{ EUR}) / (25 \text{ EUR/piece} - 18 \text{ EUR/piece}) = 18.571 \text{ pieces/year}$$

BREAK EVEN POINT GRAPH



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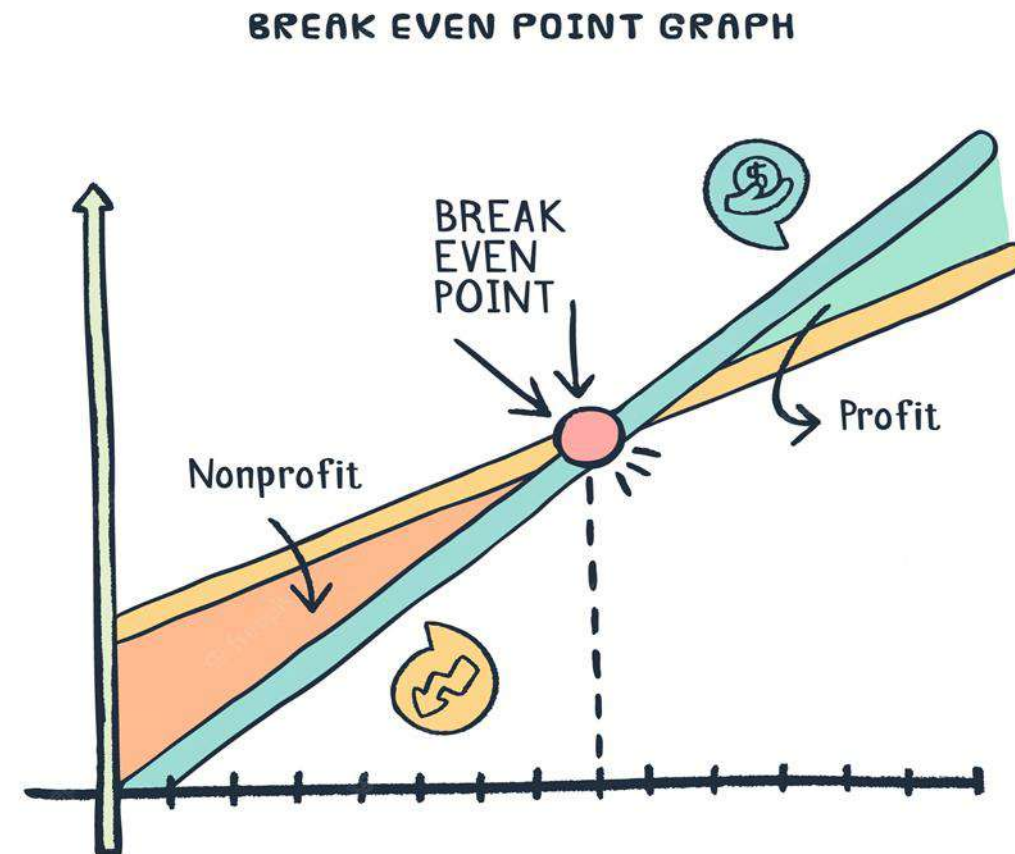
Break Even Point

The break-even point allows for determining the **minimum selling price**

Returning to the original example and assuming known physical production volume, $q = 20,000$ pieces/year, we can determine the minimum selling price that we will practice to obtain the desired profit:

$$p \times 20.000 \text{ pieces} - (18 \text{ EUR/piece} \times 20.000 \text{ pieces} + 100.000 \text{ EUR}) = 10.000 \text{ EUR}$$

It results $p = 23,5 \text{ EUR/ piece}$



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Break Even Point

The break-even point allows to determine the **maximum variable expenditure**

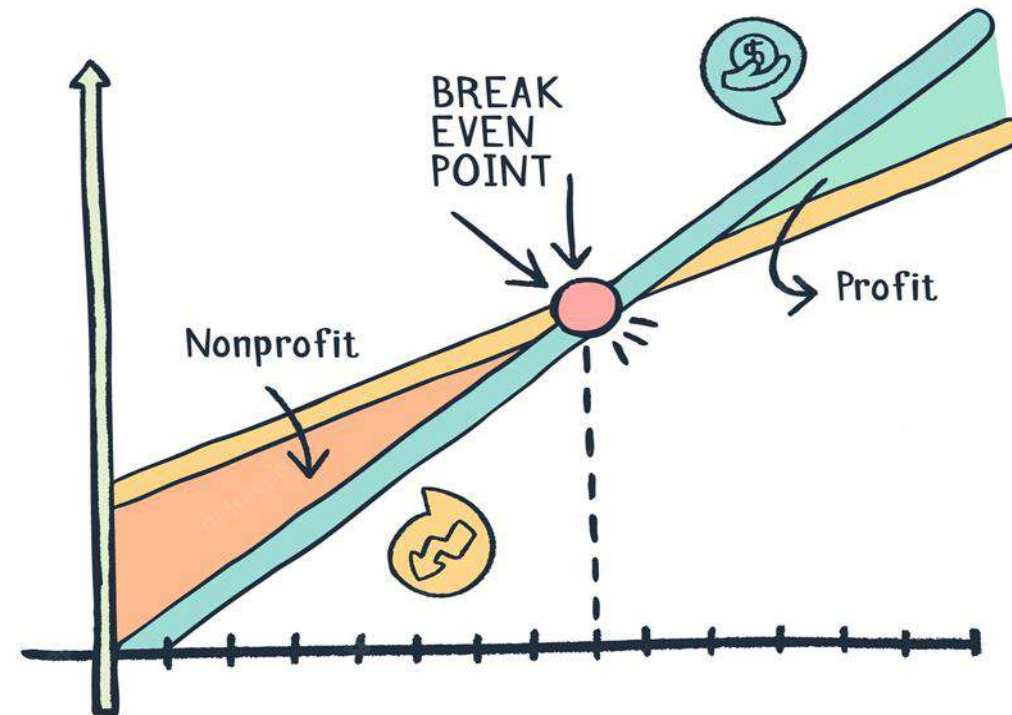
Assuming known physical sales volume, $q = 20,000$ pieces/year, we can determine the level of maximum supplies so as not to record a loss:

$$25 \text{ EUR/piece} \times 20.000 \text{ pieces} - (\text{VC/unit} \times 20.000 \text{ pieces} + 100.000 \text{ EUR}) = 0$$

It results

$$\text{VC/unit} = 400.000 \text{ EUR} / 20.000 \text{ pieces} = 20 \text{ EUR/piece}$$

BREAK EVEN POINT GRAPH



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Financial Skills

Tips and Tricks for a Successful Financial Management



4. Tips and Tricks for a Successful Financial Management

TRY TO BUILD UP RESERVES FROM YOUR PROFIT FOR COMPANY DEVELOPMENT OR TO COPE MORE EASILY WITH CRISES

These reserves will support company development and, in case of a crisis, will be useful for coping with this situation by having enough funds to maintain the business until restructuring his activity



Tips and Tricks for a Successful Financial Management

TRY TO NEGOTIATE A DEBT PAYMENT PERIOD LONGER THAN THE AVERAGE COLLECTION PERIOD OF YOUR CUSTOMERS

This will ensure a positive cash flow for the company and allow it to avoid the financial bottleneck because the company collect receivables before the payment due date.



Tips and Tricks for a Successful Financial Management

USE THE FUNDS AVAILABLE FOR LONG-TERM FOR INVESTMENTS AND DEVELOPMENT AND THE FUNDS AVAILABLE FOR SHORT TERM FOR CURRENT EXPENDITURE

Long-term available funds are better to be used for investment purposes, as investment costs are recovered from the company's results for more than one year.

If we use short-term available funds for investment purposes, we are likely to run out of cash for current expenses.



Tips and Tricks for a Successful Financial Management

PLAN WEEKLY OR AT LEAST MONTHLY YOUR FINANCING NEEDS IN WRITING

This will help you to prevent a possible cash shortage and to take the necessary measures early on.

CONSTANTLY MONITOR YOUR CASH FLOW

This will help you to avoid situations likely to lead to cash shortages, by taking early measures to postpone payments or to speed up receipts



Tips and Tricks for a Successful Financial Management

ELIMINATE UNNECESSARY COSTS, DON'T INVEST IN ASSETS THAT DON'T GENERATE FUTURE BENEFITS/PROFIT

For example, some managers use the profit for buying an expensive car, but this investment, in most small companies, doesn't generate future profit.



Tips and Tricks for a Successful Financial Management

MAINTAIN A CLOSE RELATION WITH YOUR ACCOUNTANT, it could help you to optimize your taxes. Your accountant can inform you in advance about changes in tax legislation and can also recommend solutions to balance your financial situation.

DIGITISE YOUR BUSINESS DOCUMENTS

It helps to have more efficient management of the business because you could take decisions after analyzing all the relevant documents, which could be accessed with a click



Tips and Tricks for a Successful Financial Management

OPTIMISE THE COSTS RELATED TO THE LOANS

Do not offer banks collateral that far exceeds the value of the loan you are applying for; beware of hidden fees.

DON'T MIX PERSONAL MONEY WITH BUSINESS ACCOUNTS

If you mix personal money with business accounts, you won't most likely have a realistic view regarding the profitability and liquidity of your business.



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