

Essentials of Finance for Entrepreneurs

4th June, 2014



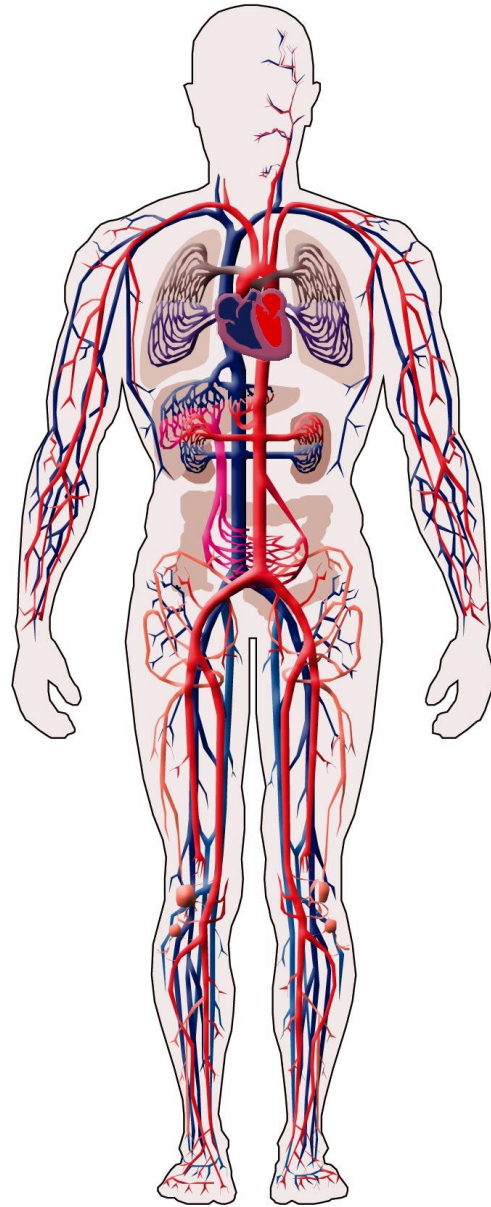
Hussain Moosajee

Experience the difference



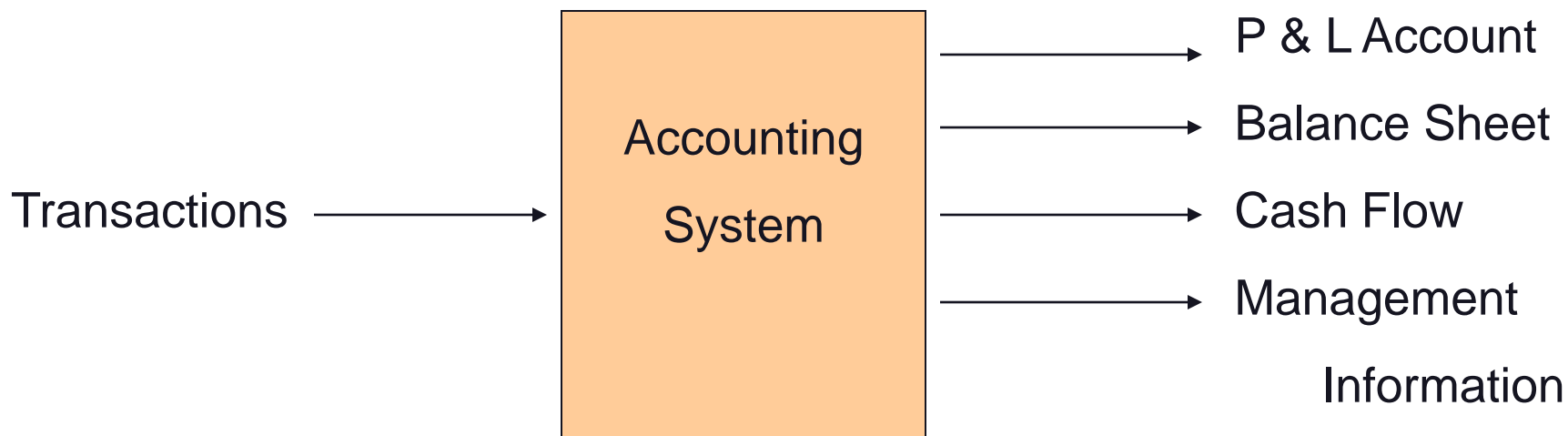
Our **Focus** for today

- Accounting Terminologies used
- Structure of Financial statements
 - Profit & Loss Account
 - Balance Sheet – what it means
 - Cashflow statement
- Distinction of Cash vs. Profit
- How to forecast Sales



Accounting system

a basis for providing information



INPUTS

PROCESSES

OUTPUTS

Some basics required to ensure the right input

- **Business transactions separate from the Owners' Personal transactions**
- **Systems and Procedures**

Key Accounting Terms

- **Assets**
 - **Fixed Assets**
 - **Current Assets**
- **Liabilities**
 - **Non Current Liabilities**
 - **Current Liabilities**
- **Capital**
- **Revenue/Income/Turnover**
- **Expenses**
- **Capital Expenditure**
- **Revenue Expenditure**

- When is Income Recognized
 - When a customer order is received
 - When goods are manufactured
 - When goods are delivered , a SALE is effected
 - When cash is received from the customer
 - Note: Income has to be **earned**

- When is Cost Recognized
 - When the expense is **incurred**
 - When the benefit of a service is obtained
 - Not necessary when cash is paid

- **Assets** - anything of Value owned by a business, which can be further classified into Fixed Assets and Current Assets.

- **Non Current Assets (Fixed Assets)**

Items acquired with the intention of long term use in the business eg: Machinery & Equipment, Vehicles , Furniture etc.

- **Current Assets**

Assets held for conversion into cash in the normal course of business Eg: Stocks, Receivables (Debtors)

● Liabilities

The financial obligations of a business, which can be of a short term or long term nature.

● Current Liabilities

liabilities which fall due for payment, in a relatively short period, normally less than 1 year Eg: Payables (Trade Creditors)

● Non-Current Liabilities (Long-term)

liabilities which fall due for payment, over a relatively longer period, normally more than 1 year, Eg: Long Term Bank Loans

● Capital

Cash, or other Assets contributed by an individual or group of individuals as an investment into the business.

● Revenue (Income)

Amounts already earned (either received or which is due), as a result of the exchange of goods or services

Eg: Sale of goods, Income earned from Services .offered

- Revenue earned and cash received is Cash sales
- Revenue earned but cash not received is Debtors
- Cash received and Revenue not earned is Receipts in advance

● Expenses

Payment made or due to be made, for a benefit or service which has been availed of eg: Rent, Salaries, Electricity

- Expenses incurred and not paid for is Accrued expenses
- Expenses paid and not incurred is Prepaid expenses

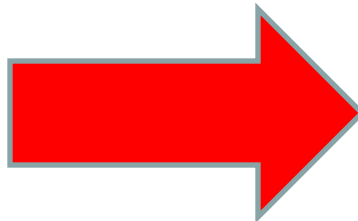
Financial Statements

- A means of communicating the results of an organization during a given period
- **3 basic types**
 - Statement of Comprehensive Income
 - Profit & Loss A/c (Income Statement or P&L)
 - Statement of Financial Position
 - Balance Sheet
 - Cash Flow Statement

GENERAL STRUCTURE

Profit & Loss Account

Template used for monthly
information

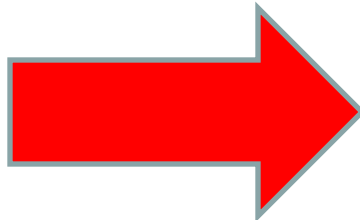


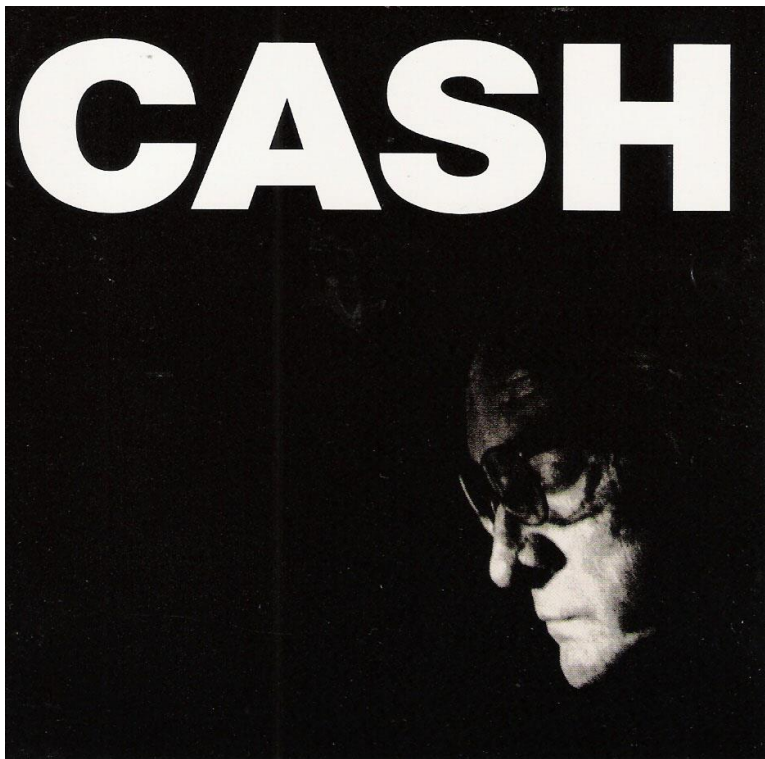
Structure of Balance Sheet

Current Assets	Current Liabilities
Non Current Assets (Fixed Assets)	Long Term Liabilities
	Equity

BEST PRACTICES

Effective Governance
procedures





Cash vs. Profits

- **Profits**
 - Does it result in an increase in CASH ?
- **Profits not necessary an indication of Financial Health (in the short term)**
- **Organization with high profits may yet face Liquidity Problems**
- **Cash Flow Statement – answer to many Questions**
- **True Profit**
 - When cash surpluses are generated



Simple Cash flow

Cash flow statement	figures in Rs. 000's		
	July	Aug	Sept.
Cash inflows/Receipts			
Cash sales	220	195	180
Collections from Debtors	295	280	315
Equity Capital	1,700		
	2,215	475	495
Cash Outflows/Payments			
Raw materials			
- Payments to Suppliers	170	140	145
Rent	50	50	50
Wages	90	87	82
Electricity	45	62	58
Staff salaries	120	145	140
Other Administrative expenses	75	82	71
Selling & Distribution expenses	25	32	27
Capital expenditure payments	1,500		
	2,075	598	573
Net Cash flow	140	(123)	(78)
Balance b/f	100	240	117
Balance c/f	240	117	39

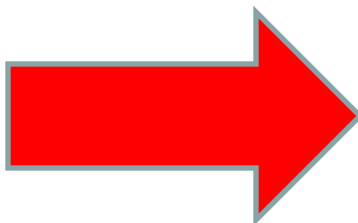
Sales forecast

- Objective method of estimating demand

	July	Aug	Sept.	Total
Product	A	B	C	
No. of units	60	75	80	
Selling Price - Rs.	5000	8000	9500	
Total Revenue	300,000	600,000	760,000	1,660,000

Paul – Gift wrapping paper business

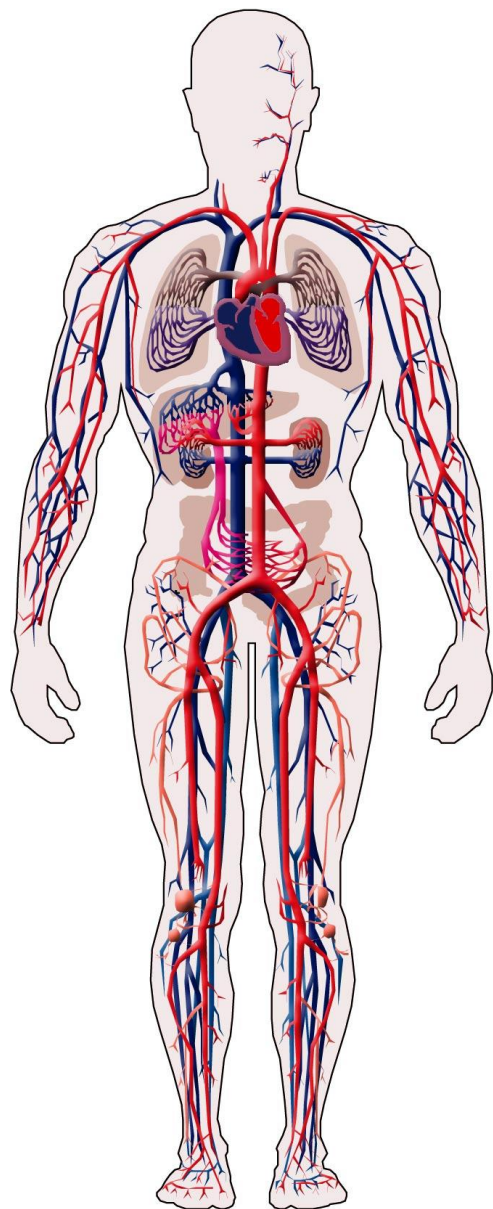
Exercise



Our Learning?

- Accounting Terminologies used
- Structure of Financial statements
 - Income statement
 - Cashflow statement
 - What is a Balance sheet
- Cash vs. Profit
- Sales forecast

Use Financial Information





0777 727170



hussain2152@gmail.com

Hussain Moosajee

Experience the difference

