

Unit 5: Financial Planning for Small Business

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Content



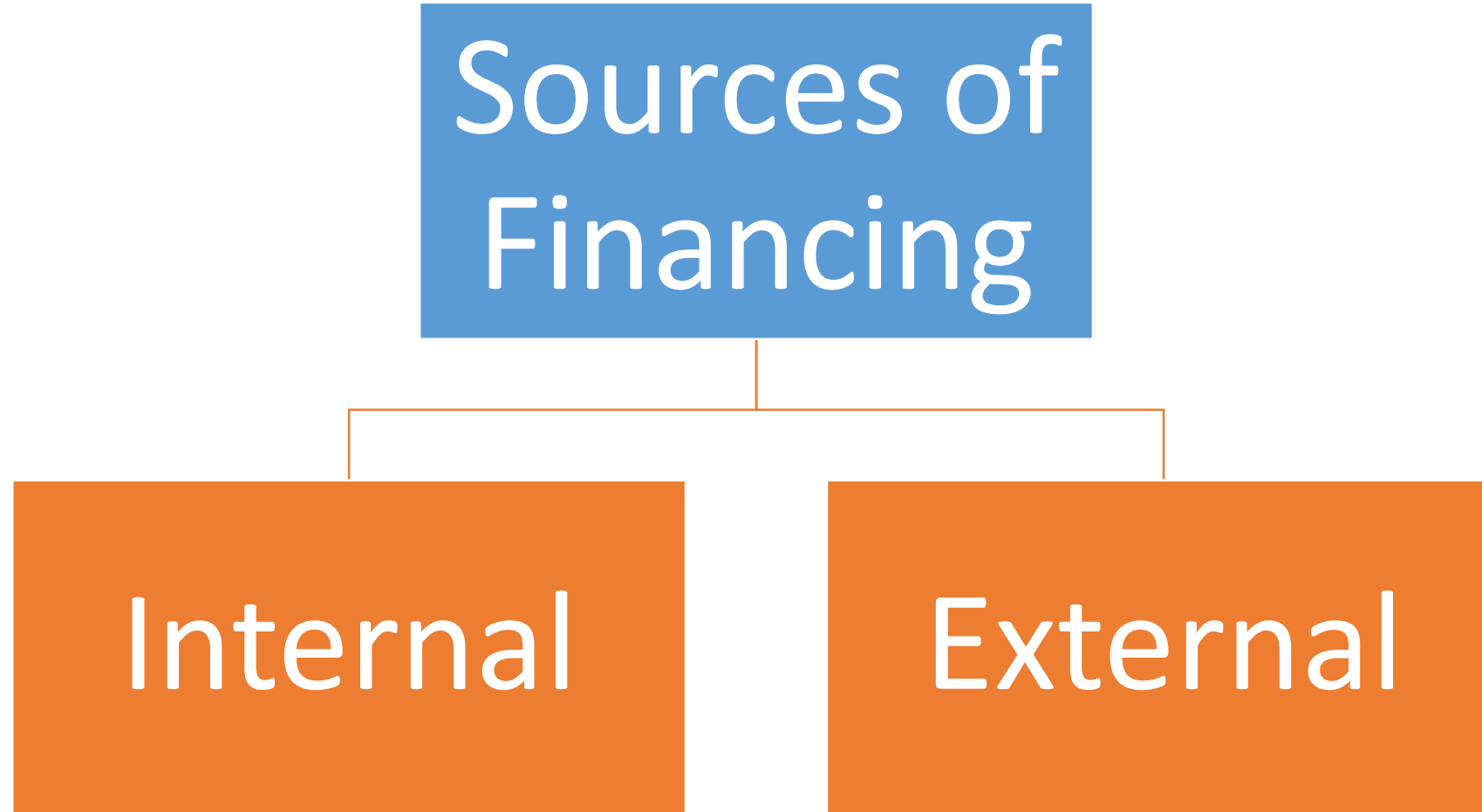
- Sources of financing
- Budgeting and Costing
- Financial Statement

Learning Outcomes

By the end of this unit, you will be able to:

- Determine sources of financing for micro and small business.
- Prepare budgeting and costing for micro and small business.
- Describe the three common financial statements (Profit and loss Statements, Balance Sheet Statements and Cash Flow Statements)

Sources of Financing



Sources of Financing (Internal Sources)

Internal Sources

Personal



Family



Share Capital



Sources of Financing (External Sources)

External Sources

Bank loan

LOAN



Investor



Grant and
subsidies



Crowdfunding



Sources of Financing (External Sources)

- Grant and Subsidies by government agencies, Crowdfunding and bank loan.



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Type of Financing

Debt

Debt financing comes from lenders who will be repaid at a specified interest rate within a specified time span.

Examples: Bank loan and borrowing

Equity

Equity is an owner's share of the assets of a company. In a corporation, it is represented by shares of common or preferred stock

Examples: personal money, venture capital, angel capital and crowdfunding.

Budgeting and Costing

- Budgeting and cost control comprise the **estimation of costs**, the **setting of an agreed budget**, and **management of actual and forecast costs against that budget**.

Budgeting

A budget identifies the planned expenditure for a project, programme or portfolio. It is used as a baseline against which the actual expenditure and predicted eventual cost of the work can be reported.

Costing

Initial cost estimates can be comparative or parametric. These are refined as the feasibility and desirability of the initiative are investigated and a greater understanding of scope, schedule and resources is developed.

Once approval is given, these refined estimates form the baseline cost. By allocating costs to the activities in a schedule, a profile of expenditure is produced.

Budgeting and Costing (cont'd)

Startup Expenses (Example)

Burger Stall

Item	Budget (RM)	Actual	Variance
Stall	1 000	1 050	(50)
Rental	20	20	0
Beef patty	30	25	5
Chicken patty	30	25	5
Vegetables	10	5	5
Eggs	15	10	5
Salary	50	50	0
Total	1 155	1 185	(30)

Financial Statement

- A process that provide entrepreneur with relevant financial information in an easy-to-read format on a timely basis. It allows entrepreneur to know how their business are doing financially and why they are performing that way.

1. Profit and loss Statements

2. Balance Sheet Statement

3. Cash Flow Statement

Profit and loss Statements

Profit and Loss Statements (income statement) summarizes the firm's revenue and expenses over a period of time. Profit and Loss Statement also gives an indication on how much profit the company has earned. This value is available once firm's total expenses have been subtracted from the firm's revenue.

Profit and Loss statement Burger Stall For the period ended 31/12/2017	
Sales Revenue	RM 50 000
Cost of Good Sales	(15 000)
Gross Profit	35 000
Operating Expenses	(7 000)
Earning Before Interest and Tax	28 000
Interest and Tax	(2 000)
Net Income	26 000

Balance Sheet Statement

A financial statement that provides a snapshot of a business's financial position, estimating its worth on a given date. It is build on the fundamental accounting equation:

$$\text{Asset} = \text{Liabilities} + \text{Equity}$$

Balance Sheet Statement (cont'd)

Burger Stall Balance Sheet Statement As at 31/12/2017	
Asset	
Cash	10 000
Account Receivable	30 000
Inventory	20 000
Total Current Asset	60 000
Fixed Assets	
Gross	40 000
Depreciation	(10 000)
Total Assets	90 000
Liabilities	
Account payable	40 000
Current liabilities	30 000
Owner's Equity	20 000
Total Labilities and Equity	90 000

Cash Flow Statement

A financial statement showing the changes in a company's working capital from the beginning of the sources and the uses of those fund.

- 3 Steps Developing Statement of Cash Flow
 - i. Determining net cash flow from operating activities
 - ii. Determining net cash flow from investing activities
 - iii. Determining net cash flow from financing activities

References

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