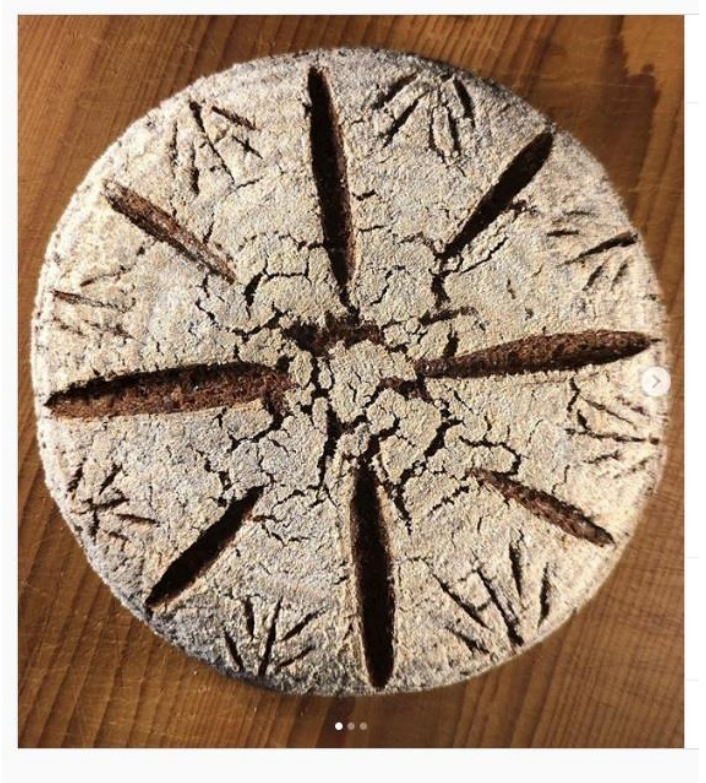




Effective Financial Management Course Karina Dambergs



Discussed Today

- Management vs Financial Accounting
- Accounting software
- Chart of accounts
- Budget
- Cashflow
- Ratios
- Cost of goods sold (COGS)
- Costing major projects



Management vs. Financial Accounting

| Management | Financial |
|---|---|
| Helps you make business decisions | Helps you make taxation & liquidity decisions |
| About running and growing your business | About keeping your business compliant |
| Usually internal | Usually external |
| <ul style="list-style-type: none"> Identify opportunities Run smoothly Isolate efficiency issues that impact your bottom line Focus finance allocation Set strategies Forecast trends in a fluctuating environment Set selling prices Value stock and inventory Determine income | <ul style="list-style-type: none"> Income statements Balance sheets Cash-flow statements Stockholder equity statements Tax preparation |
| Looks at parts of your business | Looks at your business as a whole |

Accounting Software

- Lots of choice and price ranges, e.g.:
 - Wave Apps
 - Reckon & QuickBooks
 - Xero
 - MYOB
- Usually cloud based
- Consider your accountants opinion
- Consider functions, now & future:
 - Payroll, number of invoices, number of locations

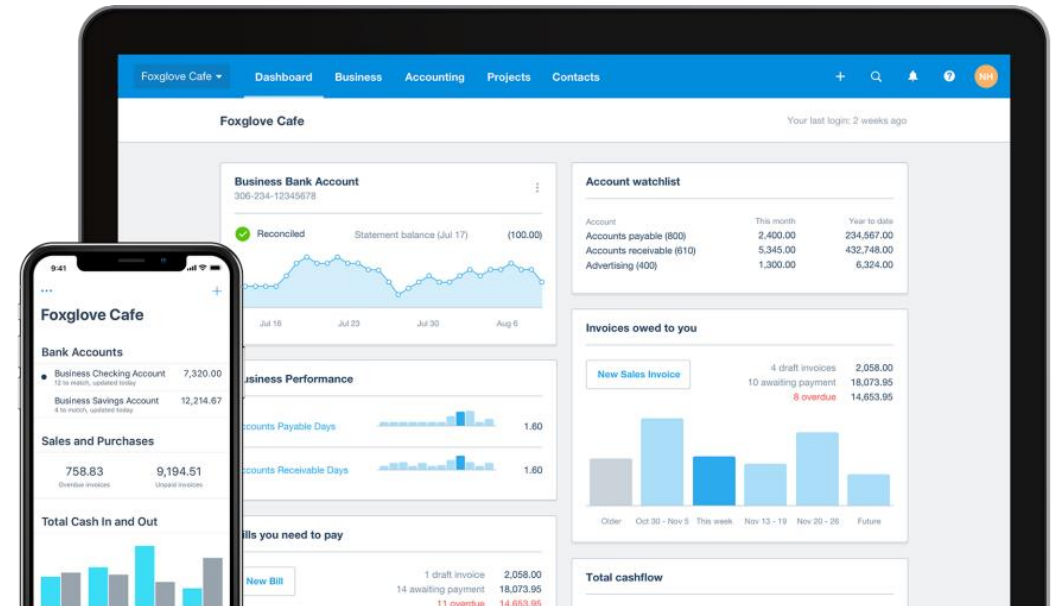


Chart of Accounts

- Crucial to running your business
- Often neglected
- Needs to tell you all the information you need to run your business
- Don't oversimplify or overcomplicate it
- Review annually during budgeting and reporting

| Chart of Accounts | | | |
|-------------------|------------------------------|--------------|---------------------|
| Number | Description | Account Type | Financial Statement |
| 1-001 | Cash | Asset | Balance Sheet |
| 1-010 | Accounts Receivable | Asset | Balance Sheet |
| 1-020 | Prepaid Expenses | Asset | Balance Sheet |
| 1-030 | Inventory | Asset | Balance Sheet |
| 1-040 | Fixed Assets | Asset | Balance Sheet |
| 1-050 | Accumulated Depreciation | Asset | Balance Sheet |
| 1-060 | Other Assets | Asset | Balance Sheet |
| 2-001 | Accounts Payable | Liability | Balance Sheet |
| 2-010 | Accrued Liabilities | Liability | Balance Sheet |
| 2-020 | Taxes Payable | Liability | Balance Sheet |
| 2-030 | Payroll Payable | Liability | Balance Sheet |
| 2-040 | Notes Payable | Liability | Balance Sheet |
| 3-001 | Common Stock | Equity | Balance Sheet |
| 3-010 | Retained Earnings | Equity | Balance Sheet |
| 3-020 | Additional Paid in Capital | Equity | Balance Sheet |
| 4-001 | Revenue | Revenue | Income Statement |
| 4-010 | Sales returns and allowances | Revenue | Income Statement |
| 5-001 | Cost of Goods Sold | Expense | Income Statement |
| 5-010 | Advertising Expense | Expense | Income Statement |

Budget

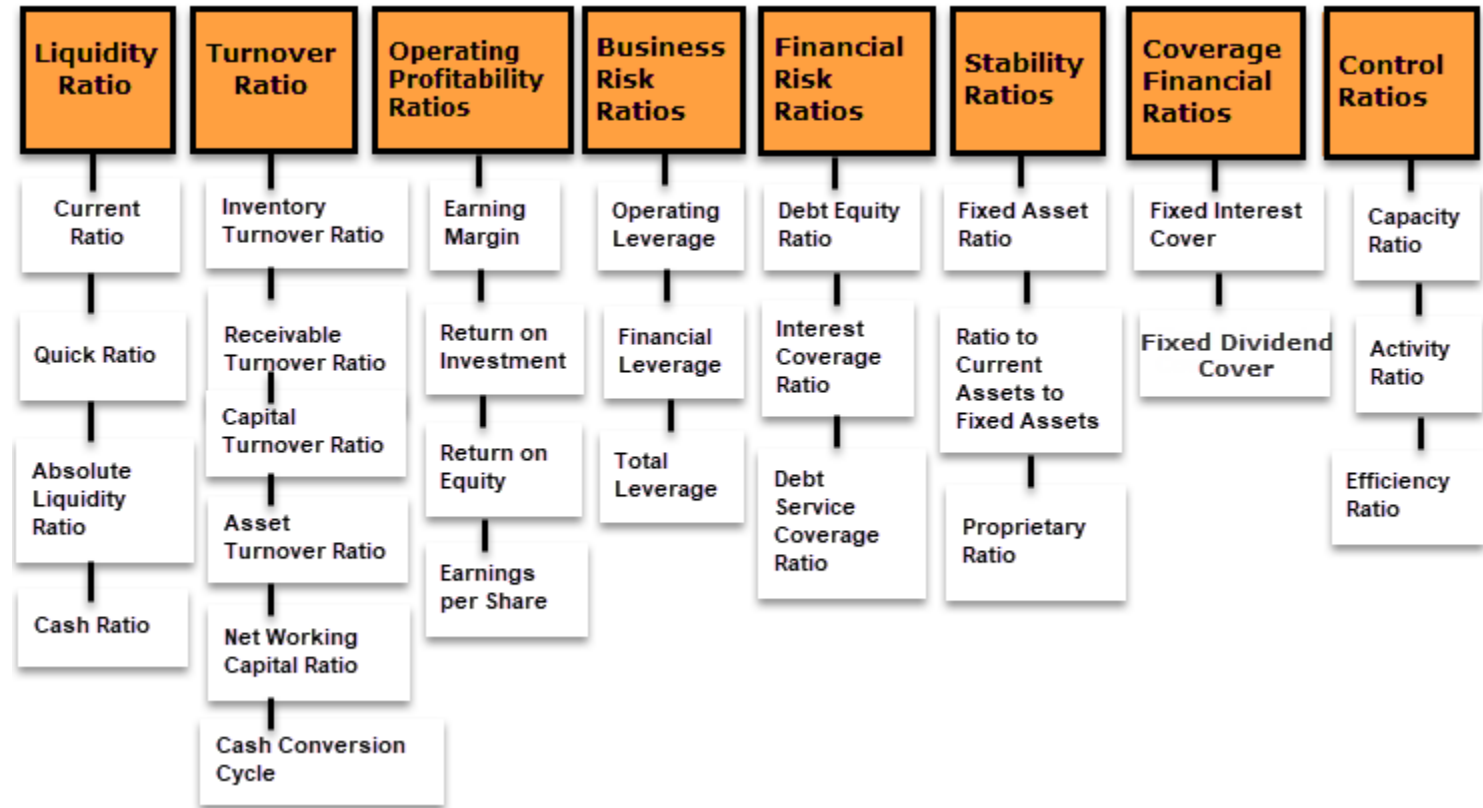
- Essential for your business & decision making
- Usually done for 12 month financial year
- Can be done for different periods
- May include scenario modelling, forecasting
- Don't overcomplicate it, but remember the decisions you need to make
- Gets easier the more you do them
- Do in the order that makes the most sense to you:
 - Revenue then expenses OR expenses then revenue

Cashflow

- Often overlooked but essential to your business
- Most businesses fail because of cashflow issues not profitability
- Helps you pay your bills
- Helps determine the cash reserves you need to keep
- More important the more seasonal your business is
- Usually managed in spreadsheet or external tools
- In tough times may review cashflow weekly or even daily

Ratios

- Used more in financial decisions, e.g. boards, lenders, etc.
- Use only the ones that are relevant to you
- Quickly tell a story about your business



Cost of goods sold (COGS)

- Absolutely essential to food and agribusiness
- Not always straight forward to calculate
- Cost every SKU or line item
- Consider splits of products, e.g. costing different fractions
- Consider wages, even if you are not paying them
- Consider cost of all ingredients, even if you are growing them
- Consider change of COGS with scale
- Update with any major price changes
- Review against actual costs at least annually

Costing Projects

- Cost all capital projects and major works
- May be tracked in accounting software, usually also managed on a spreadsheet
- Consider also costing major events, e.g. trade shows, larger markets, etc
- Consider things even if you don't pay them, e.g. stall fees, wages, etc
- Helps you make real, informed decisions for your business

