

Export Capacity Building Programme

Day 2

Understanding Business and Export Finance

5th & 6th December 2016



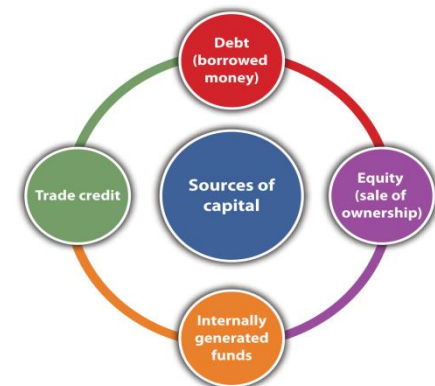
Content Day 2

- Understanding business Finance
- Cash flow cycle
- Reading Reports
- Using ratios
- Pricing for export markets
- Cash flow forecasting



Sources of Funding

- From Investment
- From Commercial Loans
- From Personal Loans
- From Sales of product/Services (Creditors)
- From Grant Aid

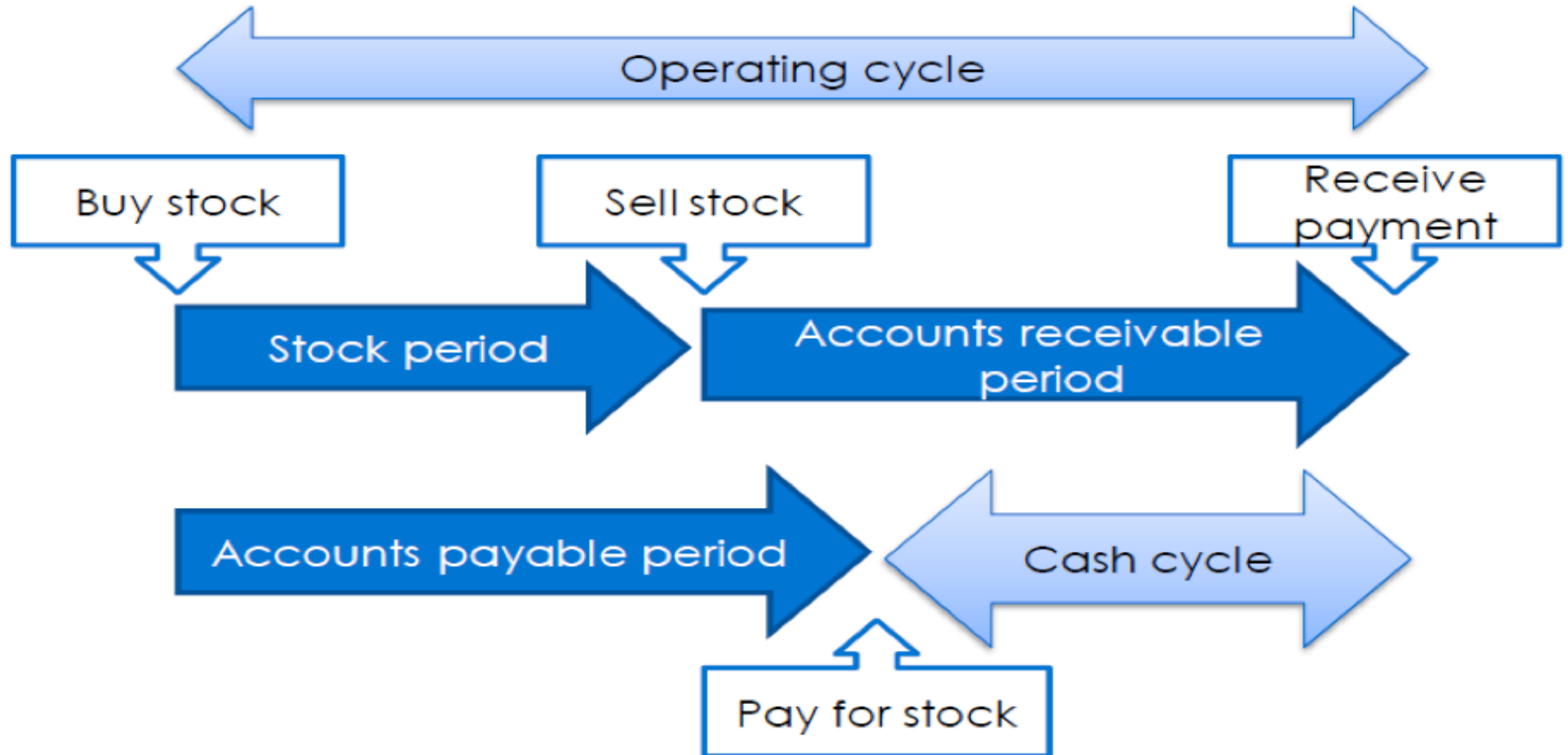


Use of Funding

- To Purchase Fixed Assets
- To be used as Working Capital – to pay for Wages, Rent, etc



Operating Cycle



Financial Reports

- Balance Sheet
- Profit and Loss Account
- Cash Flow Forecast



Key Element of a Balance Sheet

- Fixed Assets
- Depreciation and Revaluation
- Current Assets
- Debtors
- Pre-payments
- Cash at Bank, In Hand
- Liabilities

Assets (Owned and Used by Business)	Liabilities (Amounts Owed & Fund Sources)
Fixed Assets (Long Term in Nature) Machinery Computer Equipment	Owners Funds - Capital Issued Stock Retained Earnings
Current Assets (Short Term in Nature) Inventory (stock) Accounts Receivable Cash in the bank	Long Term Liabilities - Loans etc Bank Loans Mortgage
	Current Liabilities - (short term) Accounts Payable Taxes Due

Balance

Balance



Balance Sheet Exercise

- Look at the balance sheet on page 7 of your notes.
- What aspects of it would give you cause for concern?



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Profit and loss account

- Measures activity over a period of time
 - Income less expenditure
 - Cumulative result of different transactions
- “ excess of proceeds from sales over costs and all expenses involved in running the business”



Typical Features of Profit and loss account

- Covers a period of time, one year
- Turnover (Sales)
- Add Grant aid
- Less Cost of Sales
- Gross profits
- Less overheads
- Net profit



Profit and Loss Account

- Measure of management capability
- Can be compared against other similar businesses
- Can be compared against previous years



Profit and Loss Exercise

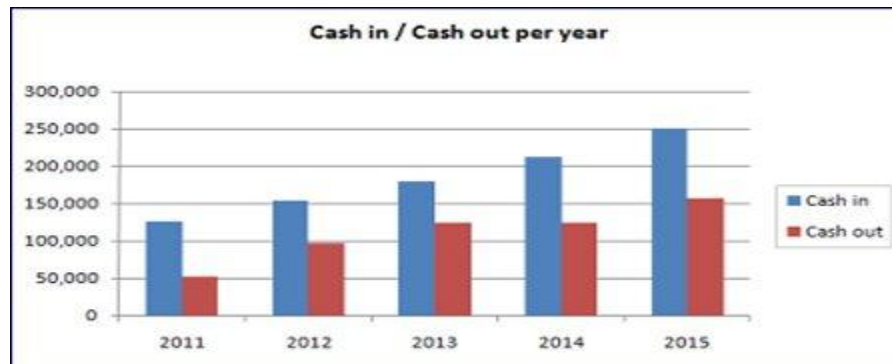
Go to the sample Profit and Loss Account on page 12 of your notes. Calculate the impact of the following changes on the Net Profit before tax.

- Sales drop by 10%
- Distribution cost increase by 3%
- Administration cost increase by £3000
- Price increases by 2%



Cash Flow Forecast

- Forecasts the cash movement within the business
- Reflects the impact of cash items only, does not include depreciation
- Starts with opening bank balance
- Plots movements on a monthly basis
- Usually completed for a year in advance



Summarised Cash Flow Forecast

MONTH	1	2	3	4	5
INCOME	0	0	0	€8K	€12k
EXPENDITURE	€10K	€12k	€12k	€12K	€12k
SURPLUS/(DEFICIT)	(€10K)	(€22K)	(€34k)	(€38K)	(€38K)

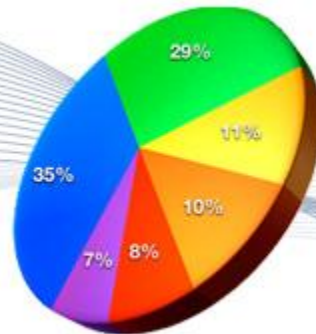
Planning and Budgeting

- Start with Business Objectives
- Project sales in home market
- Project export sales
- Estimate costs and include export costs
- Calculate Debtors and Creditors
- Will there be any capital expenditure?
- Start with actual cash available



Important Warning

“Most businesses that fail are profitable, they just do not have enough cash to keep going”



planning &
budget

Financial Planning For Export

- You will not get profits immediately
- There will be some level of investment required initially
- Plan the amount of investment in detail and make sure you have funds available
- Treat the investment decision like any other



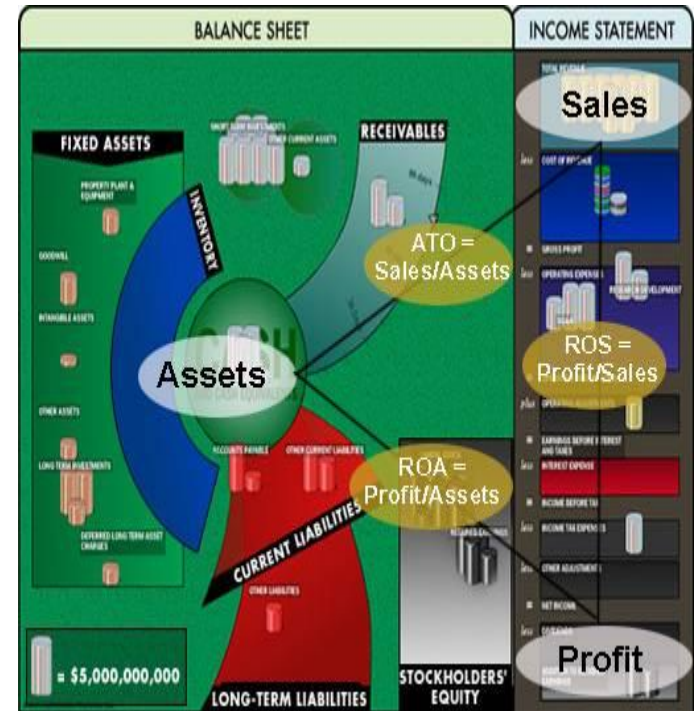
Typical Export Costs

- Exchange Rates
- Tariffs
- Transportation/Shipping
- Packaging
- Promotional
- Product/ Service Development
- Accreditation
- Research
- Agents fees
- Exhibitions
- Travel / Accommodation



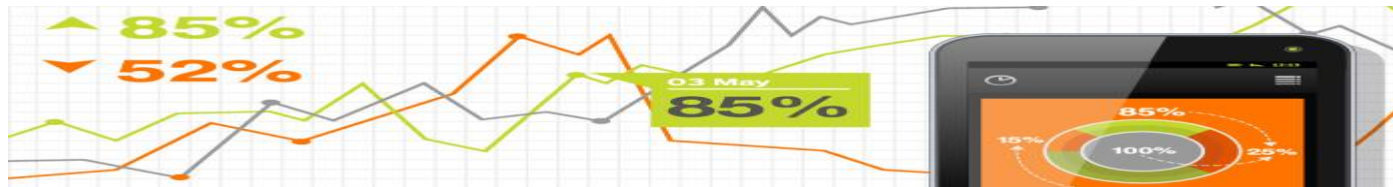
Using Financial Information

- Remember it is historical
- Measure the critical indicators on a regular basis
- Discuss financial issues with your accountants/Financial Controllers
- Always use financial information when making key decisions



What Financial Information is useful?

- Profit margin by product/Service
- Daily overhead costs
- Staff costs (Hourly, Daily, weekly)
- Target profit margins
- Cash availability
- Projected costs



Gross Profit Margin

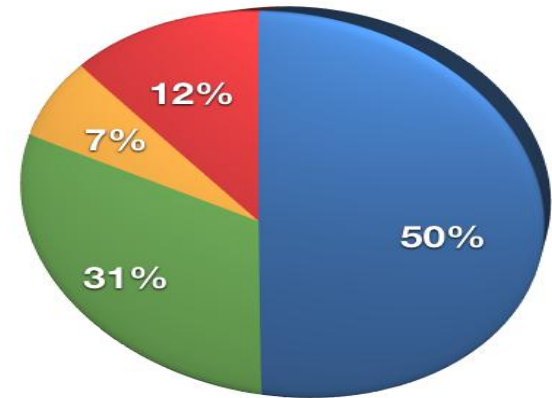
This is the percentage
profitability after direct Costs
have been covered:-

$(\text{Income} \div \text{Gross profit}) \%$



Net Profit Margin

This is the percentage profitability after all other costs have been met:-



● Cost of Goods Sold ● SG&A Expenses
● Income Taxes ● Net Profit

$(\text{Income} \div \text{Net profit}) \%$

Debtors Days Ratio

The average number of days
it takes customers take to
pay

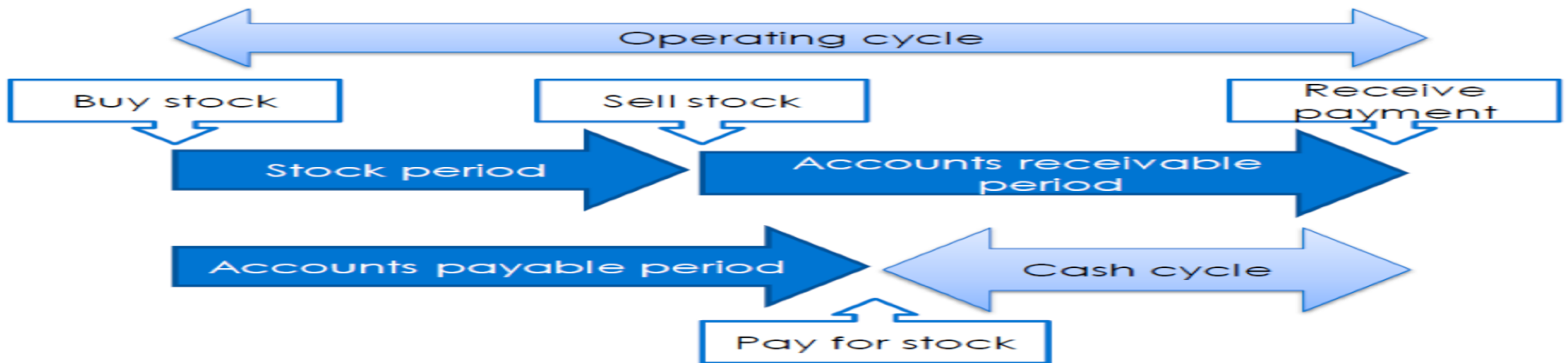
$$(\text{Debtors} \div \text{Sales}) \times 365$$



Creditors Days Ratio

The average number of days taken to pay suppliers

$$(\text{Creditors} \div \text{Purchases}) \times 365$$



Analysis Exercise

Using the set of accounts provided on page 22 of your notes and taking account of the information covered in today's session. Completed the following task.

- (1) Summarise the finance performance of the business over the past two years
- (2) Work out the following ratios for the two years
 - Debtors Ratio
 - Gross Profit Margin

Cash Flow Forecast

	Jan	Feb	Mar	Apr	May	Jun
Income	2000	3000	4500	4500	3000	2000
Direct Costs	1200	1800	2700	2700	1800	1200
Gross Profit	800	1200	1800	1800	1200	800
Salaries	200	200	200	1200	200	200
Admin Cost	320	350	400	400	350	320
Other Costs	100	120	140	140	120	100
Total Costs	620	670	740	1740	670	620
Surplus/Deficit	180	530	1060	60	530	180
Opening Balance	-128	52	582	1642	1702	2232
Closing Balance	52	582	1642	1702	2232	2412

Exercise

- Cash Flow Forecast
 - Set out sales projections on a monthly basis for one of your target markets. Start with month that you expect to receive revenue from the sales
 - List out the costs which will be involved on a monthly basis (market visits, product developments, shipping, customs etc) allocate them in the month that they will be incurred

Exercise

- Start with the opening cash available if known.
If not known start with zero
- Calculate the impact of the income and expenditure on a monthly basis
- How will you fund the shortfall if any?
- Will this shortfall be recovered?

REFLECT AND CAPTURE THE NUGGETS!!!

- For the Business
- For the Growth &
Development Plan
- For you and your personal Growth & Development



Next Steps...

- Meet with your colleagues to discuss the programme and the opportunities
- Email us with any thoughts / feedback from these first workshops and let us know where you would like to see emphasis
- We will have an On-Line A/V Mentoring meeting with each Company during December 2016
- **NEXT WORKSHOPS**

