

Finance, Accounts and Budgets for non-Financial Managers

by
Gavin Julyan
+27 (0)82-412-7445
gavin@julyan.biz
www.julyan.biz

GAVINJULYAN
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PO Box 188, Petervale, 2151, South Africa
gavin@julyan.biz
www.julyan.biz

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Finance, Accounts and Budgets for non-Financial Managers

Not every person wants to be an accountant. Understanding finance is however a very necessary skill, since performance in a corporate environment is measured using the rules and formats of financial statements taught to accountants.

The purpose of this course is to establish common ground between financial and non-financial people and encourage communication between these individuals. For this communication to be successful, grounding in the basics of financial logic and terminology, taught on this course, will remove some of the misunderstanding caused by the variety of backgrounds, skills, experience and knowledge resident in the individuals in any corporation.

In short, this course will allow you to begin talking to accountants without turning you into an accountant.

Planning and Managing a Business

A large body of theoretical material has been built around planning and managing businesses. Many of these approaches are complex and use terminology that is very confusing. We have developed a simple model that will assist you in your understanding of what we believe are the major items that need focus when planning and managing a business.

We do not suggest that this approach is without flaws, and may appear simplistic, but we have found that by simplifying some of the concepts and terminology into our basic model, we are able to teach an understanding of what we believe is important and necessary to create and manage a business.

Planning a Business

After the initial excitement of deciding to start your own business, it is vital that some sense creeps into your planning. Badly planned businesses have a nasty habit of using up all your capital very quickly. Money, or the lack of it, is cited as the major cause of failure of new businesses. You therefore have a responsibility to ensure that you use your money wisely and effectively.

Our experience has shown that if you are not planning to start your own business before you retire then your retirement funding from employment will be insufficient to allow for a comfortable retirement.

This section therefore is aimed not only at managers of large organizations but also you, personally. Hopefully one day you will start your own business.

The Concept Model

As can be seen on the model on the right the most important aspect of this model is the sequence in which items are done. Ignoring this sequence, leads to time and money wastage.

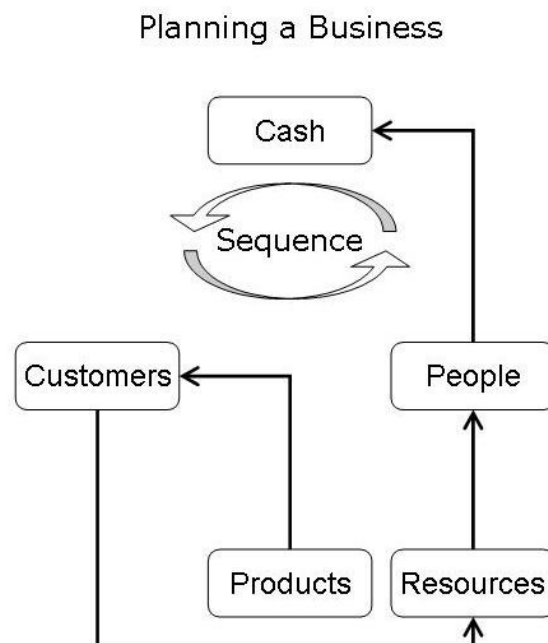
Defining Product

Without product business does not exist. You must therefore start by defining your products in as much detail as possible.

We have found that the easiest way to do this is to define the packaging of your product.

This package definition includes size, shape, colour and branding and is largely determined by the nature and type of product that you are dealing in.

Items such as storage, distribution and marketable size play a large role in the determination of your product packaging.



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Do not at this stage purchase any product; simply define the packaging and branding. You must physically create any packaging you have defined. These packages must be available before you proceed to the next step.

Service items also have packaging in the form of brochures and web sites which can be created and refined on most desktop systems.

Identifying Customers

Your product packaging implies the customers with which you will deal. Using the product packaging as a basis, define the sort of customer that you wish to speak to, sell to or sell through.

Economic packaging sizes, defined by you, will determine whether you will be selling to the consumer, retail or wholesale market.

Using a tool such as Microsoft Outlook, it is necessary that you collect this potential customer information on to a database that you will later use for contact and follow up purposes.

This may also be a good time to do some market research using the potential customers you have identified.

Determining Resources

Your product packaging and customer definitions will allow you to accurately define both the productive and infrastructural assets that you require to create your products and service your customers.

Productive assets include manufacturing plant, delivery vehicles and warehousing. Infrastructural assets include office space, computer equipment and furniture.

Do not be tempted to purchase more assets than the definition of your product packaging and customer base have dictated. Adding assets at a later date, when these are deemed necessary, is a cash-sensible decision. Large amounts of money are wasted on underutilized assets.

Finding People

Your list of resources will help you identify the number of people you require and what skills they need to possess. This is because all resources require appropriately qualified people to operate them.

Please remember to include your administrative function in the definition of the people you require to assist in the running of your business.

Calculating Cash

The amount and timing of your cash requirement can now be calculated using the definitions and lists of products, customers, resources and staffing.

Ensure you do thorough research on this section by visiting premises and contacting suppliers to determine the pricing of all the items you have defined or listed.

This cash requirements statement provides a strong basis for your initial budgets. Please ensure that these budgets are prepared and reviewed by appropriately qualified individuals. If these budgets ought to be used to raise finance then they must include balance sheets, income statements and cash flow statements. Please do not attempt to produce these reports unless you are an accountant.

Managing a Business

Many business owners lose site of what is important in managing their business. This is understandable if one considers that most people are very familiar with income statements and have little knowledge or skills to read balance sheets and cash flow statements.

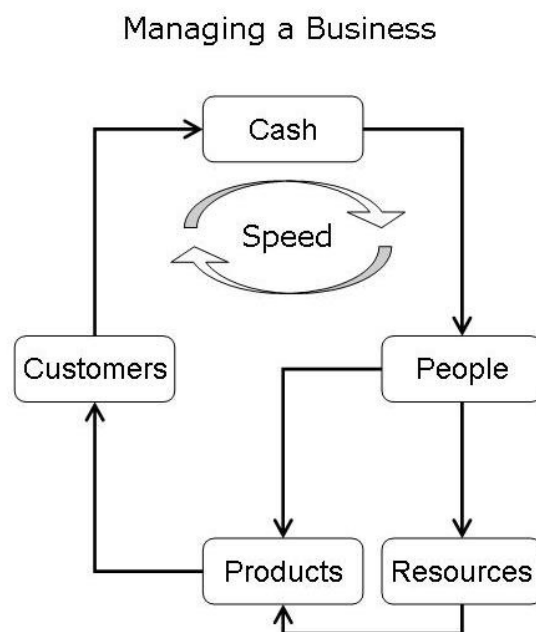
The purpose of all businesses is to create wealth in the hands of its shareholders. This cannot be done without making profit. Profit does not necessarily translate to wealth unless it is properly managed and used.

The Concept Model

The essence, of the model on the right, is speed. Without speed cash, people, resources, product and customers will become stagnant and your business will die.

Cash can only be spent by people on either products or resources. Resources either create or support the product. The products are sold to customers who pay you cash.

We believe this model indicates the major items that require a budget and good reporting to manage the creation of wealth in your business. You will notice that the majority of these budgets and reports are not in currency but in more practical, and relevant, units of measure. All of these reports also provide an effective early warning system on potential problems.



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Managing Resources

Resources are the productive and infrastructural assets owned by your business.

In a service industry your resources are the individuals whose time and expertise product you are selling.

Resource utilisation is the key to controlling this aspect of your business. You therefore require a resource utilisation budget which is not stated in currency but rather in percentage occupancy, distance traveled or quantity produced.

We recommend that you examine this variance report quarterly to determine whether any assets have been over or underutilized. This report will identify which assets should be purchased or sold and optimize your investment in assets.

Controlling Product

Our definition of product is any item that appears on your invoice as having been sold to customers. This therefore includes service items.

Carrying too much or too little stock are equal threats to the integrity and survival of your business. Slow moving stock is dead money and not being able to supply requested stock is lost money.

On standard computerized accounting systems we have found that it is useful for service industries to record individuals (who are supplying time and skills) as stock items with zero cost, charge-out rates as selling prices and with quantities equivalent to the time available for sale to customers. This makes the stock quantity reports useful productivity reports and simplifies the invoicing process.

Maintenance of stock minimum and maximum quantities and lead times will allow for the budget calculation of expected age (in days) per stock item. Reporting expected age against actual age of stock items will allow for management decisions regarding purchasing, pricing, clearance, demand and competition and should be done monthly.

Pleasing Customers

When customers are unhappy the only weapon they have against you is to delay the payment of their account. The major reason for nonpayment of accounts is not because the customer does not have the money but because you have done something wrong.

Your budget in this instance is to ensure that every customer on your system has payment terms. A monthly report showing all invoices that have exceeded the payment terms should be followed up immediately.

When finding the customer the most important thing to do is to apologize for what you have done wrong and ask the customer what you need to do to correct the error and make it possible for them to pay your account.

Understanding Cash

If you have budgeted carefully then all cash should be utilized. It is, however, impossible to get the timing of the budget correct. In reality the timing of your budget will always be out and you will always have spare cash or run out of cash.

Additional to your normal budget you should have two lists. The first list should identify wish list items that you could obtain with any spare cash and a second list that details a recovery plan in the event of a shortage of cash.

It is therefore essential that you receive a daily cash report, which looks as far into the future as is possible, detailing any cash excess or shortage.

Guiding People

Without people you cannot run a business. Whether those people are employees associates or outsource suppliers, the better your communication with them, the fewer problems you will experience in your business.

Regular performance interviews tend not to work, mainly because they are based on some sort of list of key performance areas or key performance indicators. These checklists have been successful in identifying what people are not allowed to do rather than rewarding people for initiative beyond the list.

Relevant communication with your staff members is difficult. We have found that by introducing both cross mentoring and succession planning, many of these difficulties are overcome and productivity is hugely increased.

These programs also promote an atmosphere of loyalty, friendliness and understanding within your work environment.

Cross Mentoring

Cross mentoring should be mandatory but the choosing of a cross mentor relationship should be voluntary. Forcing cross mentor relationships causes many problems.

The basic rules are –

1. A cross mentor relationship should last a maximum of six months.
2. At the beginning both parties should, jointly, make a list of the items they wish to show each other about their respective areas of responsibility.
3. They need to book time over the next six months to deal with the issues they have placed on the list. We have found that a maximum of one hour per month for six months is sufficient.
4. At the end of the six months they need to ensure that all items on the list have been ticked off and conclude their cross mentor relationship and move on to the next one.

Succession Planning

Every individual in your organization needs to know what their growth path is. If an individual believes they have no future, they will work accordingly.

Every person should be mentoring one or more people to replace them and every person should be mentored by someone whose job they aspire to. This includes senior management whose mentor program should prepare them for running a new branch, division or company within the group or their own business.

By mentoring someone to do your job, you ensure that you can be promoted or move on when the time is right.

A Brief Review of the Application and Interpretation of Financial Statements

Financial statements are utilized to indicate the wealth of an organisation at a point in time, performance over a period of time and how cash has been obtained and utilised. The major users of financial statements are investors, in the form of shareholders, banks, staff members and managers. Each of these individuals has a different way of analysing the financial statements, but each of them wishes to know one thing; is this organization healthy, wealthy and likely to continue existing into the future.

Interpreting Key Financial Statements

The purpose of this section is to illustrate the layout and relationship of the three key financial statements (balance sheets, income statements and cash flow statements). In a later section we will deal with the interpretation and reading of the statements.

Please refer to the appendix for example layouts of the three statements.

In short, the result of profit of the income statement is transferred to the balance sheet in the form of retained or accumulated funds.

The cash flows statement begins with an opening bank balance and, by listing all inflows and outflows of cash, reconciles to the closing bank balance.

The Balance Sheet

The balance sheet is a snapshot of the wealth of your organisation at a point in time and is actually two reports. The one report reflects the sources and extent of available or borrowed money and the other how this money was utilized. These reports must balance, in other words be equal in value to each other, hence the name balance sheet.

The Income/Profit and Loss Statement

The income statement is a video of your trading performance over a period of time and reflects all income and expenditure during that period with profit as a result.

The Cash-Flow Statement

The cash flow statement joins the balance sheet and income statement by showing how your organization moved from an opening bank balance to a closing bank balance over a period of time. This statement shows all inflows and outflows of cash into separate sections.

The cash flows statement is derived from the balance sheet and the income statement and therefore can only be produced after the balance sheet and income statement.

An Alternative Format for Financial Statements

The reading of financial reports can be simplified if we ignore some of the finesse of statutory financial statements. The distinction between long and short term liabilities

is more of a cash flow issue in the hands of the accountant than useful knowledge to those wishing to obtain an overall view of the financial wellbeing of their organisation.

The diagram on the right shows how it is possible to fit the balance sheet, income statement, cash flow statement and variance analysis report on one page that gives a quick, easy to read financial view of an organisation.

The top portion of the report (owned and owed) gives a view of the balance sheet. The variances on this top portion show a basic cash flow statement and the bottom portion (spent and earned) represents the income statement with a variance report compared to the previous period under examination.

Alternative Format for Financial Statements

<u>Owned</u>				<u>Owed</u>			
Desc.	CP	PP	Var	Desc.	CP	PP	Var
Aaaa	X	X	X	Aaaa	X	X	X
Bbbb	X	X	X	Bbbb	X	X	X
	---	---	---		---	---	---
Total	X	X	X	Total	X	X	X

<u>Spent</u>				<u>Earned</u>			
Desc.	CP	PP	Var	Desc.	CP	PP	Var
Aaaa	X	X	X	Aaaa	X	X	X
Bbbb	X	X	X	Bbbb	X	X	X
	---	---	---		---	---	---
Total	X	X	X	Total	X	X	X

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The Latest Thinking on Budgeting and Forecasting

Without an obvious overall budgeting strategy, it is very easy to get lost in the detail and busyness of the budgeting process. This overall strategy should be common knowledge amongst the staff that are preparing and managing your budget to achievement. They must know the answer to the question; "What are we ultimately trying to do?"

If everyone knows where we are going and what we need to do to get there, greater understanding, integrity and meaning can be built into your budgets.

The diagram on the right suggests that you need to constantly earn more than you spend by either decreasing expenditure or increasing income.

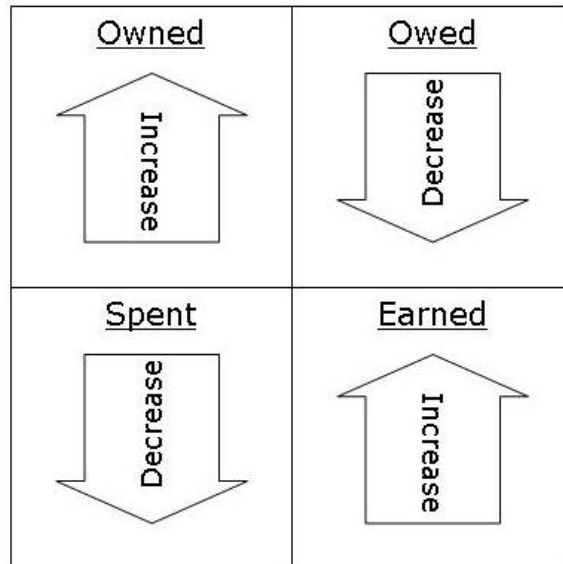
Remember that increased income leads to a proportionate increase in expenditure.

This profit should then be used to first get rid of your liabilities (the stuff you owe) and once these no longer exist or are at a planned level, the profit should be applied to assets (the stuff you own) that earn you more income.

Decreasing your liabilities often has a marked effect on the reduction of your spending.

This logic, with the possible exception of bonding property, is one that you should follow in your personal capacity, but is subject to refinement in businesses because of rapid growth requirements satisfied by borrowings.

Overall Budgeting Strategy



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Understanding why the traditional budgetary process often fails

As a general rule, staff in an organization, hate the preparation of budgets. This is because the time they're given to prepare the budgets is usually a compressed and pressured three weeks towards the end of a financial year.

The finance department prepares a budget pack that they need to complete, and this pack usually demands a lot of research and arithmetic. Once these are prepared they are submitted for consolidation, review and approval.

After consolidation, the summarized budget is presented for senior review and approval. Very little attention is given to the detail that created the budgets. This means that the review process results in global changes to the consolidated result, usually to achieve the desired profit.

The approved budget is therefore owned by nobody because, in the interests of efficiency the logic that created the budget numbers is easier to ignore when trying to define the desired outcome.

To counter this, most organisations implement forecasts early in the new financial year and use these forecasts as their targets, negating some of the effect of the global amendments.

The latest thinking in preparing realistic, achievable budgets

Shareholders of companies are only interested in profit. Profit means an increase in the value of their shares or a greater dividend.

It is therefore logical that the management of an organization should stipulate each division's contribution to that profit figure at the beginning of the budget process. This gives each division the definite target that they must meet through the budgeting process.

Each division or entity in an organization should be able to create a defensible budget. Defensible budgets are budgets where the logic of the numbers is obvious and resistant to arbitrary amendments.

As an example we will examine a possible sales budget.

Possible Sales Budget

First, it is necessary to understand that selling is a result of what salesmen do, not what they do. In our opinion, three major things that salesmen do are –

1. Constantly increase their product knowledge.
2. Maintain and service existing customers.
3. Create new customers.

The first two items are badly neglected in most organizations because they tend to be time budgets rather than expensive cost budgets. It is important that these time budgets are created, managed and monitored with the same enthusiasm as other budgets.

The third item in the list above is the creation of new customers. Our experience has shown that salesmen tend to concentrate on the sale of products rather than the creation of new customers because relationships take longer to develop and it is less stressful than developing relationships with clients.

The details in the table below have been simplified to illustrate the principle of this sort of budgeting.

Let us assume that, based on the profit target received; we determine that we need 3 new customers per quarter. Our budget is therefore constructed, based on the experience of the sales team, to achieve this.

Process Step	Target Volume
Cold Calls	40
Information Pack	15
1-on-1 Meeting	8
Presentation	5
Close Sale	5
New Clients	3

This process is then translated into a currency budget by applying the target volume against rates and applicable accounts. For example, cold calls involve telephone account, desk space, computers, stationery and various other items. Information packs involve printing and stationery, postage or courier charges.

The benefit of this budget is reflected when variances are analysed. If a variance on sales occurs then the analysis and the explanation of this variance should be done using the process table used to create the budget.

Process Step	Target Volume	Actual Volume
Cold Calls	40	40
Information Pack	15	15
1-on-1 Meeting	8	6
Presentation	5	4
Close Sale	5	4
New Clients	3	2

After having determined that the variances is due to a lack of performance on sales to new clients, the volume comparisons on the above table can be extracted from your computer system.

The results potentially indicate that our information pack is not performing the task of encouraging prospects into a 1-on-1 meeting, or alternatively that salesman are not following up after sending an information pack.

These reasons for the sales variance are fixable by the sales team. This method of budgeting allows for the finding of these variance reasons and are substantially better than some of the other reasons given for sales variances.

Some of the conventional reasons for sales variances, which the sales people hope will be accepted, include –

- The world's economy has taken a downturn.
- Our customers have a cash flow problem.
- The competition is beating us with a slightly better price.

Clearly, these reasons are very difficult to correct.

Scrapbook Budgeting

We have found this method of budgeting to be extremely useful at the beginning stages of a budget. The person preparing the budget collects pictures of what they wish to achieve into a document. These pictures may be obtained via the internet or cut from magazines.

This method of budgeting is instinctively used by people designing a house or interior decorating.

A visual presentation of your target is easier to translate into a financial budget than pages of narrative concept.

Regular Budget Preparation and Amendment

There are no rules stating budgets can only be prepared during the 3 week, intensive budgeting period. It is sensible to build your budget during the course of a full financial year.

By adding a budget preparation time at the end of every month, numerous advantages accrue –

- By using the experience of the month you have just completed you can create a more complete budget for the same month in the next financial year.

- Adding to your budget every month makes you an expert at the process of budgeting and means you do not have to relearn, under pressure, every year.
- The formal budgeting process at the end of the year now becomes one of assimilation and review of your budgets created throughout the year.
- Your budget computer models can be sophisticated every month.

Implementation of this regular budget preparation initially demands an order from senior management, but once the advantages are seen by the preparers of the budgets, it becomes a habit.

Top down vs. Bottom up Budgeting

The profit targets of each division must be dictated from the top down. How this profit is achieved is initially decided from the bottom up and amended from the top down.

Therefore one cannot choose to either budget from the top down or bottom up because budgeting is a cooperative communication process.

Successful budgeting is determined by the openness of communication between staff and management.

Zero-based Budgeting Re-visited

Zero-based budgeting was, in my opinion, developed as a means of avoiding incremental budgeting without thought. Many organizations simply added 10% to last year's mistakes and called this their budget.

Pure zero-based budgeting is time consuming and difficult because it demands a restating of the processes giving rise to the budget.

Practically, each account in your general ledger demands a mix of incremental and zero-based budgeting. Under this logic, rentals will be an incremental budget unless you are increasing or decreasing the space rented.

My preference is to concentrate on the volume on time required to achieve a process and then translate this arithmetically into a financial budget.

Building flexibility into a budget in order to minimise the impact of large unforeseen expenses as well as having funds to take advantage of opportunities

There are two schools of thought on the amendment of budgets. The first suggests that you should leave the budget and explain the variances, while the second recommends the creation of a forecast or amended budget.

The section on page 4 of this manual regarding "*Managing a Business*" indicates that my preference is to have a strong set of management reports that allow for early identification of potential problems and supply sufficient relevant information for informed management decisions and that these decisions should be taken in the context of a well structured initial budget.

It is impossible to get the timing of a budget correct, but timing differences are not sufficient reason to amend a budget.

Unforeseen circumstances should be evaluated in terms of their effect on the integrity of the initial budget, before amendments to the budget are authorised.

Tools and techniques for monitoring and reviewing a budget

Desktop software has become more powerful and there are experts available to assist you in the writing and creation of computer models that have your management goals and philosophy built in.

An important task of these models is to provide you with a data warehouse that combines your non-financial and financial data and makes it available to report writing and analysis tools like Excel.

For successful modelling, please ensure that you have a champion on your staff that is integral to the creation of these models.

Aligning your Budgets and Forecast with your strategic intent

Budgets and forecasts should be developed from strategic intent. This means that a clear, unambiguous strategic intent should be presented to all staff that are responsible for budget creation, prior to them creating a budget.

The strategic intent should also be the yardstick by which all budgets are measured during the budget review process.

Creating both Medium and Long Term Value for your Organisation

Without money, business can do nothing, but money that is doing nothing is wasted. Cash in an organisation must be constantly in use either by creating items for sale, assisting the selling process or making money in its own right.

Investigating and understanding various options available for raising and managing capital

According to Bill Gibson (bill@kbitraining.com), in an article published in the Succeed magazine (www.succeed.co.za) in March 2007, there are 11 ways to raise money without your bank. These are –

1. Offer to pay a major supplier a premium in exchange for extended credit.

This approach may work if you have a single big supplier whose credit will fund a part of the business. In the case of a magazine for example, this may be the printer, as printing costs may account for up to 25% of total expenses. Be prepared to negotiate. For example, the magazine may offer to advertise the company free of charge.

2. Attract numerous small investors.

Some of the greatest companies, like Pick 'n Pay in South Africa were started by young entrepreneurs who had raised capital through many small investors, as opposed to a few large ones.

3. Cash in your equity in long-term insurance.

Surrendering your life policies to raise finance for a potential venture is an option to be considered with extreme caution.

4. Trade equity for expertise or service.

You may choose to give up shares in the business in exchange for the services or expertise you need. This approach can result in a massive capital injection for your business.

5. Find a short or long-term strategic partner with the resources that offset the need for investment.

A great idea for a concept, product, service or a business that requires specific expertise is often held back by the lack of it, or enough money to hire someone with such expertise.

6. Build your concept or product for a client at a reduced price and retain the ownership.

The idea here is to negotiate with the client on a service, product or concept the client company needs. You agree to build it for them at just above cost.

In return you retain the copyright or patent and can take it to the market to sell it.

7. Have somebody sign for you with a major supplier.

A close existing relationship with the person or company you are going to ask to sign for you is obviously necessary.

8. Get a company to invest in a product or project.

Instead of giving away equity to raise money, you could have someone invest in one of your products or services. They then own a percentage of the product or service, not the company.

9. Be part of another successful company for the first two years.

Starting your own business is expensive. Approaching an established company that operates in a similar line of business is one way to get the extra funding. However, you need to draw up detailed legal documents, listing the rights and responsibilities of each party. Make sure the agreement is clear and that it includes a buyout option.

10. Raise money through a stokvel.

Some stokvels have sophisticated micro lending schemes in place, where members contribute to a trust fund whose income is used to finance projects and make a return for its members.

11. Borrow from friends or relatives.

The biggest advantage of this approach is flexibility. Because you're borrowing money from someone you have a personal relationship with, changing the conditions of a loan, making occasional late payments and reacting to changing life circumstances are much easier.

The traditional alternative is presenting a comprehensive business plan to a bank or other financial institution.

Remember that a sound business idea, properly researched, will always find a willing financier.

Medium Term Options

The task of what to do with spare cash in the medium term rests in the hands of the accountant, unless management has a strategic use for spare cash.

Mergers and Acquisitions

A merger is the bringing together of two different entities into one, with the intention of keeping both entities intact within a single environment, or under a single legal umbrella. In reality, one of the parties is always stronger than the other and therefore mergers tend to end up being takeovers by one management of the other. The usual result of this is that the losing management is demoted or no longer employed.

An acquisition is a lot more honest. Here one company buys another and takes over its management, obtaining sole discretion on the continued employment of the old management.

Mergers or acquisitions are done for many reasons. Some of these are purchasing a competitor, supplier or customer. This guarantees a bigger market, control of supply to competitors or guaranteed purchase of product.

More subtle reasons include buying a company that has a lot of cash. This is usually done by issuing shares, in the purchasing company, to the shareholders of the company being purchased.

Investments

The most common form of medium term investment of cash in an organization is the use of an interest earning call account. Call accounts are usually linked to your current account and the current account is swept daily where any spare cash is placed in the call account and any shortfall is met from the call account.

Usually, accountants in organisations do not have the time or necessary skills to deal with more complex financial instruments that demand regular attention, therefore this task is handed over to professional investors if the cash resources of the organisation are sufficient for investing.

Financial/Equity Markets, Bonds and Financial Institutions

Whenever an organization decides to use the financial market place it is advisable to obtain expert advice in the form of a recognised and qualified broker.

Because the area of finances is so specialised and demands constant attention if you do not wish to lose money, outsourcing is necessary.

There are many institutions available to you and the market is very sophisticated with defined charges allowable by these institutions.

Long Term Options

Long term investment and financial options are determined by strategic intent and should, wherever possible, be outsourced to experts.

Options and Futures Markets

Special mention should be made of options and futures markets. These are very technical and even the experts lose money in these markets. Without the benefit of insider information, which is illegal, it is difficult to make money in these markets.

How 'Exit Strategy' affects an organisations investment decisions

Extracted from an article by Stever Robbins (<http://steverrobbins.com>) written for Entrepreneur.com (www.entrepreneur.com).

Entrepreneurs live for the struggle of launching their businesses. But one thing they often forget is that decisions made on day one can have huge implications down the road. You see, it's not enough to build a business worth a fortune; you have to make sure you have an exit strategy, a way to get the **money** back out.

For those of you who like to plan ahead--and for those of you who don't but should--here are the five primary exit strategies available to most entrepreneurs:

1. Just Take It.
2. The Liquidation.
3. Selling to a Friendly Buyer.
4. The Acquisition.
5. The IPO.(Independent Public Offering)

Just Take It.

One favourite exit strategy of some forward-thinking business owners is simply to bleed the company dry on a daily basis. I don't mean run it in the red--I mean pay yourself a huge salary, reward yourself with a gigantic bonus regardless of actual company performance, and issue a special class of shares that only you own that gives you ten times the dividends the other shareholders receive. Although we frown upon these practices in public companies, in private companies, this actually isn't such a bad idea. It's called a "lifestyle company."

Rather than reinvesting money in growing your business, in lifestyle companies, you keep things small, take out a comfortable chunk, and simply live on the income. In one of my most memorable Harvard Business School moments, my fellow classmates and I asked the owner of a small, fabulously profitable manufacturing company why he didn't grow the business bigger and sell it for a gazillion dollars. His response: "Excuse me? You've had way too much schooling. What part of 30-hour work weeks and a \$5 million personal income don't you understand?"

Remember, money in the wallet is no longer money in the business. If you're in a business that must invest to grow, taking out too much money can hurt you down the road. Also, if you have other investors, taking too much can upset them. Imagine their surprise when investors in a small business I once worked for received the company's internal loan repayment spreadsheet, showing that the business owner was pulling out bucks by paying his family exorbitant interest on **loans** while investor loans were repaid at rock-bottom rates over as long a time period as possible.

If you think you're in business for the lifestyle, minimize your dependence on other investors and structure the business to allow you to draw out cash as needed.

Pros

- Who doesn't like seven figures of take-home pay?
- Private jets are fun.
- There's no need to think hard about getting out: Just pull out the money when you need it.

Cons

- The way you pull the money out may have negative tax implications. For example, a high salary is taxed as ordinary income, while an acquisition could bring money in the form of capital gains.
- Without careful long-term planning, you may end up pulling out money now you'll need later.

The Liquidation.

Even lifestyle entrepreneurs can decide that enough is enough. One often-overlooked exit strategy is simply to call it quits, close the business doors, and call it a day. I don't know anyone who's founded a business planning to liquidate it someday, but it happens all the time. If you liquidate, however, any proceeds from the assets must be used to repay creditors. The remainder gets divided among the shareholders--if there are other shareholders, you want to make sure they get their due.

Pros

- It's easy and it's natural. Everything comes to an end.
- There are no negotiations involved.
- There's no worrying about transfer of control.

Cons

- Get real; it's a waste! At most, you get the market value of your company's assets.
- Things like client lists, your reputation, and your business relationships may be very valuable, and liquidation just destroys them without an opportunity to recover their value.
- Other shareholders may be less than thrilled at how much you're leaving on the table.
- My favourite piano bar in Boston simply vanished one day when the owner decided he was tired of show tunes. His regular patrons were crushed, but then, he didn't consult with us first....

Selling to a Friendly Buyer.

If my neighbourhood piano bar owner had asked, we might have wanted to buy the business ourselves. You see, if you've become emotionally attached to what you've built, even easier than liquidating your business is the option of passing ownership to another true believer who will preserve your legacy. Interested parties might include customers, employees, children or other family members.

The fictional Willy Wonka handed off his chocolate empire to a little boy who was a loyal Wonka customer, someone who was chosen with great care through a selection process designed to weed out all but the most dedicated Wonka devotees. Wonka was able to choose his heir apparent and ride off into the sunset a happier entrepreneur.

Of course, the buyer needn't come from outside. You can also sell your business to current employees or managers. Often in this kind of sale, the seller finances the sale and lets the buyer pay it off over time. A hair stylist I knew learned a local salon owner was shutting his doors and decided to propose a low-money-down deal to acquire the salon. The owner still makes more this way than he would by closing, and the stylist gets to earn his way into owning a business. It's a win-win for everyone involved.

The purest friendly buyout occurs when the business is passed down to the family. But remember, the key to "family business" is the word "family." Is yours functional? No sooner than you leave the family business to the kids, it's likely they'll end up fighting over who got the larger share, who does or doesn't deserve the ownership they got, and who gets the final word. They'll finger-point for a decade while the business slowly declines into ruin, then blame you for not leaving clearer

instructions. If you decide to go this route, you've got a lot of planning to do before getting out.

Pros

- You know them. They know you. There's less due diligence required.
- Your buyer will most likely preserve what's important to you about the business.
- If management buys the business, they have a commitment to making it work.
- Selling to family makes good on that regrettable offhand promise made 30 years ago, "Someday, son/daughter, all this will be yours."

Cons

- You can get so attached to being bought by someone nice that you leave too much money on the table.
- If you sell to a friend, they'll be peeved when they **discover** they just bought the liability for that decade's worth of taxes you forgot to pay.
- Selling to family can tear the company apart with jealousies and promotions that put emotion way ahead of business needs.

The Acquisition.

The acquisition was invented so you can sell your business and leave the kids money, still spoiling them rotten, but at least sparing the business from second-generation ruin. Acquisition is one of the most common exit strategies: You find another business that wants to buy yours and sell, sell, sell.

In an acquisition, you negotiate price. This is good. Public markets value you relative to your industry. Who wants that? In an acquisition, the sky's the limit on your perceived value. You see, the person making the acquisition decision is rarely the owner of the acquiring company, so they don't feel the pain of acquisition cost. Convince them you're worth a billion dollars, and they'll gladly break out their employer's chequebook.

If you choose the right acquirer, your value can far exceed what would be reasonable based on your income. How do you select the right company? Look for strategic fit: Which acquirer can buy you to expand into a new market, or offer a new product to their existing customers? I recently read that a classmate of mine started a company that was acquired during the Internet boom for \$500 million when it was just 18 months old. He commanded a huge price because his acquirer thought the acquisition gave them critical capabilities faster than they could develop those capabilities on their own.

But acquisition has its dark side. If there's a bad fit between the acquirer and acquiree, the combined companies can self-destruct. The acquired management team can end up locked into working for the combined company, and if things head south, they get to watch their baby implode from within. Time Warner recently announced that they're thinking of spinning off AOL, almost exactly five years after the two companies merged. What, exactly, did the merger accomplish? It made two CEO's very wealthy--and destroyed years' worth of work and billions of dollars. I'm sure the AOL employees who stuck it out enjoyed that particular ride!

If you're thinking of acquisition as your exist strategy, make yourself attractive to acquisition candidates, but don't go so far as to you cut off your other options. One software company knew exactly whom they wanted to sell to, so they

developed their product in a way that meshed perfectly with the prospective suitor's products. Too bad the suitor had no interest in the acquisition. The software company was left with a product so specialized that no one else wanted to buy them either.

Pros

- If you have strategic value to an acquirer, they may pay far more than you're worth to anyone else.
- If you get multiple acquirers involved in a bidding war, you can ratchet your price to the stratosphere.

Cons

- If you organize your company around a specific be-acquired target, that may prevent you from becoming attractive to other acquirers.
- Acquisitions are messy and often difficult when cultures and systems clash in the merged company.
- Acquisitions can come with noncompete agreements and other strings that can make you rich, but make your life unpleasant for a time.

The IPO.(Independent Public Offering)

Known as "Listing on the Stock Exchange" in South Africa.

I've saved IPOs for last, because they're sexy, they're flashy, and they get all the press. Too bad they make the lottery look good by comparison. There are millions of companies in the U.S., and only about 7,000 of those are public. And many public companies weren't even founded by entrepreneurs but rather were spun out from existing companies. Heck, AT&T and its spin-offs are almost a significant fraction of the listed exchanges!

If you're funded by professional investors with a track record of taking companies public, you might be able to do it. Of course, the professional investors will also have diluted you down to the point where you only own a tiny fraction of your company anyway. The investors will make out great. And maybe, if you're the principle entrepreneur and have done a great job protecting your equity, you'll make some money, too.

But if you're a bootstrapper, believing in a fair IPO is a touchingly naïve act of faith. Besides, do you have any idea what's actually involved in an IPO?

You start by spending millions just preparing for the road show, where you grovel to convince investors your stock should be worth as much as possible. (You even do a "reverse split," if necessary, to drive up the share price.) Unlike an acquisition, where you craft a good fit with a single suitor, here you are romancing hundreds of Wall Street analysts. If the romance fails, you've blown millions. And if you succeed, you end up married to analysts. You call that a life?

Once public, you bow and scrape to the analysts. These earnest 28-year-olds--who haven't produced anything of value since winning their fifth grade limerick contest--will study your every move, soberly declaring your utter incompetence at running the business you've built over decades. It's one thing to receive this treatment from your loving spouse. It's quite another to receive it from Smith Barney.

We won't even talk about the need to conform to Sarbanes-Oxley, or the 6 percent underwriting fees you'll pay to investment bankers, or lockout periods, or

how down markets can tank your wealth despite having a healthy business, or how IPO-raised funds distort your income statement, or ...

In short, IPOs are not only rare, they're a pain in the backside. They make the headlines in the very, very rare cases that they produce 20-year-old billionaires. But when you're founding your company, consider them just one of many exit strategies. Realize that there are a lot of ways to skin a cat, and just as many ways to get value out of your company. Think ahead, surely, but do it with sanity and gravitas. And if you find yourself tempted to start looking for more office space in preparation for your IPO in 18 months, call me first. I'll talk you down until the paramedics arrive.

Pros

- You'll be on the cover of *Newsweek*.
- Your stock will be worth in the tens--or maybe even hundreds--of millions of dollars.
- Your VCs will finally stop bugging you as they frantically try to insure their shares will retain value even when the lockout period expires (Warning: they won't necessarily be looking out for your shares, too.)

Cons

- Only a very few number of small businesses actually have this option available to them since there are very few IPOs completed annually in the United States.
- You need financial and accounting rigor from day one far above what many entrepreneurs generally put in place.
- Some forms of corporation--S-corps, for example--will require a reorganisation before they can be taken public.
- You'll spend your time selling the company, not running it.
- Investment bankers take 6 percent off the top, and the transaction costs on an IPO can run in the millions.
- When your lockout restrictions expire, your stock will be worth as much as a third world hovel.

Using CAPM (Capital Asset Pricing Model) to determine risk and return for any asset

Extracted from Investopedia.com (www.investopedia.com)

The Capital Asset Pricing Model (CAPM) is a mathematical model that describes the relationship between risk and expected return and is used in the pricing of risky securities.

Please note that all of these rates should be determined after tax, in South Africa, for a more realistic answer.

The formula is –

$$r_a = r_f + \beta_a(r_m - r_f)$$

Where:

r_a = Return on Asset

r_f = Risk free rate

β_a = Beta of the security

r_m = Expected market return

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free (r_f) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium ($r_m - r_f$).

The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas).

Using the CAPM model and the following assumptions, we can compute the expected return of a stock: if the risk-free rate is 3%, the beta (risk measure) of the stock is 2 and the expected market return over the period is 10%, the stock is expected to return 17% ($3\% + 2(10\% - 3\%)$).

Investigate cost reduction programs and predict their impact on profit and business operation

In the same manner that an increase in income has the effect of proportionately increasing costs a decrease in costs has the effect of proportionately decreasing turnover.

To remain competitive, organizations should constantly be looking for methods to reduce costs. Instigating a cost reduction program as a reaction to lack of profits is dangerous and to late.

A favorite method of instant cost reduction is a rationalization of staff. This is false economy, especially with the labour laws in South Africa. Besides having to deal with the CCMA, reorganisation of the workload and the retraining of staff is expensive and time consuming.

Another favorite, caused in part by the need to meet BEE requirements, and thereby gain government contracts, is to break apart the organization into separate

legal entities and utilise these entities as outsource partners. Although this may lead to some cost efficiencies, it often creates the need for duplication of departments that do not earn income e.g. finance and accounts. It is probably more sensible to separate departments like finance and accounts and marketing and utilise them for all the companies within your organization.

In our experience, an efficient manner of cost reduction is the rationalization of your stockholding using the 80:20 rule.

The Effect of Stock Reduction

Your stock, or inventory, is dead money if it is not moving according to plan and the staff, equipment, time and expense of maintaining your current stock levels is usually high.

Identifying the 20% of your stock that is contributing 80% of your profit will allow you to rationalise the remaining 80% of your stockholding, thus freeing up staff, equipment and costs.

It is essential that strategic stock, or inventory, is identified at this stage, even if these items do not contribute substantially to profit.

Once identified these "excess" stock items should be physically separated and sold as quickly as possible, even if this involves selling them at close to cost. Numerous benefits accrue from doing this –

- Cash flow is improved and borrowings reduced.
- Warehouse space is made available or the need for further space removed.
- Remaining stock is neat, easy and quick to find.
- You need to deal with, and pay, fewer suppliers.
- You no longer deal with customers who ordered the non-profitable stock.
- The load on your finance and administration department is substantially reduced.

The general rule of "You need to spend money to make money" needs to be amended to "You need to spend money wisely to make money".

Effective cost reduction programs start with an examination of the balance sheet. We have only examined the effect of stock reduction. Many other assets on the balance sheet can be viewed in a similar manner.

Essential Methods for Measuring your Organisation's Financial Performance

Performance cannot be measured unless it is recorded and compared against a plan. Appropriate computerised accounting systems, focus on accurate, complete and timely data capture and proper budgeting are essential to the achievement of measuring your organisations financial performance.

Choosing the appropriate performance management system

Selecting an appropriate performance management system is like selecting an appropriate house. Everyone has a different idea.

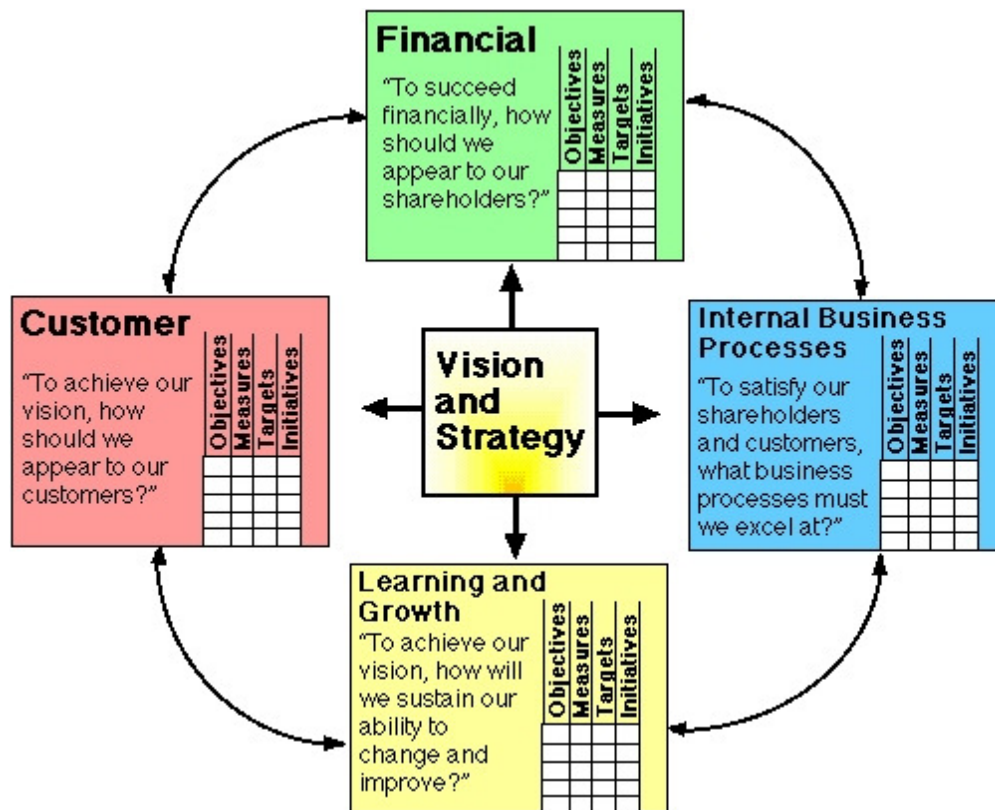
If there is one important thing to remember in assessing the performance of your organization it is that the purpose of business is to make money by using money to buy products that it sells to customers who give them more money than they used to buy and sell the product and the quicker you can make this happen, the better your performance is.

Therefore performance is a measure of speed with which you can make things happen in your organization.

Examining the Balanced Scorecard Approach

Written by Paul Arveson and available on the Balanced Scorecard Site (www.balancedscorecard.org)

An approach to strategic management was developed in the early 1990's by Drs. Robert Kaplan (Harvard Business School) and David Norton. They named this system the 'balanced scorecard'. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective.



The balanced scorecard is a **management system** (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information

age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

- *The Learning and Growth Perspective*

Sustaining your ability to change and improve.

- *The Business Process Perspective*

Satisfying your shareholders and customers.

- *The Customer Perspective*

How you appear to your customers.

- *The Financial Perspective*

How you appear to your shareholders.

Assessing the Balance Sheet Approach to Valuation

Determining the change in net asset value of a company, as reflected on its balance sheet, is another way of measuring performance.

Using the balance sheet in the appendix of this manual, we will determine the performance of the example company for the 2 years reflected.

The example companies net asset value, as reflected on the shareholders equity line, in 2006 was R 1 772 000 000.00 and in 2007 was R 3 551 000 000.00, an improvement of 100.39%.

The shareholders of this company, using the balance sheet approach to valuation will be delighted because their shares have doubled in value in 1 year.

This valuation assumes that all items on the balance sheet are correctly and fairly valued.

Using Financial Ratios to determine: Leverage, Liquidity, Gross and Net Profit Margins, Return on Net Assets (RONA) and Equity (ROE)

Financial Ratios mean very little when viewed in isolation of comparisons to prior performance, industry and economy norms. We will deal with some basic ratios.

Leverage (or Gearing) Ratio

This compares the relationship of borrowed money to internal finance and is commonly used by financial institutions to ensure that the organisation has sufficient capital to cover any loans if it should go into liquidation.

Using the financial statements in the appendix, and the following formula, we can calculate the following leverage (or gearing) ratio –

Owners Equity : (Long Term Liabilities + Current Liabilities)

R 3 551 000 000.00 : (R 3 102 000 000.00 + R 1 270 000 000.00)

R 3 551 000 000.00 : R 4 372 000 000.00

0.81 : 1

This ratio indicates that the company is highly leveraged (or geared), because the internal finance is less than borrowings.

Liquidity Ratios

Liquidity ratios are used to determine a company's ability to pay its current liabilities. The question it attempts to answer is; has the company got enough available money to continue operating?

Using the financial statements in the appendix and the following formulae, we can calculate the company's liquidity ratios (Quick Ratio and Acid Test) –

Quick Ratio

Current Assets : Current Liabilities

R 775 000 000.00 : R 1 270 000 000.00

0.61 : 1

This ratio indicates that the company is capable of covering 61% of its current liabilities. It therefore appears to have a problem. However, the balance sheet reflects an investment amount of R 2 120 000 000.00 which they will likely realise to cover the shortfall.

Acid Test

(Current Assets – Stock) : Current Liabilities

(R 775 000 000.00 – R 280 000 000.00) : R 1 270 000 000.00

R 495 000 000.00 : R 1 270 000 000.00

0.39 : 1

This ratio indicates that the company is capable of covering 39% of its current liabilities with its liquid current assets. The investment will again have to be realised.

Profit Margins

Profit margins indicate control over selling prices and expenses and success is usually indicated by consistency of the percentages.

Using the financial statements in the appendix and the following formulae, we can determine the example company's profit margins (gross profit percentage and net profit percentage) –

Gross Profit Percentage

Gross Margin ÷ Sales = Gross Profit Percentage

R 3 481 000 000.00 ÷ R 8 287 000 000.00 = 42%

Whether 42% is a good GP% or not needs to be determined by comparison to previous periods and other companies in the same industry.

Net Profit Percentage

Net Income ÷ Sales = Net Profit Percentage

R 1 779 000 000.00 ÷ R 8 287 000 000.00 = 21.5%

Whether 21.5% is a good NP% needs to be determined by comparison to returns achieved on other investments and the prevailing interest rate.

RONA and ROE

Return on Net Assets (RONA) and Return on Equity (ROE) are the same measure using different numbers on the financial statements.

Net assets in our example company are –

$$\text{Fixed Assets} + \text{Investments} + \text{Current Assets} - \text{Current Liabilities} - \text{Long Term Liabilities} = \text{Net Assets}$$

$$\text{R } 5\,028\,000\,000.00 + \text{R } 2\,120\,000\,000.00 + \text{R } 775\,000\,000.00 - \text{R } 1\,270\,000\,000.00 - \text{R } 3\,102\,000\,000.00 = \text{R } 3\,551\,000\,000.00$$

Return is the Net Income of R 1 779 000 000.00

Therefore:

$$\text{RONA} = 1\,779\,000\,000.00 \div \text{R } 3\,551\,000\,000.00 = 50\%$$

and

$$\text{ROE} = \text{Net Income} \div \text{Owners Equity}$$

$$\text{R } 1\,779\,000\,000.00 \div \text{R } 3\,551\,000\,000.00 = 50\%$$

This must again be compared to other investments. In Zimbabwe this would be lousy.

Using Trend Analysis to anticipate and prepare for change in an organisation

Trend analysis is only statistically significant on historic data of sufficient volume. Using trend analysis on budgets or forecasts is irrelevant.

Six different trend analysis options are automatically available on the excel graphs and these are very useful for basic trend analysis.

More complex trend analysis should be carried out and interpreted by experts.

Key Performance Indicators (KPIs) for regular monitoring

From Wikipedia (http://en.wikipedia.org/wiki/Key_performance_indicators)

Key Performance Indicators (KPI) are financial and non-financial metrics used to quantify objectives to reflect strategic performance of an organization. KPIs are used in Business Intelligence to assess the present state of the business and to prescribe a course of action. The act of monitoring KPIs in real-time is known as business activity monitoring. KPIs are frequently used to "value" difficult to measure activities such as the benefits of leadership development, engagement, service, and satisfaction. KPIs are typically tied to an organization's strategy (as exemplified through techniques such as the Balanced Scorecard).

The KPIs differ depending on the nature of the organization and the organization's strategy. They help an organization to measure progress towards their organizational goals, especially toward difficult to quantify knowledge-based processes.

A KPI is a key part of a measurable objective, which is made up of a direction, KPI, benchmark, target and time frame. For example: *"Increase Average Revenue*

per Customer from £10 to £15 by EOY 2008". In this case, 'Average Revenue Per Customer' is the KPI.

KPIs should not be confused with a Critical Success Factor. For the example above, a critical success factor would be something that needs to be in place to achieve that objective; for example, a product launch.

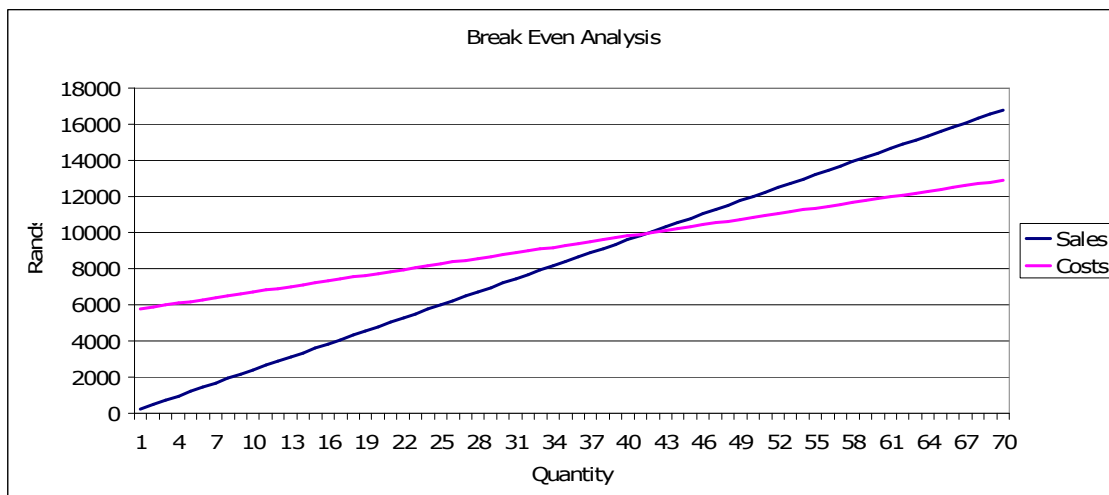
Performing basic variance analysis

Basic variance analysis is a report that compares actual performance against budget and calculates the difference between these two numbers for each item being reviewed.

It is usual for each significant variance to be explained and, if necessary, corrective action recommended.

Conducting Break Even Analysis: An essential practice in order to avoid being over-leveraged

Break even analysis generally determines the volumes at which your incomes and expenditures are equal and is best expressed graphically.



In the above graph, we can see that at a volume of approximately 42 our costs and sales will be equal.

These graphs are quickly and easily created using your desktop software.

Adopting a Strategic Approach to Financial Decision Making

Financial statements are an arithmetic summary of your performance over a period of time and a reflection of your wealth at a point in time. In other words financial statements will not exist until you do something in your company and the activities of your company should be preceded by a plan or budget.

Financial statements therefore reflect how close you are to your plan. Financial decision making is therefore a determination on how to allocate limited resources to achieve your plan.

The accountant's job in this process is to interpret the meaning of the numbers on the financial statements to non-financial people so that they can make informed resource allocation decisions.

Implementing a Value Based Management Strategy

*According to Valuebasedmanagement.net
(www.valuebasedmanagement.net/faq_what_is_value_based_management.html)*

Value based management is the management approach that ensures corporations are run consistently on value (Normally: maximising shareholder value) and includes all three of the following –

1. Creating value through strategy.
2. Managing for value (governance, communication, leadership, etc).
3. Measuring Value.

In my opinion, value based management is centred on the strength of character and leadership style of the CEO. If an organization's leader is a person of integrity this will permeate to the whole organization causing loyalty and ensuring integrity and honesty amongst all staff members. This simplifies adherence to the definition suggested by valuebasedmanagement.net.

If a lack of honesty pervades an organization no amount of rules will allow the achievement of a value based management strategy because errors and problems will be hidden away by staff and discovered too late for effective corrective action.

Considering the rate of return and the time value of money when making financial decisions

Money becomes more expensive over time if it is unutilised or underutilised. Simplistically you should be earning interest on your own money or paying off borrowed money as quickly as possible.

Projects that do not meet their deadline are in danger of making a loss due to the cost of money over time. Interest, charged on or not earned by money, directly erodes the profit of a company and should be factored into every calculation or budget.

Developing a sound Financial Strategy that is in line with Corporate Governance requirements

Every organization must be aware of corporate governance rules and the paperwork that goes along with them.

The nine week online Financial Mail Ernst & Young Governance, Risk and Ethics Course (available on <http://free.financialmail.co.za/bmie/governance/>) for a cost of R 649.00 is a good place to start.

Developing a sound financial strategy that is in line with corporate governance strategy demands an extensive knowledge of corporate governance requirements.

This course is too short to deal with corporate governance.

The latest developments in Tax Legislation & Financial Regulations - How will they affect your organisation?

Because of time constraints, we will briefly mention the effect of the international financial regulation that demands the inclusion of unrealised profits on investments in your financial statements.

Historically investments were valued at the "*lower of cost or net realizable value*" in financial statements. What this meant was that investments were reflected at what you paid for them unless their value reduced to less than the value you paid. This conservative approach makes a lot of sense.

The international financial regulation insists on the inclusion of unrealized profit on investments in your income statement and therefore your balance sheet claims to give a fair reflection on the performance of companies.

My concern is that once stock markets start delivering negative returns, companies will no longer be keen to apply this rule.

Finance and Technology: Easily increasing the range and quality of information available for analysis

Software developers are being forced, by consumers, to comply with standards that allow for the interchangeability of information between different systems. The common usage of Microsoft software has contributed to this standard and enabled Microsoft to develop systems that can analyse information from many other software packages.

Is there a single software solution?

No, and hopefully there never will be. The fierce competition in the software world has led to rapid development of useful, and sometimes free, software.

When choosing software for your applications a major consideration should be the availability of local support for that software. The best software solution for your organization is one that is properly supported by a local vendor.

A single software solution is no longer relevant because of the ability that software has to share and transfer data.

Many companies have developed software solutions that create user interfaces in front of and between different software solutions.

The task of companies has therefore changed from one of finding a single software solution to finding a way of making the various software packages in use look like a single solution to the user.

Tips, tools and techniques for Centralising, Accessing, Storing and Archiving Data

Relational database tools like Microsoft Access have opened up the ability of users to create relevant data warehouses that link financial and non-financial data, on their desktop machines. These data warehouses are easily linked to live data which negates the need to collect and correct data before producing a report.

This has led to easy access to reports that assist in well informed and rapid decision making and removed the need for qualified staff to constantly create monthly management reports.

The move from report production to information analysis has caused those companies, which have taken advantage of this, to grow.

The skills and knowledge required for the successful use of desktop software can be purchased through the employment of appropriate staff or trained to existing staff.

Many useful courses, that teach the use and application of desktop software, are offered through CBM training (www.cbm-training.co.za).

The 'mobile' office environment: Why data portability and availability are both crucial

Cell phones and laptops with 3G cards have created an environment where your office is where you are.

Free virtual private network (VPN) software now allows access to your central data from anywhere in the world. Visit the Hamachi web site (www.hamachi.cc) to download your own free VPN software.

It may take awhile to convince your IT department to adopt VPN's, but the effort is worth it.

An interesting effect of the mobility of the office environment has been the ability for certain individuals to work from home. This has been particularly useful to specialist professionals who need to provide their skills to many environments, either as consultants or employees in large organisations.

Decision making that requires access to current data is now possible by senior management that is spread across the globe with laptop based internet conferencing being part of the deal.

Data security/flexibility - How safe/easy is it to transfer information electronically?

Hackers and virus creators although still dangerous, have caused software developers to focus on security and access to data. Data security is now greater than it ever was and, once past the security checks, modern software, in trained hands, provides the flexibility required by most users.

A Final Word

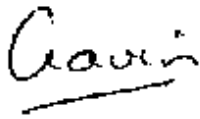
Thank you for your attendance at this short finance course. Hopefully it has opened up some doors to allow you to investigate further.

If you wish to discuss any of the items covered by this course, please feel free to contact Gavin Julyan through his web site (www.julyan.biz).

The following pages contain an elective assignment that you may complete and submit to CBM training for marking.

There is also a list of all web sites referred to in this manual.

Have fun



Gavin Julyan
+27 (0)82-412-7445
gavin@julyan.biz
www.julyan.biz

Elective Assignment

You have decided to control your personal finances by keeping financial records of your activities. You have R 10 000.00 in the bank, you owe R 4 000.00 on your credit card, your house is worth R 1 300 000.00, you have a bond of R 870 000.00, your car is worth R 194 000.00, you owe R 122 000.00 on your vehicle and the contents of your house are have recently been valued at R 750 000.00.

Your take home salary after deductions is R 31 000.00 per month and you have the following monthly expenses –

Expense	Minimum Payment	Full Payment
Bank Charges	R 220.00	R 220.00
Credit Card Payment	R 400.00	R 4 000.00
Bond Repayment	R 8 500.00	R 870 000.00
Car Repayment	R 13 100.00	R 122 000.00
Food, etc	R 3 000.00	R 3 000.00
New TV set	R 8 000.00	R 8 000.00
Entertainment	R 1 500.00	R 1 500.00
School Fees	R 2 000.00	R 2 000.00
Car Service	R 2 500.00	R 2 500.00
Clothing	R 2 800.00	R 2 800.00
Medical Expenses	R 12 800.00	R 12 800.00

Please produce an Income Statement, Balance Sheet and Cash Flow Statement, for the month, for your personal records.

Once complete, please email your answer, showing all workings and adding narrative explanations if necessary, to denise@cbm-training.co.za.

Web Sites and email addresses referred to in this manual

(in the order in which they appear)

Web Sites

Page	Address
Title	www.julyan.biz
14	www.succeed.co.za
16	http://steverrobbins.com
16	www.entrepreneur.com
22	www.investopedia.com
25	www.balancedscorecard.org
29	http://en.wikipedia.org/wiki/Key_performance_indicators
31	www.valuebasedmanagement.net/faq_what_is_value_based_management.html
32	http://free.financialmail.co.za/bmie/governance/
33	www.cbm-training.co.za
33	www.hamachi.cc

Email Addresses

Page	Address
Title	gavin@julyan.biz
14	bill@kbitraining.com
36	denise@cbm-training.co.za

Appendix

Contents of this appendix are –

- Example Balance Sheet
- Example Income Statement
- Example Cash Flow Statement
- Financial Flow Diagram

Example Balance Sheet**Example Balance Sheet**

as at 28 February 2007

	2007	2006
	R mill's	R mill's
Share Capital	825	825
Share Premium	450	450
Retained Income	2,276	497
Shareholders Equity	3,551	1,772
Long Term Liabilities	3,102	2,420
Capital Employed	6,653	4,192
Fixed Assets	5,028	75
Investments	2,120	4,127
Current Assets	775	785
Stock	280	229
Debtors	397	519
Bank	98	37
Current Liabilities	1,270	795
Creditors	863	764
Other Short Term Liabilities	407	31
Employment of Capital	6,653	4,192

Example Income Statement**Example Income Statement**

for the year ended 28 February 2007

	2007	2006
	R mill's	R mill's
Sales	8,287	2,823
Cost of Sales	4,806	1,637
Gross Margin	3,481	1,186
Other Income	666	1,339
Interest Received	397	986
Income from Investments	269	353
Extraordinary Item	0	2,078
Operating Income	4,147	447
Expenses	600	533
Advertising	54	68
Audit Fees	38	25
Bank Charges	31	45
Consumables	35	70
Depreciation	53	70
Entertainment	75	1
General Expenses	46	63
Insurance	98	12
Motor Vehicle Expenses	43	17
Printing and Stationery	50	85
Travel and Accommodation	77	77
Net Income before Interest and Tax	3,547	(86)
Interest Paid	892	751
Net Income before Tax	2,655	(837)
Taxation Paid	876	0
Net Income	1,779	(837)

Example Cash Flow Statement

Example Cash Flow Statement

for the year ended 28 February 2007

	2007
	R mill's
Opening Cash balance	37
Inflows	6,782
Net Income before Interest and Tax	3,547
Increase in Long Term Liabilities	682
Realisation of Investments	2,007
Net change in Working Capital	546
Decrease in Debtors	122
Increase in Creditors	99
Increase in Other Short Term Liabilities	376
Increase in Stock	(51)
Outflows	6,721
Purchase of Fixed Assets	4,953
Interest Paid	892
Taxation Paid	876
Closing Cash balance	98

Financial Flow Diagram

Financial Flow Diagram

