Planning for the Financial Success of your Business

Personnel Management

Business Description

Goals and Results

Business Offerings

Marketing

Finances

A CorNu Enterprise Educational Product
# Table of Contents

How is this module organized?...iii
Suggestions on how to use this module............................iv
The six-pointed star......................iv
Acknowledgement .......................iv

**Planning for the Financial Success of your Business** ................. 1

Planning For Business Success.2
Introduction..............................2
Types of business financial data 5
Summary.....................................6

**Financial Data—the Heart of the Business**.................. 8
Introduction..................................8
Business reports ...................... 10
Summary................................. 12
Other products and modules for sale............................... 19

**Glossary of Terms** ................. 20
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Credit Page

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How is this module organized?

We divided the Defining Your Business and its Goals into two major headings:

<table>
<thead>
<tr>
<th>1. Business Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Goals and Results</td>
</tr>
</tbody>
</table>

Within the module, the material is divided into these headings:

<table>
<thead>
<tr>
<th>Introduction</th>
<th>(Content of the section)</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to use this section</td>
<td>Uses</td>
</tr>
<tr>
<td>(Module content)</td>
<td>Summary</td>
</tr>
<tr>
<td></td>
<td>Celebrate</td>
</tr>
</tbody>
</table>

Celebrate!

It is important that you recognize your achievements and celebrate each small step. Phone some friends and celebrate it. We will offer you opportunities to celebrate at the end of each part of the module. Have fun with them. We had fun creating them for you.
Suggestions on how to use this module

This module is organized so that you decide:

- In what order you want to access the various titles
- What you want to ignore
- How many times you want to revisit the material

Just return to the Table of Contents and click on what you want to read or review again.

The six-pointed star

We have depicted business and a business plan as a six-pointed star. Each part of the star represents a major aspect of your business and an important element of a business plan. Together, they form a complete view of your business and your business plan.

We have carried this star throughout all the BizBite Consulting Group products and all the modules.

As each new section is begun or completed, the appropriate part of the star is colored and the rest of the star is colorless. This may help you to see how a specific topic relates to the whole business and to remind you that it is part of the whole.

Acknowledgement

All of the Universal Laws quoted at the end of each section of this module come from


They are from the supplement to the eight-audiocassette program
**Planning for the Financial Success of your Business**

### Introduction

There are two parts to the introduction of Financial Management

1. Planning For Business Success
2. Financial Data—the Heart of the Business

There are the two topics that we will discuss in this module.
Planning For Business Success

Introduction

The term financial management of a business means managing the invested money in the business. The invested money in any business will include:

- Physical assets—such as facilities, furniture, equipment, machinery, or fixtures
  These assets allow the business to function in a physical location.
- Working capital—invested in inventory, intellectual property, delivering services.
  The business revenue manages inventory, uses intellectual property, and delivers services in the process of earning for the business.

How well the business manages the money invested in the business determines:

- How profitable the business will be
- The return on investment (ROI) money to the owners
- The long-term success of the business

The focus of financial management in this module will be operational. That is, it will focus on what managers need to pay attention to on a daily and monthly basis to be good managers of the money invested in the business

  Many business managers assumed their positions without having formal training in business, accounting, or finance.
In this module we have designed the financial management presentation for managers regardless of their background or training.

The intent here is not to train you to be an accountant but to introduce you to ideas and methods of financial management and controls that will help your business.

For example:
Financial management concepts
Financial management methodologies
How to apply some common financial management methods
How to use and interpret financial information
Some options and approaches that may be applicable to your business
Questions you should ask of your accountant

As well, this material will assist small businesspeople to:

- Ask better questions of their accountant
- Be better able to interpret the financial reporting their accountant provides
- Make better business management decisions

**How to use this financial management module**

When you completed the internal business plan for your company, the final step was to prepare detailed financial projections. These financial projections show financial information related to the execution of the marketing plan but includes all of the fixed and variable costs of your business. Your accountant may have assisted you to complete this.

Financial management will help you to do a better job of preparing some of the information for your accountant. It will help you to analyze and interpret the results.
It is important for any business to use historical financial statements for reference and guidance in preparing financial projections.

It is essential that the business owners refer frequently (at least monthly) to the company's business plan by comparing the pro forma reports to the current actual reports (supplied by the accountant) so make the inevitable adjustments.

This financial data provides a financial picture of where the business is as of the date of the reports and where the business expects to be at various time intervals in the future.

Additionally, there are a number of other reporting tools, methods, and procedures that are useful to the manager monitoring the business's financial health. We introduced several of these along with their uses and application. Compare this information to the way that you presently operate your business.

We recommend that you refer to your business plan at least quarterly. It is not as likely that the business will stray too far from the predicted path in less than a quarter. However, the exception to this would be if the company was making a big change in its direction involving things such as:

- Completely new business style
- A new division of the company
- Introduction of major new offerings or perhaps the discontinuation of traditional offerings
- A radical change in advertising and marketing the company

Any change that has the potential for a major impact on the company (ether positively or negatively) is cause for a frequent reference to the business plan as well as checking how any changes affect the use of the money invested in the business. This is financial management of the business.
Types of business financial data

Business financial data and reports are tools that keep you on the right track when managing your business. Broadly speaking the data and reports fall into three categories:

- Planning and organizational tools
- Operational tools
- Summary and analysis tools

The financial data included in the internal business plan is of a planning and organizational nature. It should show where your business is now and where the business expects to be at intervals in the future.

An internal business plan does not usually demand as much detail as the external business plan that is also a planning and organizational tool designed for presentation to a lender. Nevertheless, the financial information in your business plan should include:

- Current audited financial statements if it is an existing business.
- A 3-year financial projection, first year by quarters, or remaining years annually
- The projection should include:
  - Pro-forma income statements (sometimes called operating statements)
  - Balance sheets
  - Capital expenditure estimates
  - Cash flow statement
  - Projection of any project
- Current development costs such as:
  - Consulting fees
  - Packaging design
  - Manufacturing
  - Design and preparation of marketing materials
- Explanation of the use of any investment funds and the expected results from the application of those funds
Financial Management will discuss in some detail operational methods, ideas, and tools that you will use on a daily basis in the financial management of your business.

It also will talk about summary and analysis tools, and the financial reports that you will use to measure and monitor the performance of your business.

Summary

The foregoing is only a general outline and overview of the purpose and use of financial data. Many business owners will require professional help in preparing, organizing, and interpreting their financial data. We strongly recommend this.

To be effective and relevant, review financial data regularly. Complete it in an organized way. Prepare a format—a schedule for reviewing financial information:

- Monthly
- Quarterly
- Annually

This material offers suggestions. Discuss with your accountant what an appropriate review and analysis schedule would be for your business.

Laws of Business—on organization

A business organization is a group of people brought together for the sole purpose of creating and keeping customers. Again, the main purpose overrides all else.
Celebrate!!

Take time for a family day of fun
Financial Data—the Heart of the Business

"Wherever you see a successful business, someone once made a courageous decision."—Peter Drucker

Introduction

Before you turn a wheel, sell a widget, or accept a contract, it is essential that you decide how you will keep track of the business transactions. Good accounting for your business is important because of legal and tax requirements.

A good accounting system provides you with the tools you need on a daily basis to take the pulse of your business and make the positive business decisions that will keep it healthy and on track.

It should be tailored to your business needs and be simple enough so that it can be maintained on a daily basis. This is how you control your business, know where it has been, and know where it is going.

Control is essential!

If you don't control your business, your business will control you!

If you don't have the training or experience to assess your needs and set up an adequate bookkeeping system, hire a competent, certified accountant to do it. It will be money well spent.
How to use this information

Financial data will explain the basic business reports necessary to run any business. The purpose is to familiarize you with these reports and their function in managing the business.

We will not attempt to do an in-depth analysis of the reports.

You will learn some common definitions of terms found on financial statements.

You will study some common tests for the financial health of the business—the tests that you should perform on a monthly basis.

The intent is to increase your understanding of financial terms and enable the daily monitoring of business activities. Beyond this, you should consult with your certified accountant for in-depth clarification of actual business data.

The new business owner will find this useful background information in working on the preparation of the Pro-forma financial statements.

The information will help in dealing with your accountant in the set up of the business and in interpreting the reports, the accountant prepares for you.

Besides, it will be useful in closely monitoring the start and on-going growth of the business.

The existing business owner will likely have some level of knowledge of the information contained in this section. However, frequently small business owners have never had the benefit of formal business management training. In that event, this material should be helpful in better understanding the reports prepared by your accountant. Moreover, it will be useful in monitoring business performance and making sound business decisions on a daily basis.
Business reports

Your business needs a specially designed accounting system. However, there is essential reporting that every business must have to effectively plan and direct the business. These key reports are the:

- Balance sheet
- Income statement
- Cash flow statement

Additionally, the business needs to perform regularly:

- Deviation analysis
- Break-even point (BEP) analysis
- A review of capital expenditure estimates

Correctly used, these reports and analyses act as budgeting tools, an early warning system, a problem identifier, and a solution indicator.

Use regularly and consistently because they are the backbone of the business.

Several hours every month must be spent checking and analyzing these reports.

The reports need not be very complicated and the level of detail will vary with every business. They are a reflection of your business and they are working models of your business.

The more you work with these reports on a monthly basis, the greater your understanding and insight will be as to what your business needs to be healthy and profitable.

A discussion of the some of these reports will follow.

Making business decisions based on poor, incomplete, or superficial information can be disastrous.

A business manager has two prime objectives and they are:

1. To make a profit
2. To pay the bills as they become due
The two key financial statements that convey this information are
1. The income statement (also called the profit & loss statement or the operating statement)
2. The cash flow statement

**Capital equipment list**

In addition to the above statements, every business should have a capital equipment list. A *capital equipment list* is a listing of the physical assets of the company.

<table>
<thead>
<tr>
<th>Examples of capital equipment are:</th>
<th>Administrative equipment</th>
<th>Manufacturing machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office furniture and equipment</td>
<td>Office furniture and equipment</td>
<td></td>
</tr>
<tr>
<td>Store fixtures</td>
<td>Store fixtures</td>
<td></td>
</tr>
<tr>
<td>Company vehicles</td>
<td>Company vehicles</td>
<td></td>
</tr>
</tbody>
</table>

Maintaining a capital equipment list is important because it helps to:

- Maintain control over depreciable assets
- Ensure that the reserve for replacement of capital equipment is maintained
- Ensure that the reserve for replacement of capital equipment doesn't become a slush fund to cover all sorts of other expenses other than what it was created for
- Facilitate the budgeting process as it comes time to replace equipment

None of these expected capital equipment items may wear out for at least several years. However, their cost is depreciable as their *life* is used up.

Assume that every asset in a company has a *useable life* and replaced at some point in the future.

An estimate is made of the expected life of the asset and a portion of the original value of the asset deducted each year. This deduction is called *depreciation*.

The depreciated value of an asset is the value after deducting the depreciation and it shows on the balance sheet.

The depreciation expense is the amount of depreciation deducted each year and shown on the income statement as a used up value.
The capital equipment list can be very simple and should include columns to record the following information:

- The date of purchase
- Item description
- Model numbers
- Cost price including sales taxes and installation fees

As well, columns should be included to record recovery and disposal costs in the event that sold items either before or after it is fully depreciated or costs are incurred in disposing of it.

For some types of equipment, such as vehicles, provide columns for detailing the maintenance and repair costs that are incurred over the life of the asset.

Many computer software accounting programs provide for managing the asset management information.

Summary

In this portion of the module—Financial Data, we have provided an overview of the financial reporting needed to monitor the financial health of your business.

We have discussed the relative importance of some of the reports and the need for keeping good records for capital assets.

As well, we have stressed the importance of seeking the advice of your accountant in the financial management of your business.

The main purpose of this financial data is to set the stage for the following sections:

1. **Financial analysis of operations**
2. **Operational financial management**
3. **Monitoring the financial health of the business**
4. **Consideration in financing, business planning, and risk management**

Below are two sample forms:
1. Capital Equipment Record
2. Capital Expenditure Request
Capital Equipment Record

Asset Group:___________ Equipment #:___________ Record Date:___________
Location:___________ Dept:___________ Req #: ______ PO#: __________

<table>
<thead>
<tr>
<th>Item Description: __________________</th>
<th>Make: __________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model# __________________ Serial# __________________ Purchase Date: ______</td>
<td></td>
</tr>
<tr>
<td>Supplier: __________________ Phone: __________________</td>
<td></td>
</tr>
<tr>
<td>Address: __________________ Fax: __________________</td>
<td></td>
</tr>
<tr>
<td>E-Mail: __________________</td>
<td></td>
</tr>
<tr>
<td>Contact: __________________ Title: __________________</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purchase detail:</th>
<th>Company: __________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>Address: __________________</td>
</tr>
<tr>
<td>GST</td>
<td>Phone: __________________</td>
</tr>
<tr>
<td>PST</td>
<td>Fax: __________________</td>
</tr>
<tr>
<td>Total Cost</td>
<td>E-mail: __________________</td>
</tr>
<tr>
<td>Install service fees</td>
<td>Contact: __________________</td>
</tr>
<tr>
<td>Total installed cost</td>
<td>Title: __________________</td>
</tr>
</tbody>
</table>

Accumulate depreciation ________
Depreciated value ________
% Depreciated ________

Installer/Service Provider:

Estimated Asset Life: ________________ Amortization Period: ________________
## Maintenance/Repair Record

<table>
<thead>
<tr>
<th>Date</th>
<th>Maintenance/Repair Description</th>
<th>Vendor</th>
<th>Cost</th>
<th>GST</th>
<th>PST</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Record additional maintenance and repairs on additional pages

## Asset Disposal and Expense

<table>
<thead>
<tr>
<th>Date of Disposal: _________________</th>
<th><strong>Asset purchaser:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal/selling price: __________</td>
<td>Name: ________________</td>
</tr>
<tr>
<td>GST</td>
<td>Address: ____________</td>
</tr>
<tr>
<td>PST</td>
<td>Phone: ______________</td>
</tr>
<tr>
<td>Total redeemed value: ___________</td>
<td>Fax: ________________</td>
</tr>
<tr>
<td>Less Disposal expense: ___________</td>
<td>E-mail: ____________</td>
</tr>
<tr>
<td>GST</td>
<td></td>
</tr>
<tr>
<td>Total Disposal expense: __________</td>
<td></td>
</tr>
<tr>
<td><strong>Net Asset cost recovery</strong></td>
<td></td>
</tr>
</tbody>
</table>
## Capital Expenditure Request

[Company Name]

ACE.# __________________________ Date: __________________

Authority for: ___________________ Capital expenditure _________ Major repairs _________

Department name: ___________________ Dept. # ___________________

Request authority for the following:

Supplier name: ___________________

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Labour</td>
</tr>
<tr>
<td></td>
<td>Materials</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
</tr>
<tr>
<td></td>
<td>PST</td>
</tr>
<tr>
<td></td>
<td>GST</td>
</tr>
<tr>
<td></td>
<td>Final total</td>
</tr>
</tbody>
</table>

Justification for expenditure:

Safety _______ Replacement equipment _______ Necessary repairs _______

Cost saving _______ Business expansion ________________________________

Civic code requirements __________________ Other ______________________

Payback period calculations:

Initial cost: _________________________________________________________

Annual savings [details attached]: _____________________________________

Payback period [cost + savings]: _____________________________________

Estimated date required: ___________________ Charge to:  ________[Dept.]_________

Requested by: ____________________ [Title]
a. Attach written estimates whenever possible.

b. Distribution:
   1. To Controller for approval
   2. To President for approval
   3. To Accounting for coding

c. Upon completion of the project, return to Accounting Manager.

Date Completed: _____________________ Dept. Manager _____________________________
This Capital Expenditure Request Form is included as an example of how to use a company internal document to justify the need to purchase an asset. It is a good idea for any business to use a form like this to:

Think through the reason for the purchase

- What will be accomplished by making the purchase
- How long it will take to recover the cost of the purchase

This form is part of the homework done by a manager prior to purchasing capital equipment. Estimates, product information, and attach anything else pertaining to the purchase to this form including in the Capital Equipment list file.

In a small business, the owner or manager of the business would be using this form. In a larger business with several departments or divisions, the department or division manager would complete the form and submit it with all pertinent background information to senior management and the Controller.

After approving and completing the purchase, record the details of the purchase on the capital equipment form.

---

**The Law of Money—of abundance**

There is an ample supply of money for all who want it. To get your share, decide to be rich, and obey the Laws of Cause and Effect as they apply to money.
Celebrate!!

A little golf is now in order
Other products and modules for sale

Other modules available on this site deal specifically with aspects of business planning research and analysis. For a complete, in depth treatment of operational financial management the BizBite Consulting Group product Financial Management is also available. For detailed information on the content of these products, please go to ‘Product’ on the menu bar on the web site.
Glossary of Terms

**Capital equipment**—Capital equipment is that equipment that you use to manufacture a product, provide a service, or use to sell, store and deliver merchandise. It is not equipment which will be sold in the normal course of business, but rather, it is equipment which will be used, wear out or be consumed by the business over a period of time in excess of one year.

**Depreciation**—Depreciation is a bookkeeping charge the purpose of which is to write off the original cost of the asset (less any salvage value), over time, by equitably pro-rating the depreciation charges over the expected useful life of the asset.