

Meeting the Mentor Sessions

Finance

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Objective of session

Complete the business plan cash flow
section

Up to now:

- Strategy / Vision
- Operational plan
- Marketing plan
- Human resources (next)

Putting it all together with financial
figures

Covering:

- Basic profit and loss
- Cash flow
- Sales forecast
- Cost of sales
- Gross profit
- Overhead / expenses
- Break even analysis
- Payback

Income statement = profit and loss from trading activities

- Sales made – matching costs
- Profitability
- Overhead structure
- Financing costs
- Profit available:
 - To re-investment & grow business
 - Pay out to shareholders

Cash flow is:

Cash flow =

Receipts (cash sales & accounts receivable payments)

Minus

Payments (all expenses, purchases, equipment, taxes & finance costs)

Profit & Loss - Cash flow

	<u>Rand</u>	
Sales	200	• Marketing / sales plan
Cost of goods sold	140	• Operational plan
Gross profit	70	
Sales & distribution costs	20	• Marketing plan
Administration costs	10	• Operational / human resource
Earnings before interest & tax	40	
Financing costs	12	• Financing
Taxable profit	28	
Taxation	8	• Legal / administration
Shareholders profit	20	

Sales Forecast

	<u>Target market / market segment</u>	<u>Number of units sold</u>	<u>Average price per unit</u>	<u>Total sales</u>
1	House wives			
2	Stores			
3	Taverns			
4	Schools / churches			
5	Other sales people			

To be done for each month – taking account of growth & other fluctuations

What is Cost of Sales

- Materials
- Wastage
- Energy
- Man power costs

Any resources used directly in
manufacturing / making goods / services for
sale

Cost of Sales Forecast

	<u>Target market / market segment</u>	<u>Number of units sold</u>	<u>Average price per unit</u>	<u>Total sales</u>
1	House wives			
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To be done for each month – taking account of growth & other fluctuations

Gross profit =

Sales – Cost of sales

- Which target markets generate the most profit?
- Does the 80 / 20 rule apply?

Gross Profit % =

$$\frac{\text{Gross Profit}}{\text{Sales}}$$

- Are all target markets (=) profitable?
- Does the 80 / 20 rule apply?
- NB used to calculate break even point

Overhead / expenses

- Sales Marketing costs
 - Advertising
 - Distribution / transport
 - Salaries
- Administration costs
 - Accounting / legal
 - Banks costs
 - Communication / tele / internet etc
 - Office / Stationary / Cleaning
 - Rental

Break Even

Sales level that cash outflows = cash in flows

$$BE = \text{Total expenses} / \text{gross profit \%}$$

Pay back

How long will it take for an investor to get his money back – usually expressed in years and months

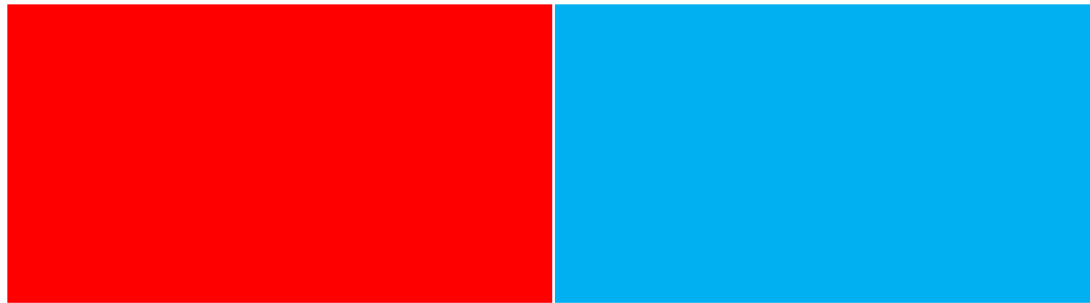
Investment amount / Monthly net cash flow

Testing the assumptions.

Critically Important

Least Important

Most
Uncertain



Most
Certain

Other considerations

- ID key economic indicators (KPI)
- Setting targets
- Budgets
- Develop & plan an accounting system to generate meaningful management information
- Regulatory reporting / returns
- KISS

Success Rules

- **Focus** on growing only profitable sales
- Keep costs to the bone
- Cash in flows $>$ cash out flows
- Limit use of debt
- KISS