Introduction to Finance

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Welcome to the Introduction to Finance Module
At the end of this module, participants will be able to:

- Discuss the high level overview of Financial Management.
- Discuss the concepts of Financial Management.
- List the processes and procedures for financial monitoring.
- Discuss financing and investment decisions.
- Discuss the concepts of Business Accounting.
- Discuss the concepts of Budget Planning and Management.
- Discuss the concepts of Asset Management.
- Discuss the concepts of Supply Chain Management.
- Discuss the concepts of Inventory Management.
- Discuss the concepts of financial reporting and auditing
- Discuss the concept of BBBEE Code.
Financial Management

- Goal of financial management
- Understanding financial statements
- The analysis of financial statements
- Financial planning
- Time value of money
- Risk and return
- The valuation of financial assets
High Level Overview of Financial Management

- Transparency & Clear Decision Structure
- Clear Policies & Procedures
- Ethical Standards
- Strong Financial Accounting & Monitoring Systems
- Responsiveness / Accountability to Stakeholder Needs
- Timeliness
- Relevance
- Quality, Innovative Reporting

- Understanding of Knowledge Needs
- Efficient Use of Knowledge
- Fertile Environment for Ideas
- Proper Technology Infrastructure

- Understanding the Nature of Costs
- Cost Management
- Cash Flow Management
- Fundraising / Sustainability

- Activities Related to Mission
- Appropriate Activity Scheduling, Scale & Monitoring
- Stakeholder Expectations
- Qualified Staffing
What is Financial Management?

- Sound financial management is a crucial aspect of any thriving business.
- The management of the finances of a business / organisation in order to achieve financial objectives.
- Taking a commercial business as the most common organisational structure, the key objectives of financial management would be to:
  - Create wealth for the business
  - Generate cash, and
  - Provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested
- Professionals who possess basic financial management knowledge and skills are often at an advantage in the talent market, and by the same token, entrepreneurs seeking to grow a business need to possess these skills to ensure success.
Role of Financial Management

- The planning,
- Directing,
- Monitoring,
- Organizing, and
- Controlling of the monetary resources of an organization.
Objectives of Financial Management

- Fix the target of finance manager.
- Achieve different objective of financial management.
- Understand the basics of finance and financial management within a business context, including:
  - How to budget,
  - Read financial statements,
  - Conduct a cash flow analysis,
  - Cut costs and perform several other finance-related functions.
There are three key elements to the process of financial management:

1. Financial Planning
2. Financial Control
3. Financial Decision-Making
Financial Planning

- Management need to ensure that enough funding is available at the right time to meet the needs of the business.
- In the short term, funding may be needed to invest in equipment and stocks, pay employees and fund sales made on credit.
- In the medium and long term, funding may be required for significant additions to the productive capacity of the business or to make acquisitions.
Financial Control

Financial control is a critically important activity to help the business ensure that the business is meeting its objectives. Financial control addresses questions such as:

- Are assets being used efficiently?
- Are the businesses assets secure?
- Does management act in the best interest of shareholders and in accordance with business rules?
Financial Decision-making

The key aspects of financial decision-making relate to investment, financing and dividends:

- Investments must be financed in some way – however there are always financing alternatives that can be considered.
- For example it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers.
- A key financing decision is whether profits earned by the business should be retained rather than distributed to shareholders via dividends.
- If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.
Financial Performance Management & Control

- Understand financial statements
- Measure financial performance
- Cost behaviour
- Develop the financial plan
- Exercising financial control
Financing & Investment Decisions

- Capital budgeting techniques
- Cost of capital
- Financing
- Dividend policy
Accounting Terminology

- The Balance Sheet
- Liabilities and Equity
- Profit and Loss Statement (Income Statement)
- Cash Flow statement
- Financial management failure and success factors
- Centralised vs decentralised financial management
- Analysing various accounting ratios
Business Accounting

- Demonstrate an understanding of basic accounting principles and the bookkeeping process.
- Display understanding of the double entry bookkeeping process.
- Demonstrate an understanding of the major journals in the bookkeeping process.
- Understand the bank reconciliation and its importance for businesses.
- Display an understanding of VAT.
- Demonstrate an understanding of the closing entries and Trial balance
- Balance in the bookkeeping process.
- Prepare financial reports and forecast cash flows
Budget Planning and Management

- Aligning budgets with management plans
- Format of budget submission
- Preparing a budget
- Budget and budgeting cycle
- Different budgeting processes
- Strengths and weaknesses of various budgeting techniques
- Cash flow projections
- Forecasting
Asset Management

- Revenue management
- Tracking Business Expenses
- Using Accounting Software
- Ethical issues surrounding accounting
- Managing Profit Performance
- Comparing Investment Opportunities
- Credits vs. Debits
- Bookkeeping
Monitoring Financial Processes and Procedures

- Variance analysis early warning system
- Analysis and interpretation of financial statements
- Apply ratio analysis and percentage of financial statements
- Advantages and limitations of ratio analysis
- Break even analysis
- Investment decision

**Ratio Analysis**

- **Liquidity Ratios**: They measure the firm's ability to meet current obligations.
- **Leverage Ratios**: These ratios show the proportion of debt and equity in financing the firm's assets.
- **Activity Ratios**: They reflect the firm's efficiency in utilizing the assets.
- **Profitability Ratios**: These ratios measure overall performance & effectiveness of the firm.
Monitoring Financial Processes and Procedures (continued…)

Ratio Analysis

Liquidity
- How solvent is the business?
  - Quick ratio
  - Acid Test: Current assets - stock : liabilities
  - 1:1 seen as ideal
  - Assets to liabilities
  - Current Ratio
  - Too high - too much stock
  - Too low - risk of not being able to pay your way

Investment/Shareholders
- What is the extent of the risk?
- What is the likely return?
  - Generally, higher the better
  - Earnings per share
  - Dividend Yield

Profitability
- Profit in relation to sales/assets
  - Profit Margins
  - Return on Capital
  - Higher the better (in general)

Financial position
- Loans/Capital
  - High gearing - Loans > Capital

Gearing
- Debt to equity ratio
- Leverage
- Financial leverage

Other financial ratios:
- Debt to equity ratio
- Debt to capital ratio
- Interest coverage ratio
- Times interest earned ratio

Using assets to generate profit
- Asset Turnover
- Stock Turnover
- Debtor Days

- Increased efficiency?
- Poor customer satisfaction?
Financial Reporting & Auditing

- Review Financial Reports
- Overview of the auditing function
- The external audit process
Management of Working Capital

- Inventory management
- The management of accounts receivable
- Cash management
Supply chain management (SCM) is the management of the flow of goods, flow of cash, and flow of information internally and externally of a company or a group of companies that share the same value chain.

- Competitive advantage created by logistics;
- Logistics and supply chain strategy;
- Supply chain planning
Supply Chain Management (continued…)

- Tactical logistics management and supply chain integration;
- Financial aspects of logistics and supply chain management;
- Forecasting and demand management;
- Network integration;
- Managing international supply chain (import and export management)
Inventory Management

- What is an inventory
- What is Inventory Management
- What are the key principles of Inventory Management
- Why it is important to keep stock
- Understanding of economic benefits and business principles
- Inventory policy and procedures
Inventory Management

- Role of Laboratory Manager and Stores Clerk
- Ordering process
- Stock rotation
- PFMA as a tool for financial management
- Stocktaking and stock control
- Stores personnel function, Tasks and Responsibilities
- Record Keeping
- Categorisation of Inventory
- Purchasing, Re-order Levels and Reserve Stock
- Stores Layout and Design
- Expiry Dates and Damaged Stock
Inventory Management

- Stock Counts and Accuracy
- Counting Methods
- Treatment of Discrepancies
- Checking the Quality of Deliveries
- Checking Suppliers Invoices and Delivery Notes
- Signing in and out
- Forecasting future demands
Inventory Management (continued…)

- Demand, Trends and Seasonal variations
- Re-order Levels
- Managing Lead times
- Just-in-time (J.I.T) Method
- Controlling of Return and Back Orders
- Security of Stock and Stores
- Explain the effect of Shrinkage and Losses
- The effect of stock control on Working Capital and Cash Flow
To establish a legislative framework for the promotion of black economic empowerment;

To empower the Minister to issue codes of good practice and to publish transformation charters;

To establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.
Activity: Exercise

**Suggested Time:** 30 minutes

Turn to page 46 in your participant guide for Group 1 and page 49 for Group 2.

In groups, refer to your activity, work through and record answers.

**Suggested Time:** 15 minutes

Present back to the class and discuss.
Financial management is concerned with the acquisition, financing and management of assets.

Financial management guides the Finance Manager to make optimum position of funds.

Manage finances so as not to overspend and company must remain prepared for all expenditures, as well as profit distributions.

Financial management responsibilities affect all aspects of business.

Study company balance sheets and all sensitive facts should be watched which can endanger the business into loss.
Inventory management is important from the view point that it enables to address two important issues:

- The firm has to maintain adequate inventory for smooth production and selling activities.
- It has to minimize the investment in inventory to enhance firm's profitability.

Inventory management helps in maintaining a trade off between carrying costs and ordering costs which results into minimizing the total cost of inventory.

Inventory management facilitates maintaining adequate inventory for smooth production and sales operations.

Inventory management avoids the stock-out problem that a firm otherwise would face in the lack of proper inventory management.

Inventory management suggests the proper inventory control system to be applied by a firm to avoid losses, damages and misuses.
Supply chain management involves optimizing your operations to maximize both speed and efficiency.

SCM can be applied to customer satisfaction and company success.

SCM impacts customer service by making sure the right product assortment and quantity are delivered in a timely fashion. Additionally, those products must be available in the location that customers expect. Customers should also receive quality after-sale customer support.
A company has to know where their money is coming from and where it's going out. That's the importance of accounting and of the financial statements.

Budgets usually represent a detailed analysis of how a company expects to spend money in future time periods.

A major benefit to using a business budget is the ability to limit how much money is spent on certain operations.

Budgets usually count expense accounts to ensure that capital is not wasted on unessential items or the company does not overpay for economic resources used in the business.
References

- Business Management : Contemporary approach by Cecile Nieuwnhuison and Dirk Rossouw
- Supply Chain Logistic Management: Donald J Bowersox’ David J.Clo, M. Bixby Cooper, John C.Bowersox
- Financial Accounting Volume 1 by PR Berry; ES DE Klerk; F.Dousin; JS Jansen Van Rensburg; RN Ngcobo; A Rehninkel; D Scheepers; D. Scott
- Principles of Managerial Finance Ninth Edition  by Lawrence Gilman

Links

- Account Learning: http://accountlearning.blogspot.com/
- Small Business: http://smallbusiness.chron.com/
- http://www.usanfranonline.com/
- http://www.businessdictionary.com/
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Questions