COURSE 8

FINANCIAL MANAGEMENT

Introduction

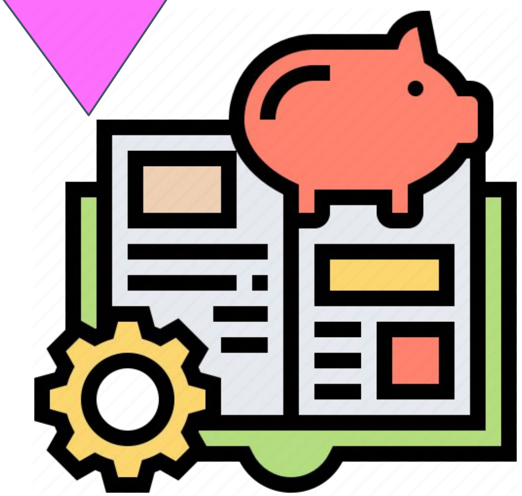
In this course you will learn about how to improve your money handling behaviors, how and where to save money, how to handle money at hand, how to succeed in getting the right funds for your business and how to manage money in your business so that your business can grow.

Learning objectives

Upon completion of this course you will be able to:

1. Determine the initial capital requirements and financial needs to set up your enterprise.
2. Determine the short and long term capital needs of your enterprise.
3. Learn how to draft a budget
4. Learn how to record your business transactions.

Financial Literacy refers to the set of skills and knowledge that allows individuals to make inform and effective decisions regarding money matters.



Being financially literate means that you understand the basic financial principles such as:

- Saving your money.
- How and where to open an account
- Keeping proper records of your financial transactions.
- How to access financial assistance

Financially Literacy is important because;

- Individuals who are financially literate make good decisions on money matters
- Have money to meet emergencies and for other important things.
- You will also be able to convince others to lend you money.
- There is a big chance that they will not make poor financial decisions that can harm their families and their businesses.

Lesson 1: Budgeting

A budget is a plan with numbers that shows how you will use your estimated future income to cover your estimated expenses. The future can be in terms of weeks, months, or even years.

A budget is one major tool to manage **income** and **expenditure**.

Expenses: Are costs or money going out of your account that is to say money spent on buying or paying for things. For example equipment, raw materials, salaries among others.

Income: Is the money coming into your business that is to say money you receive when someone buys your products, money from debtors or funds you receive as grants.

When budgeting try to separate your personal expenditures from your business expenditures, that is to say separate money you're spending on your personal needs/wants from that that's going to be spent on the business needs.

- **Personal Budget**

  This is inclusive of all personal needs/ wants (items) that you're going to spend money on for example shoes, perfume, food, clothes among others

- **Business Budget**

  This is inclusive of all business needs/ wants (items) that you're going to spend money on for example new stock, package material, transportation of goods among others.

Many small businesses try to operate without a formal budget. Even some businesses that have a budget seldom consult it, meaning they are not gaining the business advantages that they could be through budgeting. For new businesses or business ideas, a budget is like a roadmap that can help them set goals and assess the validity of their business.

For the small businesses, different types of budgets can be drafted to monitor various financial aspects of the business. **These include;**

Capital budget

The capital budget helps you figure out how much money you need to put in place new equipment or procedures to launch new products or increase production or services. This budget estimates the value of capital purchases you need for your business to grow and increase revenues.

Operational budget

An operational budget is the most common type of budget used. It forecasts and tries to pretty closely predict the business' yearly revenue and expenses. This budget can be updated with actual figures on a monthly basis and then you can revise your figures for the year, if needed.

Cash flow budget

A cash flow budget details the amount of cash you collect and pay out. This is generally tallied on a monthly basis, but some businesses tabulate this weekly. In this budget, you track your sales and other receivables from income sources and contrast those against how much you pay to suppliers and in expenses. A positive cash flow is essential to grow your business.

How to Develop a Budget for a new business

- ✔ Determine your expenses/costs. (how and where do you want to spend money)
- ✔ Create budget categories that are appropriate for you (Which type of budget is for your business?)
- ✔ Allocate your income across your budget items/expenses.

Budget template for new business/business idea

ITEM/EXPENSE	QUANTITY	RATE	AMOUNT
TOTAL			

How to Develop a Budget for improving your business

- Determine your income and expenses. (Where does your money come from and how and where do you spend it?)
- Create budget categories that are appropriate for you
  - (Which type of budget comes for your business?)
- Set your financial goals (Identify things you want to accomplish within a particular time frame that cost money. Some are not finance-related)
- Allocate your income across your budget items/expenses.

Budget template for improving your business

INCOME		AMOUNT	
TOTAL			
ITEM/EXPENSES	QUANTITY	RATE	AMOUNT
TOTAL			

How to stay with in your budget

- ❖ Remind yourself often what you planned to spend
- ❖ Put in the budget something for unexpected spending needs (Miscellaneous)
- ❖ Keep savings out of reach so you do not spend them at will.
- ❖ Keep track of what you spend. Record all transactions

Importance of a budget

- Manage your money effectively
- Allocate appropriate resources to activities
- Monitor performance of the business
- Improve decision-making
- Identify problems before they occur - such as the need to raise finance or cash flow difficulties.
- Plan for the future.

Lesson 2: Funding (Source of finances)

Now that you have a better sense of how much capital you are going to need, it is time to think about funding your small business idea. Several funding options may be available to you, including:

Seed Financing

When you resort to see financing, it means that you you're your business idea from your own pockets, usually with a relatively small amount of personal funds. This may include money saved from other forms of income you may have. This funding option is often referred to as ownership capital/owners equity funding.

Family funding

Relatives and friends may agree to give or lend you money to start your business. They are typically less stringent regarding your credit history and they may have lower expectations regarding their return on that investment. It is important that you carefully choose the ones whom you can ask for start up money. They may recall their funds at times when the business is least able to return them, or they may demand a greater or additional involvement in the business which was not a part of your plan.

Partnerships

When taking advantage of family funding to fund your business it is advisable that you structure the deal with the same legal scrutiny you would with anyone else or it may create problems down the road when you look for additional financing, a written agreement between the partners listing duties, responsibilities, amount of capital one has to contribute and also the proportion of profit sharing should be drafted.

This will help if differences should arise regarding who should do what and who should get what out of the business.

Grants

Grants are made available through governments and through nongovernmental organizations (NGOs). Governments and NGOs aim to support small business development with a focus on innovation. Therefore, often times you will see grant money available for innovative start-up small businesses. This is a great source of funding, as it is “free money”; however, grants tend to be very competitive and closely define how the money is supposed to get spent.

Loans

Loans are usually offered by commercial banks and other financial institutions. They can be a main source of financing, not only to business entrepreneurs, but also to the community at large for whatever purpose intended.

Loans are offered at different rates of interest. It is important that in your financial planning you take into account the interest rate and repayment schedule. You must decide the repayment intervals and how much you will be able to pay at each interval. That is how often will you be able to make a payment on your loan and how much

Various sources of credit/loan include;

Commercial Banks

Bank loans come in all shapes and sizes, from microloans, typically offered by local community banks, to six-figure loans usually offered by major national banks. Large loans are much easier to obtain when backed by assets (e.g., home equity) or third-party guarantors (using a co-signer). If you obtain a line of credit rather than a fixed-amount loan, you don't start paying interest until you actually spend the money

Microfinance Institutions (MFIs)

MFIs are organizations that provide financial services to the less well to do members in a community. The clients who are served by MFIs are usually more vulnerable and often poorer than the traditional bank client. Credit is normally group guaranteed, so small scale businesses can access financing even without collateral.

Savings and Credit Cooperative Organizations (SACCOs)

SACCO’s are member based cooperatives where individuals come together for the purpose of saving their money together. SACCO’s can only collect money from amongst their own members, but can lend even to other members of the general public.

Lesson 3: Bookkeeping

Book keeping is the process of recording your or a business' financial transactions and the first basic step of
the accounting process. The accounting process involves classifying, reporting and analyzing of data and none of it can take place if there is no organized and accurate bookkeeping.

Let’s face it, bookkeeping is important in any business small or large sized. Sad to say, this process is often neglected which has a direct adverse effect on the business. In fact, some businesses fail due to financial mismanagement while other have weak or no accounting records or books on hand.

While bookkeeping, there are a few things a business should focus on which include;

- Products in stock
- Money spent
- Money earned
- Debts that you owe
- Debts that are owed to you

Some of the advantages of bookkeeping are as follows:

- You can see how much money you have in your business at any given point.
- You can spot financial problems before they get out of control.
- You can track your business over time and compare your performance in the present with how well you did in the past.

Some of different bookkeeping forms include;

Cash Book

This is where the money that comes in and the money that goes out of business is recorded.

CASH BOOK	
Left Side = Money In (or income)	Right Side = Money out (or expenditure)
1st Column = Date: the day that you received the money 2nd Column = Source of Income 3rd Column = How much money	1st Column = Date: the day that you pay the money 2nd Column = What the money was spent on 3rd Column = How much money

Table 1: Example of a blank Cash Book

DATE	DESCRIPTION OF MONEY IN	AMOUNT		DATE	DESCRIPTION OF MONEY OUT	AMOUNT

Table 1a: Example of a filled Cash Book

DATE	MONEY IN	RATE	AMOUNT	DATE	MONEY OUT	RATE	AMOUNT
20-Jan-09	Sold 10pcs of bracelets	5000	50000	1-Jan-09	Purchased 1pc beads	20000	20000
25-Jan-09	Sold 14pcs of bracelets	5000	70000	7-Jan-09	Purchased 2pcs of beads	20000	40000
29-Jan-09	Sold 20pcs of bracelets	5000	100000	16-Jan-09	Transportation	10000	10000
	TOTAL		**220000**		**TOTAL**		**70000**

Profit and Loss Statement

A Profit and Loss Statement helps you to keep track of your money over a longer period of time. You can use the monthly results from your Cashbook to fill in the Profit and Loss Statement. Recall the calculations that we learned for Revenue and Income/Profit in last week's Pricing lesson. We will use those calculations here to fill in the chart. You can find the monthly profit or loss by subtracting the monthly expenses from the sales revenue. You may have a profit, or, if your expenses are greater than your revenue, you may have a loss. In the row for Accumulated Profit or Loss, you will add up your Profit or Loss per Month each month to find the current total.

Month	***Jan***	***Feb***	***March***	***April***	***May***	***June***	***July***	***Aug***
Sales Revenue								
Expenses								
Profit or Loss per Month								
Accumulated Profit or Loss								

Cash Flow Plan

The Cash Flow Plan is a bit like a combination of a Cash Book and a Profit and Loss Statement, but it allows you to clearly separate Cash In from Cash Out. Demonstrate filling out the Cash Flow Plan for an example business, drawing out a large version of the chart on the blackboard. Subtract Total Monthly Cash Out from Total Monthly Cash In to find the Closing Balance. The closing balance will always be the opening balance for the following month.

	Months	*Jan*	*Feb*	*March*	*April*	*May*	*June*
Cash In	*Opening Balance*						
	Cash Sales						
	Other money In						
	Total Monthly Cash In						
Cash Out	*Cash Purchases*						
	Other money Out						
	Total Monthly Cash Out						
	Closing Balance						

Inventory Record

An Inventory Record: keeps a record of physical items that your business has at any point in time. It includes what you had at the beginning of the year, what has been added to those items through purchases and production and how much has left your business through sales, consumption, planned use or losses.

No.	Description /Item	Qty	Beginning	Purchases	Sales	Loss
1.	Computers	5	5	2	1	1
2.	Printers	6	2	4	2	2

Credit book

A Credit Book: Keeps the record of all the money the customers have to repay for goods and services purchased on credit.

CUSTOMER CREDIT BOOK					
DATE	DESCRIPTION	CREDIT	PAYMENT	BALANCE	SIGNATURE
June 2, 2011	5 litres of oil	30000	0	30000	
June 15, 2011	2 Baskets of tomatoes	10000	0	10000	
June 20, 2011	3pcs baking soda	6000	0	6000	
	TOTAL	46000	0	46000	

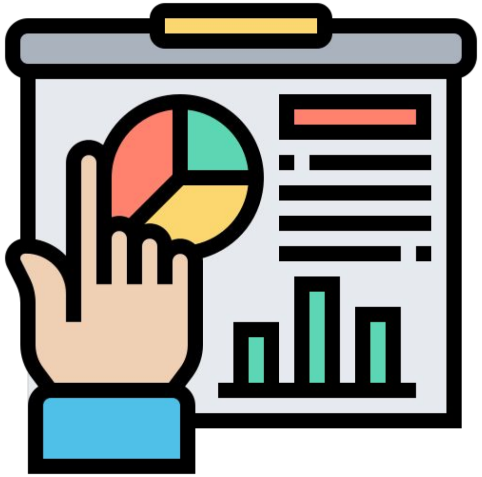
Debtor book

A Debtor Book: Keep a record of all whom the business owes (those who have supplied goods and services to the business on credit).

DEBTOR BOOK				
DATE	DESCRIPTION	DEBT	PAYMENT	BALANCE
June 2, 2011	5 cartons of flour	30000	0	30000
June 15, 2011	2 kilos of sugar	10000	0	10000
June 20, 2011	3pcs of salt	900	0	900
	TOTAL	**40900**	**0**	**40900**

Reflection

Other forms of bookkeeping include;



Receipts, invoices among others. Book keeping is very important to the business but the form of book keeping depends on the business' transaction/operations.

Lesson 4: Saving

Saving is putting money aside to be used in the future. When you keep your money somewhere, for some purpose, then you are practicing savings. Savings can also be defined as a portion of income not spent on current expenditures.

Saving is not done once but over a period of time. You may have to sacrifice current luxuries to save for a better future.

It is important to save because;

- Since a person does not know what will happen in the future, money should be saved to pay for unexpected events or emergencies. This may include medical emergencies and business emergencies or personal car may break down. Without savings, unexpected events can become large financial burdens. Hence, savings helps an individual to become financially secure.
- Saving allows you to meet your basic business and personal needs.
- It also allows you to invest or reinvest in your business.
- Many organizations that provide loans will want to see that you have the capacity to save before trusting you with their money. Hence saving can help you to acquire loan for investment or expand your business.
- Savings allow you to keep your money safe. If you save in a bank for instance, the safety of your money is guaranteed.

Where do savings come from

1. Saving goes from putting a portion of our income aside. Either from a wage payment, salary, business income or handouts.
2. By cutting down on expenditures that is reducing on the cost of our personal needs and wants, reducing excessive spending/extravagance

Saving Plan

A savings plan is a critical tool for handling money to meet short, medium, or long term financial goals.

How to Make a Savings Plan

- ✔ Set saving goals.
- ✔ Set a saving target.
- ✔ Figure out how much you need to save over what period of time to meet your saving goals.
- ✔ Figure out how much you are earning over this period of time, the regularity (or irregularity) of your earnings, and how much you can expect to save on a regular basis.
- ✔ Identify which expense you can cut back on and reallocate this amount to your savings.
- ✔ Decide where you will save. Identify places to save, available savings products, and their pros and cons

Below are factors to consider when choosing where to save;

1. **Safety:** Is the place you are saving your money secure and is there low risk for loss?
2. **Access/Ease of use:** can you access the institution and your savings all the time?
3. **Deposit requirements:** for the savings account such as minimum balance.
4. **Terms of use:** In some savings accounts, you are required to withdraw only 3 times in a year.
5. **Cost:** this may include account maintenance fee and withdrawal charges
6. **Liquidity:** Some Financial Institutions like SACCOs and other banks always are short of cash to make payment to their clients. ·
7. **Interest:** Some Financial Institutions pay high interest on your savings

The possible places to save include;

Home/piggy bag. Saving money at home is easy and near but very unsafe, and the fact that the piggy bank is at your disposal it's easy to access the savings before planned time.

Bank. Saving with a bank is more secure, there's a high chance of qualifying for a loan, the bank gives interest for saving with them hence more money on time of withdraw. However saving with a bank requires a minimum balance, there's less access and it's a long process of withdrawal.

Microfinance Deposit Taking Institutions (MDIs) MDIs are financial institutions licensed by the Bank of Uganda (BOU) to offer a range of financial services to the general public, some of the licensed MDIs in Uganda include; FINCA (U) Ltd (MDI), Pride Microfinance (U) Ltd (MDI) and UGAFODE Microfinance (U) Ltd (MDI) These provide increased savings security since they're regulated by Bank of Uganda however there a few MDIs in Uganda.

Savings and Credit Cooperative Organization (SACCOs): A Sacco is owned, managed and run by its members who have a common bond and interest. These are the most common saving portal for small businesses, they offer high interest rates on savings and they are more close to their clients because they're formed by community members. Being they're managed by members in the SACCO, they tend to have limited funds for members who wish to borrow money and need a prior notification before withdraw.

Course Summary

Well done on course 8!

Now that you have learnt about financial management know when you start a business you would like to keep it alive instead of failing after a while, so that it can keep on providing you with money for living.

To sustain your business, you need to take care not to take too much money out and provide good products. There is a connection between what you do to sustain your business, how well it runs, and what benefits (or troubles) it will provide you. If you depend on your business, you should learn how to sustain it and that is by reinvesting in the business. Take a portion of your profits, save some and invest it back into the best for growth.