



EBA 1.0

FINANCE 101 FOR ENTREPRENEURS

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Training Team

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AGENDA

- INTRODUCTION & OBJECTIVES
- BSP FINANCE
- UNDERSTANDING FINANCIAL STATEMENTS
- FINANCIAL ANALYSIS
- PROJECTION AND BUDGETING
- FINANCE CLINIC

INTRODUCTION

Getting to know You & Me



OBJECTIVE

By the end of this learning event, you will:

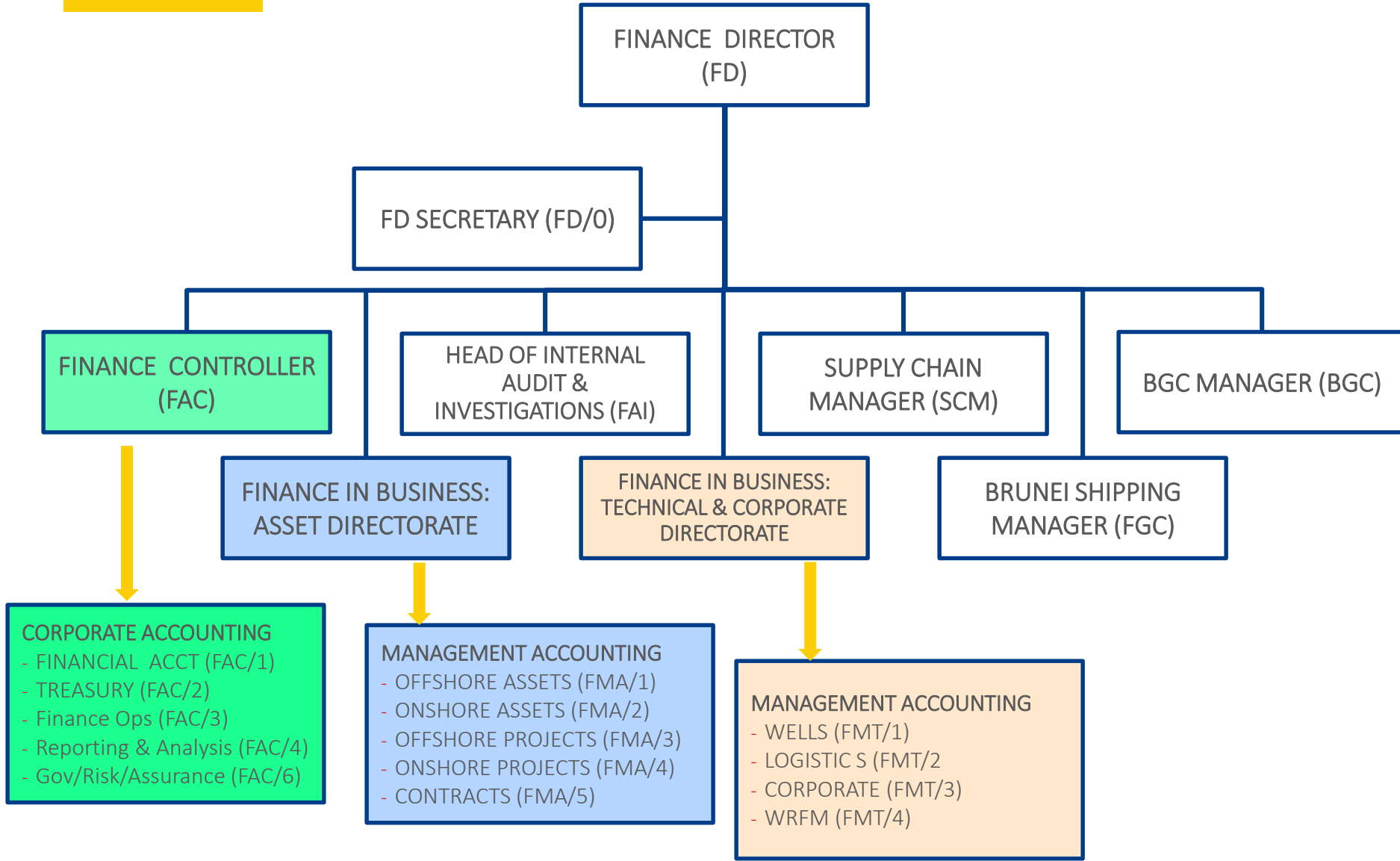
1. Get to know BSP Finance
2. Understanding Financial Statements (FS)
3. Financial Management through FS
4. Taking control of your Finances before it controls you



PART 1

INTRODUCTION TO BSP FINANCE

ORGANIZATIONAL CHART: FINANCE DIRECTORATE

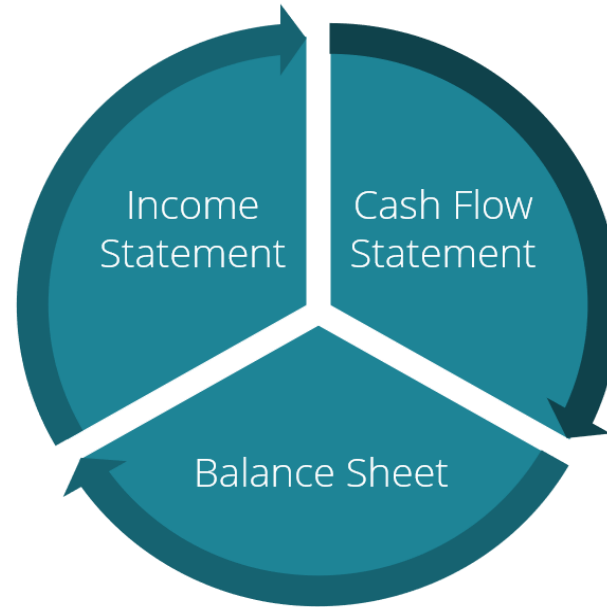




PART 2

UNDERSTANDING FINANCIAL STATEMENTS

Financial Statements – Types and Definition



FINANCIAL STATEMENTS provide the business performance, its financial position, and cash flows.

It is essential that contractors that (want to) work for BSP are financially robust.

AUDITED FINANCIAL STATEMENTS are the financial statements of an organization that have been examined and certified by a certified public accountant (CPA). Audited financials include a signed statement from the auditor, indicating that the financial statements represent a true and fair view of company's financial performance.

Financial Statement – INCOME STATEMENT

Income Statement for Company F101 for the year ended 31st December 2018

	2018	2017
Revenue	100,000	118,000
Cost of Goods Sold (COGS)	40,000	48,000
Gross Profit	60,000	70,000
Expenses		
Salaries & Benefits	26,000	23,000
Rent and Overhead	11,000	10,000
Depreciation	20,000	18,000
Interest	2,500	2,500
Total Expense	59,500	53,500
Net Profit Before Tax	500	16,500
Taxes	1,100	5,000
Net Profit/Loss	- 600	11,500

INCOME STATEMENT (Profit & Loss)

This report reveals the financial performance of an organization for the entire reporting period. It begins with revenue/sales, and then deducts all expenses incurred during that period, to arrive at a net profit or loss.



Financial Statement – BALANCE SHEET

Balance Sheet of Company F101 as at 31st December 2018		
	2018	2017
ASSETS		
Fixed Assets		
Property & Equipment	46,000	42,000
Current Assets		
Cash	170,000	180,000
Accounts Receivable	5,000	6,000
Inventory	8,000	10,000
	183,000	196,000
Total Assets	229,000	238,000
LIABILITIES		
Long Term Liabilities		
5 yrs Bank Loan	25,000	30,000
Current Liabilities		
Bank Overdraft	25,000	20,000
Account Payable	4,000	5,000
	29,000	25,000
Shareholder's Equity		
Equity Capital	170,000	170,000
Retained Earnings	3,000	14,000
Shareholder's Equity	173,000	184,000
Total Liabilities +Shareholder's Equity	227,000	239,000

BALANCE SHEET

This report shows the financial position of a business as of the report date (so it covers a specific point in time). The information is aggregated into the general classifications of assets, liabilities, and equity.



Financial Statement – CASH FLOW

Cash Flow Statement of Company F101 for the year ended 31st December 2018

	2018
CASH FLOW FROM OPERATING ACTIVITIES	
Decrease in Account Receivables	800
Decrease in Accounts Payable	- 900
Decrease in Inventory	1,800
NET CASH FLOW FROM OPERATING ACTIVITIES	1,700
CASH FLOW FROM INVESTING ACTIVITIES	
Equipment Purchase	- 3,000
NET CASH FLOW FROM INVESTING ACTIVITIES	
CASH FLOW FROM FINANCING ACTIVITIES	
Loan Repayment	- 5,000
Increase in Bank Overdraft	5,000
Dividends to Shareholders	- 12,000
Net Increase/Decrease in CASH	- 13,300
Cash at the beginning of the period	180,000
Cash at the end of the period	166,700

STATEMENT OF CASH FLOW

This report reveals the cash inflows and outflows experienced by an organization during the reporting period. These cash flows are broken down into three classifications, which are operating activities, investing activities, and financing activities.





PART 3

FINANCIAL ANALYSIS

What is Financial Analysis?

Focus areas



Profitability



Operational



Liquidity



Solvency

- Financial Statement Analysis is the process of understanding the fundamentals of the company by reviewing its key financial statements, being the Income Statement, Balance Sheet and Cash Flows.
- Financial Statement Analysis can be performed in a structured way using Ratio Analysis. Typically, such financial analysis is done over a series of reporting periods (using the **Vertical Analysis** and **Horizontal Analysis**).
- Financial Statement Analysis includes comprehensively analyzing the company's Profitability ratios, Operational ratios, Liquidity ratios and, Solvency ratios.

Financial Analysis - Vertical

Income Statement for Company F101 for the year ended 31st December 2018

	2018	VA	2017	VA
	\$	%	\$	%
Revenue	100,000	100%	118,000	100%
Cost of Goods Sold (COGS)	40,000	40%	48,000	41%
Gross Profit	60,000	60%	70,000	59%
Expenses				
Salaries & Benefits	26,000	26%	23,000	19%
Rent and Overheads	11,000	11%	10,000	8%
Depreciation	20,000	20%	18,000	15%
Interest	2,500	3%	2,500	2%
Total Expense	59,500	60%	53,500	45%
Net Profit Before Tax	500	1%	16,500	14%
Taxes	1,100	1%	5,000	4%
Net Profit/Loss	- 600	-1%	11,500	10%

Vertical Analysis

- On the income statement, vertical analysis is a universal tool for measuring the firm's relative performance in terms of cost and profitability.
- It is often referred to margin analysis, since it yields different margins in relation to sales.
- Here, percentages are computed in relation to Revenue which are considered to be 100%.



Financial Analysis - Horizontal

Income Statement for Company F101 for the year ended 31st December 2018

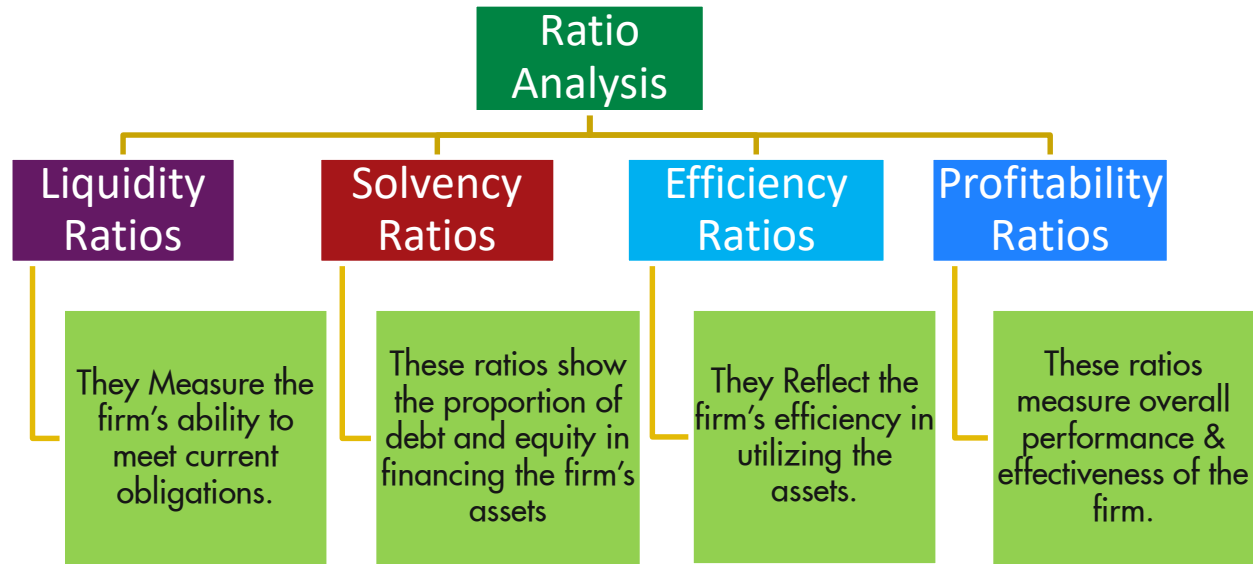
	2018	HA	2017
	\$	%	\$
Revenue	100,000	-15%	118,000
Cost of Goods Sold (COGS)	40,000	-17%	48,000
Gross Profit	60,000	-14%	70,000
Expenses			
Salaries & Benefits	26,000	13%	23,000
Rent and Overheads	11,000	10%	10,000
Depreciation	20,000	11%	18,000
Interest	2,500	0%	2,500
Total Expense	59,500	11%	53,500
Net Profit Before Tax	500	-97%	16,500
Taxes	1,100	-78%	5,000
Net Profit/Loss	- 600	-105%	11,500

Horizontal Analysis

- Horizontal analysis is a technique used to evaluate trends over time by computing percentage increases or decreases relative to a base year.
- It provides an analytical link between accounts calculated at different dates using currency with different purchasing powers. In effect, this analysis indexes the accounts and compares the evolution of these over time.



Ratio Analysis of Financial Statements



- Ratio analysis of Financial Statements is another tool that helps identify changes in a company's financial situation.
- A single ratio is not sufficient to adequately judge the financial situation of the company. Several ratios must be analyzed together and compared with prior-year ratios, or even with other companies in the same industry.
- This comparative aspect of ratio analysis is extremely important in financial analysis. It is important to note that ratios are parameters and not precise or absolute measurements. Thus, ratios must be interpreted cautiously to avoid erroneous conclusions.

LIQUIDITY RATIOS

To measure firm's ability to meet current obligations (Cash Wise)

Ratios	Formula	Interpretation
CURRENT RATIO	Current Assets/ Current Liabilities	Ability to satisfy current liabilities using current assets
QUICK RATIO	$(\text{Cash} + \text{Short Term Investments}) + \text{Receivables} / \text{Current Liabilities}$	Ability to satisfy current liabilities using the most liquid of current assets
CASH RATIO	$(\text{Cash} + (\text{Short-term investments})) / \text{Current Liabilities}$	Ability to satisfy current liabilities using only cash and cash equivalents

SOLVENCY/LEVERAGE RATIOS

These ratios show the proportion of debt and equity in financing the firm's assets

Ratios	Formula	Interpretation
SOLVENCY RATIO	$\text{Total Assets} / \text{Total Liabilities}$	Shows the firms's ability to cover its Total liabilities over its Total assets
DEBT TO EQUITY RATIO	$\text{Total Liabilities} / \text{Total Owners' Equity}$	Debt to equity ratio compares total liabilities to owner's equity
DEBT TO ASSETS RATIO	$\text{Total Liabilities} / \text{Total Assets}$	Debt to asset ratio shows the percentage of assets through debt

EFFICIENCY RATIOS

They Reflect the firm's efficiency in utilizing the assets.

Ratios	Formula	Interpretation
ACCOUNT RECEIVABLE TURNOVER	$\text{Credit Sales} / \text{Average Account Receivables}$	This ratio measures how quickly a company collects bills from its customers. It is an indicator of how efficient a company's credit policies.
INVENTORY TURNOVER	$\text{COGS} / \text{Average Inventory}$	Inventory turnover ratio measures how efficiently a company manages its inventory.
FIXED ASSET TURNOVER	$\text{Sales} / \text{Average Fixed Assets}$	The fixed assets turnover ratio measures the efficiency of a company's long-term capital investments.
ACCOUNT PAYABLE TURNOVER	$\text{Total Purchases} / \text{Average Payables}$	This measures how a company manages its own bills.

PROFITABILITY RATIOS

These ratios measure overall performance & effectiveness of the firm.

Ratios	Formula	Interpretation
PROFIT MARGIN	$\text{Net Income} / \text{Total Revenue}$	Shows management's ability to generate sales, control expenses and provide a net profit
GROSS PROFIT MARGIN	$\text{Gross Profit} / \text{Total Revenue}$	Shows management's ability to generate sales, control expenses and provide a gross profit .
RETURNS ON ASSETS RATIO	$\text{Net Income} / \text{Total Assets}$	Return on assets show the firm's ability to use total assets to generate income statement
RETURN ON EQUITY RATIOS	$\text{Net Income} / \text{Total Owner's Equity}$	Shows the firm's ability to use owner's equity to generate net income.



PART 3

PROJECTIONS AND BUDGETING

FINANCIAL HEALTH ASSESSMENT – KEY OBJECTIVES

■ Key Objectives :

- Ensure that BSP only awards contracts to contractors that are demonstrable financially robust
- Support (new) Bruneian contractors in establishing a viable business (plan), prior to bidding for BSP contracts

■ How:

- By applying following control steps:



FINANCE EVALUATION: METHODS

Financial Health Check

- Financial Assessment of existing financial status of potential contractors (bidders).
- This include ascertaining their current liquidity positions and profitability ratios.

Cash Flow Projection

- A breakdown of projected Cash Outflow and Inflows throughout tender contract period.
- Assessment of the potential contractor's financial and capital planning management strategy.
- Assessment of financial sustainability on rates quoted

Financial Statements Projection

- Profitability projection of the potential contractor during tender contract period.
- Understanding on the breakdown of cost elements
- Provides clear understanding on contractor's contract strategy.

FINANCE EVALUATION: FINANCIAL HEALTH CHECK

Example: Company ABC

FOR ILLUSTRATION ONLY

Audited Balance Sheet - Extracted

	2017	2016	2015	Average
Total Assets	6,000,000	7,100,000	7,000,000	6,700,000
Current Liability	3,000,000	4,000,000	5,000,000	4,000,000
Capital Employed	3,000,000	3,100,000	2,000,000	2,700,000
Equity / Net Assets	3,500,000	3,100,000	2,000,000	2,866,667
Non Current liabilities	20,000	20,000	20,000	20,000
Capital Employed	3,520,000	3,120,000	2,020,000	2,886,667
Total Assets	6,000,000	7,100,000	7,000,000	6,700,000
Total Liabilities	2,500,000	4,000,000	5,000,000	3,833,333
Equity / Net Assets (BND)	3,500,000	3,100,000	2,000,000	2,866,667



Financial Ratios

	2017	2016	2014	Average	Weighted Score	Results
Current Ratio	1.76	1.50	1.37	1.63	0.50	Strong Liquid
Quick Ratio	1.76	1.50	1.37	1.63		Strong Liquid
Profitability	50000	25000	10000	37500	0.25	Positive/Stable
Net Margin	9%	4%	9%	6%	0.25	Positive/Stable
Return on Capital Employed	5%	6%	16%	6%	0.25	Positive
Debt/Equity Ratio	0.00	0.00	0.00	0.00	0.50	Healthy

Score 1.50

Performance Assessment Report

1. Net Assets Analysis; indicates adequacy to cover the ACV of B\$130k per month, equivalent to B\$1.56MM annually.
2. Liquidity; Strong liquidity by Current & Quick Ratio.
3. Profitability & Net Margin; positive and stable.
4. ROCE; positive return to shareholders.
5. Gearing ratio; Consistently zero and healthy.

Overall Score: GREEN

Financial Ratios: weighted score ≥ 1
Average net assets < than B\$190k

FINANCE EVALUATION: CASH FLOW PROJECTION

Month / Year		YEAR 1					
		1	2	3	4	5	6
CASH INFLOW	Monthly Opening Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Revenue						
	Cash Payment from Contract	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Collection of Receivables	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Cash Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Non-Operating Cash Inflows						
	Funds Borrowed	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Proceeds from sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Proceeds from Investment withdrawal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-Operating Cash Inflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TOTAL CASH INFLOW	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
CASH OUTFLOW	Inventory Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Cost of Goods	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Cost of Goods	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Expenses						
	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Employee Benefit Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Directors Fees, allowances and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Office Rental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Entertainment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Utilities & Bills	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Bank charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Professional Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Office Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Repair & Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Regulatory Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Funds Financing repayment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Motor Vehicle Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Office Equipment Purchase	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operational Equipment Purchase	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Furniture and Fittings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Promotional Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	TOTAL CASH OUTFLOW	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Auto Calculate	MONTHLY NET CASH FLOW	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Calculate	CASH BALANCE AT MONTH END	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Monthly cash inflow and outflow breakdown projection.

Assessment of the cashflow health during the contract tender period.

Identify key cash flow drivers.

Capital Management Strategy.

Justification of prices and rates.

Payment terms and frequency.

Company Estimation cash flow view.

FINANCE EVALUATION: FINANCIAL STATEMENTS PROJ.

	P&L Items	Y1	Y2	Y3	Y4	Y5
Revenue	Revenue from contract	\$ -	\$ -	\$ -	\$ -	\$ -
	Profits from investments	\$ -	\$ -	\$ -	\$ -	\$ -
	Surplus from sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Income: (Please State Details, if any)	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Income: (Please State Details, if any)	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Goods Sold	Opening Stock/Materials	\$ -	\$ -	\$ -	\$ -	\$ -
	Purchases of Stock/Materials	\$ -	\$ -	\$ -	\$ -	\$ -
	Less: Closing Stock/Materials	\$ -	\$ -	\$ -	\$ -	\$ -
	Cost of Goods/Services Sold	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Calculate	Gross Profit/Loss	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses	Financing Interest	\$ -	\$ -	\$ -	\$ -	\$ -
	Labour Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Depreciation cost of assets	\$ -	\$ -	\$ -	\$ -	\$ -
	Rental of premises	\$ -	\$ -	\$ -	\$ -	\$ -
	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Employee Benefit Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Entertainment	\$ -	\$ -	\$ -	\$ -	\$ -
	Utilities & Bills	\$ -	\$ -	\$ -	\$ -	\$ -
	Bank charges	\$ -	\$ -	\$ -	\$ -	\$ -
	Professional and Legal Fees	\$ -	\$ -	\$ -	\$ -	\$ -
	Office Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Repair & Maintenance	\$ -	\$ -	\$ -	\$ -	\$ -
	Insurance	\$ -	\$ -	\$ -	\$ -	\$ -
	Motor Vehicle Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Promotional Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Regulatory and License Fees	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Expenses: (Please State Details, if any)	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Expenses: (Please State Details, if any)	\$ -	\$ -	\$ -	\$ -	\$ -
	Other Expenses: (Please State Details, if any)	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Calculate	Net Profit before tax, dividends and director's fees	\$ -	\$ -	\$ -	\$ -	\$ -
Non Operating Expenses	Directors Fees, allowances and expenses	\$ -	\$ -	\$ -	\$ -	\$ -
	Dividends	\$ -	\$ -	\$ -	\$ -	\$ -
	Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Calculate	NET PROFIT	\$ -	\$ -	\$ -	\$ -	\$ -

Profitability position projection based on price quoted.

Understanding key drivers in the profitability result.

Value optimisation strategy.

Negotiating opportunities.



FINANCE CLINIC

How can we help you?



Recap....

**THANK YOU
FOR YOUR ATTENTION**

