



# Financial Management

## Chapter 17.1

# What You Will Learn...

- Purpose of a financial plan
  - 6 reasons for creating a financial plan
- Budgets
  - What are they?
  - Why are they used?

# Discuss...

- Why do you think it is important for businesses to keep track of their money?
- All business decisions must reflect profitability:
  - Developing new products/expanding
  - Maintaining operations
  - Hiring/firing employees
- Always know your financial situation!

# What is a Financial Plan?

- **Financial plan:** Set of documents that outline the essential financial facts about a new venture



# Financial Plans

- Use a financial plan when starting:
  - A new venture
  - A new project
- Roadmap to the future
- Used to attract investors



# Effective Financial Plans

1. Identify Business Assets
2. Determine Needed Capital
3. Describe Start-up & Operating Expenses
4. Describe Financial Records Management
5. Forecast Future Finances
6. Describe Growth Financing

# Identifying Business Assets

- Assets needed for the business or project:
  - Cash, equipment, building, supplies, inventory, and land
- Analyze and compare prices
- Make careful decisions:
  - Buy new or used?
  - Rent or buy?

# Determine Needed Capital

- **Start-up capital:** Money used to pay for various assets and expenses for a new venture or project
- What are some sources to obtain this?
  - Friends, family, & self
  - Savings, loans, & investments





# Describe Start-up & Operating Expenses

- **Start-up Expenses:** Require large amount of cash
  - Assets, remodeling costs, insurance, advertising, supplies, licenses
- **Operating Expenses:**
  - Payroll, rent, utility bills, bank fees

# Describe Financial Records Management

- Financial plans explain how a business will manage records
- Describes who will maintain records:
  - Business owner?
  - Hired professionals?



# Forecast Future Finances

- **Financial forecast:** Estimate of a business's financial outlook for each of the next few years
- Consider:
  - Conditions in the future
  - Changes in the economy
- Keep estimates for income LOW
- Keep estimates for expenses HIGH

# Describe Growth Financing

- Explain plans for financial growth
- Every company needs to grow to remain competitive
  
- Planned growth is very rewarding
- Unplanned growth can be chaotic



# What is a Budget?

- **Budget:** Plan specifying how money will be used or spent during a particular period
- Helps owners predict how much money the business will need
- Avoid problems by:
  - Comparing budget to actual income and expenses

# 3 Types of Budgets:

## 1. Start-up Budget

- Plan for income and expenses from the start to the estimated time you will make a profit

## 2. Cash Budget

- Plan for actual money spent daily, weekly, or monthly

## 3. Operating Budget

- Plan for the amount expected to be spent and earned over a given time (6mths-year)

# Recap...

- Purpose of a financial plan?
  - Outline of essential financial facts and used as a guide/roadmap
- What does an effective financial plan do?
  1. Identifies assets
  2. Determines needed capital
  3. Describes start-up and operating expenses
  4. Describes records management
  5. Forecasts the future
  6. Describes growth

# Resources

- Textbook (Teacher-Edition): Brown, B. J., & Clow, J. E. (2008). *Introduction to business*. Woodland Hills, CA: The McGraw-Hill Companies.
- Google Images