7

Financial Management

LESSON OUTCOME

Upon completion of this chapter, you should be able to:

- Prepare a related financial overview of the chosen business by identifying justifiable capital budgets and breakdown of expenditures.
- Discuss suitable financial strategies by identifying possible sources of capital, contingency plan and sustainability plan.
- Prepare financial management report consisting of profit & loss projection, cash flow projection and sales forecast.

7.1 FINANCIAL OVERVIEW

A financial overview describes current and future financial requirements for a business. Two basic components of financial overview are capital budgeting and expenditures.

Capital budgeting refers to a process of evaluating a long-term capital investment that is worth being spent by a company to profit a business. Therefore, capital budgeting will incur costs which are divided into two types capital expenditure and operational cost.

In simplest definition, capital expenditure is whatever money that are involved in business transactions and administration. Sometimes, it is also called as a non-recurring cost e.g. company registration...., employee salary, EPF, rental, utilities, company registration fee, and other costs related to fixed assets and business equipment.

Operation cost or also called recurring cost, refers to costs that involve in running the business such as stocks, inventories, salary, utility bills, monthly promotional, etc. Working capital is also considered as a recurring cost which is used in a business' day -to-day trading operations.

Example 7.1

TankGang Corporation was formed to fill the void in the marketplace to provide training by using a technology such as Virtual Reality (VR) in a confined space. Malaysia was ranked at the top of the list for the most deaths caused by confined space in 2010. Conventional training has been proven to be ineffective and insufficient in preparing the workers to face the real situation. By integrating new technology like Virtual Reality (VR) into the training simulation, we could provide an immersive training learning experience in a safe environment.

In performing capital budgeting, both non-recurring and recurring expenditures have been listed and broken down into a few categories. Non-recurring expenditures have been divided into four categories which are the establishment of the company, premises, fixed assets/business equipment and promotion & marketing. Meanwhile, recurring expenditures have been broken down also into four categories which are research & development, administration, salary and promotion & marketing. Figure 7.1 and Table 7.1 summarise the capital budgeting and estimates the reasonable costs for each item.

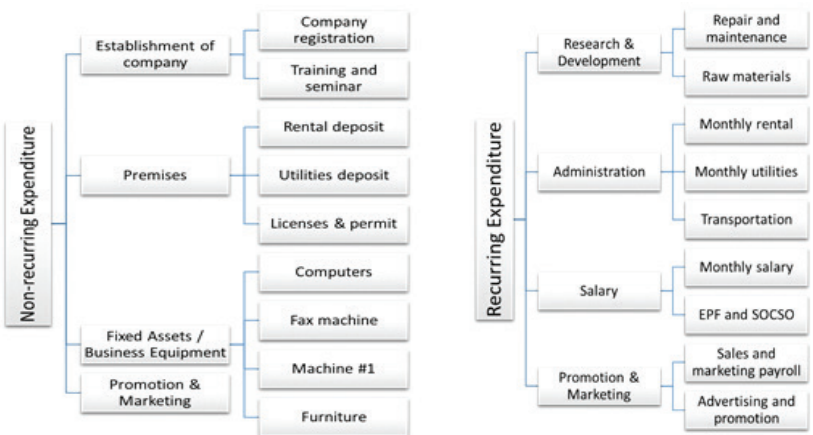

Figure 7.1 TankGang's capital budgeting

Each category of both non-recurring and recurring expenditures was detailed with reasonable cost estimation.