MedTOWN

Social Business Incubator

Cooperating across borders in the Mediterranean (ENI CBC MED)

Finance

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This training material has been produced with the support of the European Union as part of the Mediterranean Program (ENI CBC MED), which is implemented by the Jordanian Hashemite Fund for Human Development (JOHUD). Sarh International Center for Consultancy and Training is held accountable for the content of this document herein. It does not reflect the views of the European Union, the Mediterranean

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Icebreaking

Workshop Rules

What is accounting?

The dictionary defines accounting as an "accurate list or enumeration of financial transactions". For the most part, it is a list of financial transactions in the field of your small business. It's a way to keep track of money coming in and going out of your business such as notes receivable and payable.

Why is accounting important?

Obviously, accounting is important because you want to know if your business is making a profit. The small business owner also wants to be able to look at sources of income and expenses and make decisions based on that information. Using accounting software, a business owner can generate reports on "profit and loss," "cash flow," "balance sheet" and dozens of other reports that can help him get a comprehensive picture of how the business is operating now or in the past.

Also, many state tracking forms are required for sales taxes, payroll and income tax purposes. In fact, a good accounting system can make and fill out these forms much easier and less time consuming.

Choose a bookkeeping method

Choosing a method for recording transactions:

After you have decided on a bookkeeping method of accounting method, the next step is to decide how to proceed with recording the transactions. You basically have two options:

1. Manual bookkeeping: Recording and writing each transaction in the ledger by hand.
2. Using software: Entering transactions into a program that performs the routine task of recording and performing computing operations.

Choosing a bookkeeping method

The first decision to be made is what type of accounting is appropriate for the project? There are two options:

- Cash method or cash basis: This means that you calculate income when you actually receive it (either cash, credit cards or checks) and your expenses are calculated when you actually pay them. This is the most common method for small businesses, especially those that adopt immediate payment for a product or service (credit card, check, cash, etc.) The cash method is generally easier to maintain in financial accounts, and is the preferred method for small businesses.

- Accrual method: This means that income is calculated when the sale is made (regardless of whether you have already received the money for it) and expenses are calculated when you actually receive the good or service (without paying for it immediately). This method is common for large companies or small businesses that use "invoices" and often send the product or service before they get paid for it. It is generally considered that the accrual method gives you a more accurate picture of the financial position of the company, but requires you to take additional steps such as keeping records of accounts receivable (what you have with others and what you have received) and accounts payable (what you have to pay to others or what you paid).

Financial management

It is a continuous and organized process that includes many procedures, such as planning, organizing, directing, and controlling the use of current and future financial resources, and it means applying general financial principles to the various financial resources in the institution.

Financial planning

Which includes drawing up financial and operational work strategies in accordance with the specified financial liquidity and ensuring its availability in a timely manner to cover business needs; These needs may be: providing equipment, purchasing investment stock, paying employees' salaries, financing deferred sales...etc. In the long run, financial liquidity is always required in order to make balances for the production capacity of the work.

Financial control for the project

Internal control, in accounting and auditing, is a process to ensure the effective and efficient achievement of the organization's objectives, reliable financial reporting, and compliance with laws, regulations, and policies. Internal control is a broad concept that includes everything that controls the potential risks of the organization.

Examples of financial control procedures:

- Overseeing the procedures related to financial disposition, and the commitment to financial commitments, such as monitoring procedures for cash disposal or procedures for payment or collection of money.
- • Comparing the actual numbers with the projected numbers on an ongoing basis.
- • Reviewing the financial actions at the end of the implementation period.

• Reviewing the financial results, especially those related to sales, costs, and profits.

Making financial decisions

This is one of the most critical procedures in the field of financial management, since making a financial decision may be crucial for the future of the company, especially when it involves trade-offs between priorities that are all considered important; There is an aspect of spending on investment before making profits, as well as aspects of spending on other variances related to work systems that must be considered.

Therefore, the financial manager may take decisions whose priority is to increase financial liquidity, at the expense of other elements, and this is by several means such as: Postponing the distribution of profits to shareholders and keeping them as financial liquidity that contributes to supporting investment and financing, or by selling some shares, or making bank loans, or obtaining deferred payment transactions from dealers.

Financial management objectives

- Providing cash liquidity:

One of the most important factors for the continuation of any financial entity is financial liquidity, and planning for this goal is one of the first steps of successful economic structure, with planning to obtain profits as soon as possible in order to create a balance between spending and earning rates.

• Generating a return for shareholder investors:

This guarantees a degree of confidence in the business, and gives the opportunity to increase shareholders and increase capital. The evidence that securing the liquid cash cover is one of the most important factors for continuity is an example of what happened after the repercussions of the global economic crisis in 2008/2009 and the Coronavirus pandemic, as some institutions were able to recover from this setback as a result of the availability of financial liquidity.

• Profit objective:

This is the most vital goal in the private sector at all levels, and the importance of setting these procedural financial goals has emerged as a set of formulated goals as the reference points on the basis of which financial performance is measured.

Project Costing - Study case

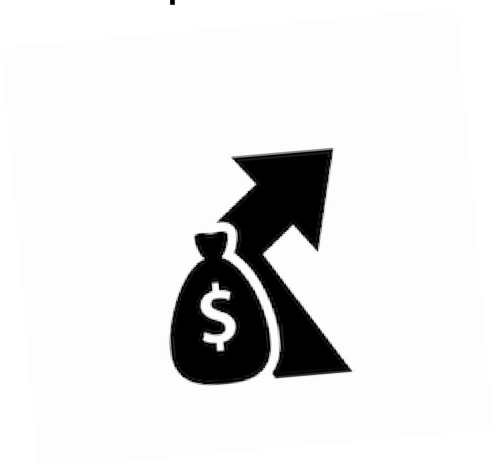
Number of units produced pe

The market price of the prod

Required profit margin

Direct and indirect costs

- Direct costs are those items that are spent directly on the product and that are easy to allocate or associate with it, such as raw materials, packaging and its forms:
- Direct materials.
- Direct wages.
- Direct industrial expenses.



Indirect costs are costs that are general or specific to more than one product and are difficult to link or allocate directly to the units of the final product. Often the costs that are spent in order to perform a specific activity and benefit from it more than any other product, i.e. spent on the production activity as a whole or the marketing activity in general, such as administrative expenses

Examples are: electricity, water, employee wages, site rent, maintenance fees.

Direct and indirect costs

Fixed and variable costs

The costs are classified according to the item's relationship to the volume of activity or the volume of production into fixed costs and variable costs.

Fixed/indirect costs

These are costs that do not change in their totality with the change in the volume of production during a certain period of time. For example, rent is considered a fixed cost. If production increases or decreases, the rent remains fixed, but in return, the share of one unit of fixed costs will change when the level of production changes. Production, the share of one unit of fixed costs will decrease (inversely proportional, and the following table shows this):

Production volume (number of units)	**100**	**200**	**300**	**400**
Fixed costs (in dinars)	300	300	300	300
Fixed cost per unit	3	1.5	1	0.75

Direct and Indirect Costs:

Variable/direct costs

These are the costs that proportionally change in total with the change in the volume of production during a certain period of time. For example, the cost of fabric used in the manufacture of clothes increases as the quantity produced increases (in direct proportion), but in return, the share of one unit of variable costs remains constant when the level of production changes, as shown in the following table:

Production volume (No. of units)	100	200	300	400
Variable costs (JD)	300	600	900	1200
Variable cost/unit	3	3	3	3

Exercise

Profit margin

Profit margin is the difference between sales revenue and production costs, in other words, it is the difference between the cost of a good or service and its selling price, as it is added to the total cost incurred by the producer of these goods or services to make a profit.

Profit margin = sales revenue (selling price) - production costs

The factors affecting the profit margin are:

1-Unit selling price: Increasing the selling price increases the profit margin of the unit. Reducing the selling price negatively affects the profit margin of the unit.

2- Variable costs in order to produce a unit: direct materials, direct wages. The relationship of materials and direct wages to the unit of the product is easy to allocate and therefore many cost accountants resort to reducing the cost of materials and indirect wages.

Profit margin

Factors that determine the price of the product/service:

- The quantity sold, because the higher it is, the lower the impact of indirect costs.
- Required profit margin.
- Taxes and Shipping.
- Marketing costs
- Costs of production, storage, raw materials and packaging.

- Discounts and promotions.

- **Factors Affecting Price:**
- Quality.
- Income of target audience
- Consumer culture
- Consumer behaviour
- Materials used by competitors
- Design and packaging
- Complementary products
- Number of distributors

Definition and Calculation of Profit Margin

Handmade product pricing errors:

The most common and obvious mistake is pricing less than competitors, expecting that buyers will accept to choose the product over the more expensive competition. This is a big mistake because most buyers will think that the product is cheaper because it is of lower quality.

The second mistake that individuals make when pricing their products is to consider themselves among the target customers, and it is unfortunate that they price their products based on their purchasing capabilities, and often they put prices lower than what they are supposed to sell at, which iterates the same problem. Customers will consider the product to be poorer in quality. There are many others who can buy something that you cannot.

Examples on pricing and calculating profit margin

Net profit

Recycle profits

*Reinvesting into the project to grow

* Provide protection for the project to address any future problems or losses

Distribution of dividends to project shareholders

*Saving

* Personal Expenses

Exercise

Saving

Budget allocation

The first step to saving is to allocate the budget, determine the total income, in addition to the total costs and expenses, such as bills, direct or indirect costs, and other expenses, and then try to reduce the value of these expenses to start saving and reinvestment

- Rationalizing the consumption of water, electricity, and energy.
- Take advantage of offers and promotions
- Buy wholesale
- Experimenting with cheaper alternatives in some necessities, considering the quality of the product.
- Save on transportation by using a bicycle or walking for short trips.

• Recycling of profits: the owner of the project saves from the net profit and re-injects it into the project to boost growth and advancement.

Exercise

Important points:

When planning to produce a particular product, the following must be considered:

- Price
- Seasonal availability
- Calculating cost before promoting offers and discounts
- Keeping a professional relationship with suppliers to get better promotions and longer grace periods.

- Avoid selling in credit, unless the customer is well known and trusted.
- The experience and passion of the business owner are vital components to the success of the project.

Balance Sheet

Financial position forecast			
Assets		Liabilities	
Traded assets		Traded liabilities	
		Property rights	
Total assets		Total liabilities and property rights	

Income list

Income list			
Sales	Year 1	Year 2	Year 3
(Sales cost)			
Net Sales			
Managerial and marketing costs			
Operating profit			
(Tax)			
Net profit			

Exercise

Statement of cash flows

Statement of cash flows			
	Year 1	Year 2	Year 3
Cash flows from operating activities			
cash flows from investment activities			
cash flows from financing activities			
First cash balance			
Net cash flows			

External factors that affect the movement of money must be taken into account:

- Economic conditions: Interest rates: the amount to be paid, expressed as a percentage of the principal, by the lender to the borrower, known as the annual percentage rate.
- Exchange rates: the rate at which a country's currency can be exchanged for another country's currency, and the change and fluctuation in currency rates are among the factors affecting the objectives and financial determinants previously set.
- Competitors: the competitive environment affects the extent to which goals are achieved. Example: Reducing prices may become a necessity if the competitor is able to grow in market competition and increase its market occupancy rate.
- Political and social change: There are indirect effects, such as the regulations of environmental laws regarding emissions and landfilling of waste, that may force the investment field to increase investment in some areas over others.

Define your priorities

When your options are limited to paying with cash, order them according to level of priority. For example, you don't have to pay cash for a distribution truck when you can rent it. Then review what might indirectly serve your loans.

How much money do you need?

The project plan/feasibility study determines the required amount

You should take special care and consult the specialists when preparing the project plan.

Why do you need the money?

- Payroll and rent
- Marketing and packaging expenses
- Buy equipment and machines
- Buy raw materials
- Buy furniture and decorations
- Governmental fees

Diversity of funding sources and the difference between them

	Cost/year	Repayment conditions	Volume	Pros	Cons
Personal savings	N.A.	N.A.		Easy and cheap	Risk of incurring losses
Friends and family	A good percentage or N.A.	Very flexible		Flexible, best for value	Potential of building a grudge
Suppliers	Free	30 Days		Cheap, not safe	Short term
Capital	Shares of profits	Lifetime	Depends	Ability to obtain huge volumes	Sharing profits
Lenders	12-18%		Depends	Can cover up to 100%	High interest rates
Leasing companies	12-18%	5-7 years	Depends	Longest repayment period	
Micro financing companies	18-22%	1-3 years	20,000 JOD	Cheapest in general	Most expensive
Banks	5-12%	1-5 years	Depends on the project		Hardest to obtain

Exercise

Some important tips for obtaining a loan/investment:

- Most lenders and investors want to see your business plan and know that you are very familiar with the business.
- The purpose of the financing must be clear.
- Determine the sources of payment clearly.
- Employ funds in their intended use and never confuse project with personal expenses.
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- Keep the lender informed of the status of your project, whether it is good or bad.
- Most start-ups cannot afford extravagant entertainment. The lender prefers to know how you will use the money to grow your business.
- Do not depend on funding constantly, you must plan for the future of the project, and save.
- Perform an objective assessment, calculate the worst-case scenario, and review project performance.

After obtaining financing

Getting funded is the first step. You must work hard to become a good customer in the event of borrowing from small and microfinance companies, banks or financial leasing companies, and even get help if you need it. The client is bound by the terms of the contract, so make sure you understand the requirements and work with them as much as possible.

You have to work hard to prove to your partners in the event that it is self-financing and from the partners that you are able to assume responsibility and manage the project, and to maintain and grow that investment.