

ENGG2062

Advanced Engineering- Business Planning



Financial Planning and Management



Purpose of Financial Management

- Are we making or losing money?
- Do our financial prospects look good?
- Do we have enough cash to pay our bills?
- How efficiently are we using our assets?
- Can we pay our tax?
- How do our growth and profit performance compare?



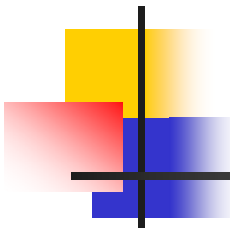
Key Financial Objectives

- Profitability
- Liquidity
- Efficiency/Productivity
- Stability (debt to equity ratio)



The Key Financial Reports

- Balance Sheet
- Income Statement (Profit and Loss)
- Cashflow Statement



Balance Sheet – snapshot of the financial position

Three components:

- Assets

- current
- fixed
- other

- Liabilities

- current
- long-term

- Equity

And they balance!



Income Statement –

Results of operations over a specified time

Key items

- Revenue (sales)
- Cost of sales
- Gross Profit
- Operating expenses
- Other income
- Net profit



Cash Flow –

changes in cash position over time

- Operating activities – net income, depreciation
- Investing activities
- Financing Activities

Note: Cash versus accrual accounting



Key Financial Performance Measures

- Profit margin = $\text{profit}/\text{revenue}\%$
- Return on assets = $\text{profit}/\text{assets}\%$
- Return on equity = $\text{profit}/\text{equity}\%$
- Liquidity = $\text{current assets}/\text{current liabilities}$
- Debt-to-equity ratio
- Break-even point = $\text{fixed costs}/(\text{selling price} - \text{unit variable cost})$