

# Basic Financial Concepts

# Financial Management

## Key Concepts

- Financial Management – management of the finances of the co-op in order to maximize the benefit to the members
- Goals of financial management
  - Profitability
  - Viability (可行性)
  - Long term development

# Key Concepts

## **Accounting – the provision of financial information**

- Financial accounting provides information regarding the financial position of the co-op and the results of its operation
- Managerial accounting provides information for making better managerial decisions

# Accounting Equation

Assets = Liabilities + Members' Equity

Or Members' Equity = Assets - Liabilities

# Accounting Equation Concepts

- Assets – the resources owned by the Co-op
- Liabilities – the obligations of the Co-op to outside creditors
- Members' Equity – the amount left after liabilities are subtracted from assets

(負債從資產中扣除)

# Balance Sheet Terms

- Definition – a financial statement that measures the financial position of an organization at a specific time. (A single moment in time such as November 30, 2003.)

# Balance Sheet Terms

- **Assets** – all the resources owned by the co-op as of the date of the balance sheet
- **Current assets** – all the resources which are or will be turned into cash or used up by the co-op within the year
- **Cash** – cash on hand or on deposit with a financial institution with a term of less than one year

# Balance Sheet Terms

- **Accounts Receivable** – money owed to the co-op usually by customers who have set repayment terms (15 or 30 days to pay)
- **Prepaid expenses** – expenses that have been paid in the current accounting period, but all or part of them will apply to the next accounting period.

**apply to:** 適用於



# Balance Sheet Terms

- **Inventory** –the value of goods on hand including all costs in securing or processing the goods. Goods are valued at the lower of cost or market value.
- **Investments** – deposits being held for more than one year or investments in other organizations

# Balance Sheet Terms

- **Fixed Assets** – assets of an organization that are used up over a number of accounting periods (years). Fixed assets are not charged against income at the time of purchase because of the long term nature of the investment made. Instead depreciation (an expense item) is used to account for the portion of the asset used each year.

# Balance Sheet Terms

- **Liabilities** – debts of the organization, what the organization owes its creditors
- **Current liabilities** – debts payable within the next year
- **Accounts payable** – amount owing to trade suppliers
- **Accrued liabilities(預計負債;備抵負債)** – other expenses such as holiday pay which have not been paid at the end of the accounting period

# Balance Sheet Terms

- Line of Credit(信貸額度) – an bank account **overdraft provision(透支額度提供)** that has been pre-arranged with a financial institution
- **Demand Loans(貸款需求)** – loans received by organization that are used to finance the co-ops assets and are repayable with set terms. However default on the payment of conditions makes the loans immediately repayable (payable on demand by the financial institution)

# Balance Sheet Terms

- **Member loans** – loans made by members to the organization which may or may not have fixed interest or repayment terms
- **Members' Equity(會員權益)** – the members' share of ownership of the assets of the organization
- $\text{Assets} - \text{Liabilities} = \text{Members' Equity}$
- **Share Capital(股本)** – share capital is the members' direct investment in the organization as an owner

# Balance Sheet Terms

- **Retained Earnings** – the cumulative earnings (losses) from previous accounting periods that have be retained by the co-op to support its financial viability and long term development.
- **Current Earning** – the earnings (losses) generated in the current accounting period.

# **Income Statement** Terms(損益表)

- Definition – a financial statement presenting the revenue, expenses and earnings (losses) of an organization during a specified period of time.
- Revenue – a heading for the various categories of income an organization may have.

# Income Statement Terms

- Sales – the organization income generated by the sales of goods and services for the specified period. Sales are often categorized by the product sold.
- Cost of Goods Sold – the value of the inventory that was sold. It also is often categorized by the product sold.



# Income Statement Terms

- **Gross Margin(毛利率)** – is the difference between the sales income and cost of goods sold to produce this income.

$$\text{Gross Margin} = \text{Sales} - \text{Cost of Goods}$$

- **Sales Expenses** – expenses incurred to generate or complete the period's sales.  
(所產生的費用或已完成期限的銷售)

# Income Statement Terms

- Administrative and General Expenses – expenses incurred to carry out the management and administrative function of the organization. Many of these expense are incurred whether or not any sales are made.
- Net Income – is the earning (losses) generated for a period.
- Net Income = Revenue – COGS(Cost of goods) – Sales Exp – Adm/Gen. Exp.

# Breakeven Analysis(損益平衡分析)

- The gross margin is the difference between the revenue generated from the sales of goods and services and the COGS.
- It can be expressed in dollars or as a percentage of revenue

Revenue	\$200	100%
COGS(less)	<u>\$160</u>	<u>80%</u>
Gross Margin	\$ 40	20%

# Breakeven Analysis

- Fixed Expenses – expenses for a particular period (say 1 year) which are incurred no matter what are the co-op's level of sales.
- Viable Expenses (可行的費用)- expense which change as **the rate of output** changes.

# Breakeven Analysis

- Number of units required to break even

$$\frac{\text{Fixed Costs}}{\text{Unit Price} - \text{COG per Unit}} = \text{Number of units}$$

$$\frac{10,000}{\$75 - \$55} = \frac{10,000}{20} = 500 \text{ units}$$

# Breakeven Analysis

- In dollars of revenue

$$\frac{\text{Fixed Costs}}{\text{Gross Margin}} = \text{Dollar Sales}$$

$$\frac{10,000}{\frac{\$75 - \$55}{75}} = \frac{10,000}{.267} = \$37,500$$

# Break-even Plus Target Profit

- Number of units required to break even.

$$\frac{\text{Fixed Costs} + \text{Profit Target}}{\text{Unit Price} - \text{COG/Unit}} = \text{Number of Units}$$

$$\frac{10,000 + 5,000}{\$75 - \$55} = 15,000 = 750 \text{ Units}$$

# Break-even Plus Target Profit

- In dollars of revenue

$$\frac{\text{Fixed Costs} + \text{PT}}{\text{Gross Margin}} = \text{Dollar Sales}$$

$$\frac{10,000 + 5,000}{\frac{\$75 - \$55}{75}} = \frac{15,000}{.267} = \$56,250$$



# Making a Profit

- What factors of the breakeven equation does the co-op control or influence?
- What factors are beyond the control or influence of the co-op?

# Minimum Required Net Income

- Profit is required for the **viability** of the co-op.
- Each year the co-op has cash disbursements which must be made out of the co-op's profits, by new member investments or by increased borrowings. Since the capacity to borrow and invest is limited the money must come from profits.
- For example: principal repayments on term loans, purchases of new or replacement equipment, redemption of member share capital (due to retirement or withdrawal of membership)

# Minimum Required Net Income

- MRNI = 最低要求淨收入
- Increase (-decrease) Inventory
- Principal repayments +
- Capital purchases +
- Increase (- decrease) accounts receivable
- Share redemptions(贖回份額) -
- New member investment -
- New Loans –
- Increase (+decrease in accounts payable)
- Depreciation (non-cash expenses)