

Financial Management for Dummies

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So, you've decided to start your own business. It could be a Facebook page selling personalised merch or maybe you have inherited your family's prized dokaan. Eitherway, you need to get the basics down. This is a short primer for someone to get started with. Some of the keywords in the article can be googled for further definitions.



ILLUSTRATION: RUMMAN R KALAM

MAINTAINING AN ACCOUNT BOOK

Bookkeeping for a business is necessary to keep a record of revenues and expenses for better profitability. It's also important to record the necessary financial information for filing your tax returns. Bookkeeping can be separated into three simple steps:

Receipt or Invoice Keeping

Make sure you manage to keep receipts of your transactions, or the invoices online. These receipts and invoices will act as records to create summaries of your transactions in ledgers. Make sure the date, amount payable/receivable, goods/service exchanged, and other details of the transactions are written down on the receipts. Also keep in mind that you should keep the receipts in a safe place. Wouldn't want them missing when you most need them. Always have a signed (by all parties) copy of the receipts.

Ledgers

Even if all your transactions are made online, you are required to keep a ledger for the cumulative amounts you are going to post in your final financial statements. Use the receipts, invoices and book entries to make up your ledgers. Be very careful of your entries, as a tiniest little clerical mistake can cause a world of nuisance.

It is possible for you to use an accounting software for this. It's quicker and easier to make ledgers this way, and a lot less messy.

FINANCIAL STATEMENTS

You can't really tell how well your company is performing profit-wise without an income statement, nor can you tell if the accounts you drew up are correct without a trial balance. Plus, you'll also need the balance sheet for legal purposes to show the health of your business as a summary to the public. These three types of financial statements are the must-haves even for small business.

Expense tracking documents

You would need to know where your

money was spent when you might have made errors on your records, missed out entries or accruals in your accounts, or just to cross-check. In order to do that, you'll need:

For cash-based transactions

Cash payments are not easy to trace, as they basically leave no trails behind. Tracing these expenses will be tedious. It will mean countless hours of looking through old receipts and invoices, contacting your suppliers or creditors for relevant missing transactions and lots of time spent

proof-reading your financial statements to see if you simply missed your 'missing' entry. It is highly recommended that you keep a record of your transactions for this to work.

For online transactions

Now this is the transaction process that has little or no trouble in tracing the expenses, as there is always a third-party involved in recording your expenditure. A simple call to your bank will suffice to check for missing entries.

Nowadays, there are apps that make life much easier for you. Apps like Zoho Express and Expensify are easy to use, have pricing plans that are affordable even

for small start-ups, allows you to keep electronic receipts, credit card transactions are automatically included in the records, etc.

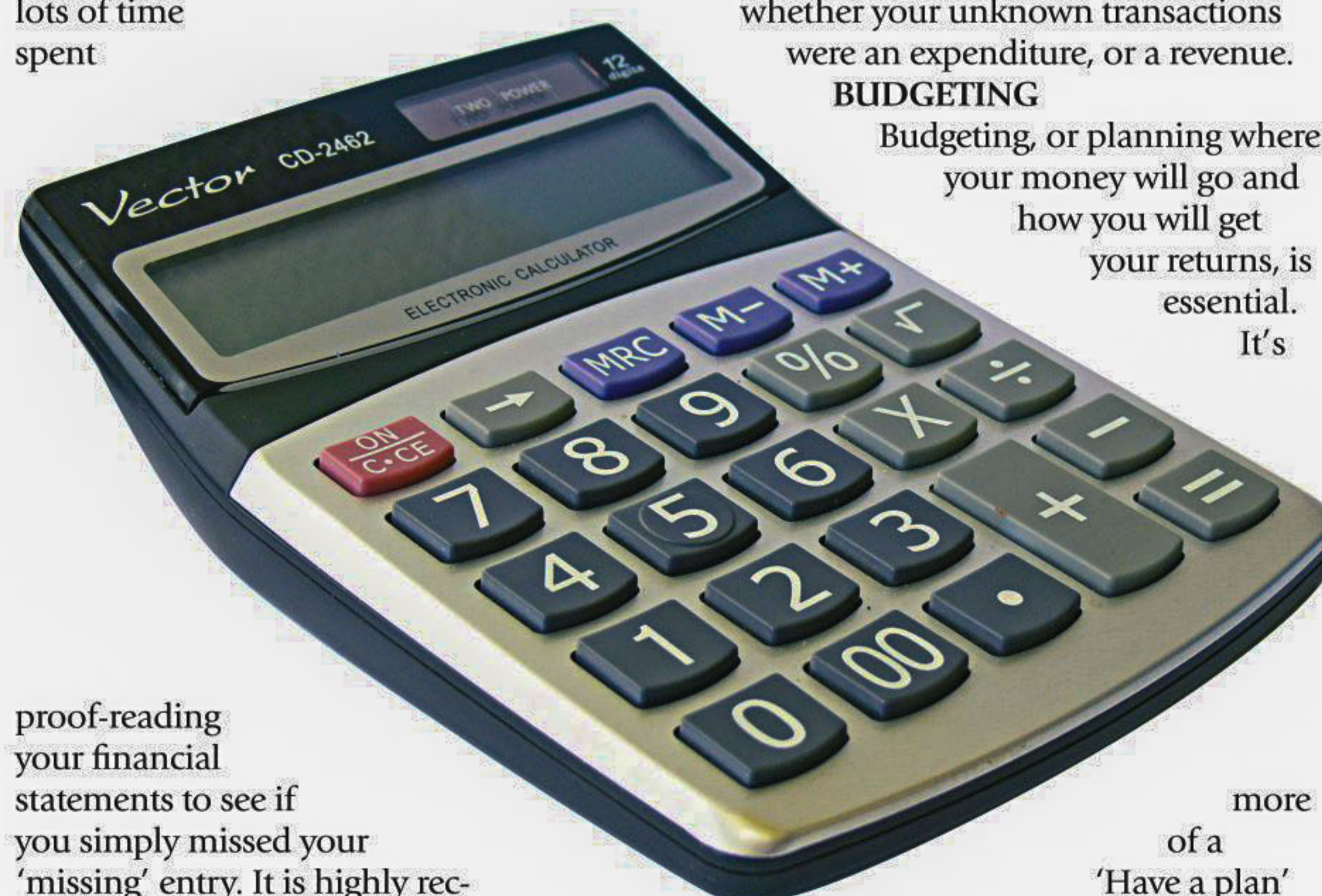
Suspense accounts

Unless you're using an app, and if you do not manage to find the source of the unknown transactions, but know where this amount should be categorised into, drawing a suspense account can do wonders, where you can simply write 'suspense a/c' in your income statement or balance sheet. Remember, you have to know whether your unknown transactions were an expenditure, or a revenue.

BUDGETING

Budgeting, or planning where your money will go and how you will get your returns, is essential.

It's



more of a 'Have a plan' approach that you wouldn't be able to run your business without.

Now what can you do about this? You'll need to pay close attention to a few steps:

1. "Day One" Planning

Facilities costs, fixed assets, materials and supplies & other costs - the four essentials you need to look into when you bring up a start-up. The location you're going to base your business in, the supplies and equipment you'll use to run

your business and other shoe and leather costs being like looking for your business site, searching for the best equipment, time spent behind starting up, etc.

2. Estimate expenses

You will have fixed and variable expenses. Fixed expenses will include rent (if you get yourself an office), office supplies, monthly fees of credit card processing, website service fees, salaries of employees, etc. Variable expenses include credit card transaction fees, commissions on sales, and other costs directly linked to your operations.

This estimation is to figure out the most inexpensive way you can operate your business so that you can milk out as much profits as you can by not picking subpar alternatives of suppliers, and just staying ready in general (you can't avoid rent though).

3. Monthly sales estimations

Stay keen on how your business would manage to reap revenues from its operations. Keep separate budgets for best and worst scenarios. A simple Maximax, Maximin and Minimax regret budgeting (in terms of decision-making under uncertainty), or Estimated Monetary Value and Expected Value of Perfect Information (in terms of decision-making under risk) can get you the figures you'd be able to reap from your business.

4. Cash flow

Keep a cash flow statement at the ready to track your cash, not your profit. You'd never know when you might need to check how much you have in hot cash.

A simplified how-to-do list of budgeting for fresh entrepreneurs. Keep in mind that this article is a simplification, a gateway to help you out in finding out more sources. Best of luck, aspiring entrepreneurs!

Aka is a tiny bleep on the world's radar, and he finds peace in knowing it. Ruin his peace by poking him on akaaraf@hotmail.com