Bookkeeping - anticipate your accounting cycle

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Bookkeeping

The main objective of starting a business is definitely to reap a profit. Many startups failed within 3 years of establishment due to poor financial management and no proper bookkeeping. It is important for entrepreneurs to have a proper recording of business transactions; income and expenses to determine whether your business is operating at a profit or at a loss. Knowledge of basic bookkeeping will ensure the consistency of your business financial reporting.

Cashbook

The basic accounting system would be keeping a cashbook record. It is important to keep all your record of expenses and original documents such as bills, invoices, receipt, payment and sales voucher as a proof of the statement of your entry in your cashbook. From this cashbook, later on, you will transfer all the data to your business account for the monthly statement. For small business entrepreneurs normally they just use a cashbook to manage their daily transaction.

Cash flow from operating activities

The cash flow includes activities from generating principal revenue such as a purchase of goods and services and sales. It can be computed using two methods which are Direct and Indirect Method.

Direct method

The direct method is to record all operating activities that involve various types of cash receipts and payments such as cash paid to suppliers, cash receipts from customers, salaries etc and then putting it together into the operating section of a cash flow statement.

Indirect method

In the indirect method, the amount of net cash flow from operating activities is calculated by using the net income figure from the income statement. It uses net income as a starting point makes adjustments for all transactions for non-cash items, then adjust for all cash-based.

Statement of cash flow forecast

A statement of cash flows forecast shows the estimation of money flow in and out of a business. This includes all projected income and expenses over a period of time. Statement of cash flows forecasting is a very important and useful tool for an entrepreneur. It will help entrepreneurs in budgeting and plan their expenses commitment and payment to relevant parties.

We have already projected the amount of money that is needed to start a business i.e.the "outflow" for ABC Enterprise. We also have to project how much money will come in through business activities i.e. sales or additional cash injected. Amounts forecasted from sales should be shown with the accurate expected period under "inflow".

Determine your own fund capacity

Estimate the loan disbursement timing

Business might apply for a loan and the process might take some time. The timing of the cash inflows from the loan will greatly affect your cash flow forecast.

Sales estimation

A sales estimation is a plan of how much you expect to sell in the future, normally broken down by month. For a startup business, you'll need to estimate your forecasts based on information from customer surveys, market research, suppliers, industry experts, the performance of similar businesses and the capacity of your business operation. For a mature business, sales estimation can be based on the sales history or trends.

Payment timing

It's important to understand that the timing of cash inflow and cash outflow comes down to the operating cycle of your business. This involves the timing of buying and selling, sales collection time, credit payment terms and specific time payment commitment.

Cost estimation

Cost estimation is a forecast of all expenses that a business may incur. It can be estimated daily, monthly or annually

Financial management through statement of cash flow forecast

Statement of cash flows reports all the in and out cash flows for a given accounting period. Statement of cash flows shows the changes in capital from the beginning of a year and breaks it down to sources and usage. It also can be categorized into three main activities: Non-Recurring Expenses, Fixed Assets, and Operating/Working Capital.

Statement of comprehensive income (profit and loss statement)

A statement of comprehensive income (profit and loss statement, P&L) is a financial statement that summarises the revenues, costs and expenses incurred during a specific period of time.

How to Setup a Project in India

The office of Development Commissioner (MSME), Ministry of Micro, Small & Medium Enterprises, Government of India

http://www.dcmsme.gov.in

It all begins with an idea

The overriding reason for anyone to think of establishing a MSME unit can be summarised in one word - opportunity. An opportunity to provide a product or service, which can generate sufficient surplus. This is all the more true if one is a believer in the maxim, "Small is Beautiful".

However, ideas need to be filtered through a multi-layer sieve. This model is shown in the following flow:

- Does the idea fire up your motivation?
- Is it a viable business proposition in your area?
- Does it match the needs of your clientele?
- Check it out with basic market research
- Test it out at market place
- Consult with the experts
- Look out for competition in the field
- Is it a sunrise industry?
- Your business opportunity
- Project conceptualisation

Once the ideas are screened and a viable business opportunity emerges the project has to be conceptualised in all its dimensions. The 4 Ps of Project Conception is:

- PRODUCT (Shape, Size and Nature)
- PROCESS (Technology to produce the product)
- PLACE (Location of Plant)
- PARTNER (Technological of Financial Collaborator)

Making a product choice

In a project conceptualisation stage while making a product choice following factors are related to product need to be considered:

- Product Line
- Depth, Width
- Packaging
- Branding
- Warranties
- After Sales Service

Some other factors that one should consider while finalising the product choice are:

- Ease of availability of raw-material
- Process Technology
- Accessibility to the market
- Incentive and support from Government

Market information is also important for product selection. Products, which are likely to have a number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

In case the entrepreneur is looking for a product, which has export potential, the following additional questions need to be asked:

- What should be the contents of export-product portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a specific country?
- Are any WTO conditionalities involved e.g. "child labour free", ISO 9000 certified, GMP followed etc.

The development of export-product portfolio can be done by considering 4 parameters viz.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

Analysis can be conducted using this four dimensional model. The obvious choice is a product which scores a high rating on first two parameters and low rating on last two parameters.

EXIM (Export Import Bank of India) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters viz.

- Supply Capability In Product Group
- Domestic Environment
- Export Market Attractiveness

This analysis gives rise to product groups with high potential or low potential.

With regard to special packaging requirements one has to be careful about laws of the country one is exporting to. For instance, while exporting to Australia, wooden-packaging cannot be done.

Product adaptations for country's specific needs look into things like whether voltage supply is 220V or 110V for electric appliances and for automobiles whether left-hand drive or right-hand drive is appropriate.