

Welcome to Training

FINANCE for NON- FINANCE



APP

ASIA PULP & PAPER

WHY MDI?

Celebrating 30 years of developing Indonesia's human resources

Management Development International (MDI) develops people and organizations as the exclusive partner of TACK & TMI International in Indonesia.



Founded in the UK as a global organisation developing practical sales & leadership skills loaded with easy-to-use tools from over 70 years of experience worldwide.



Founded in Denmark, TMI International is a mindset & behaviour transformation expert, with more than 50 years of experience consulting and developing organizational culture, personal qualities and customer journey experience.



THE PARTNER FOR
MEANINGFUL
LEARNING EXPERIENCES



OUR MOTTO

“It’s all about YOU, not us”

Our primary role is to help you and your people become even better at what you do.

Hence, it is vital to tailor to you specific situations, development needs, & challenges.
Generating exceptional performance requires integration of values, culture, systems, processes, tools, people, knowledge and, of course, relevant competencies, behaviours and skills.

We call this approach “**YOU Appeal®**” which **is a way of life** at TACK & TMI.

It’s central to our products, services and solutions, our approach to clients and our way of working together across the TACK and TMI globe.



INTRODUCTION

Overall Objectives:

- To develop APP Leaders with the relevant managerial skills required to perform their current positions in order to manage their work more effectively and efficiently and able to deliver consistently stronger results for our people, our customers and our shareholders
- Develop a talent pool of APP Leaders with high competencies who are ready for higher position and can become the APP leadership role models
- Practice to apply the various skills learned during the program in various experiential learning activities designed based on the challenges they commonly face in their work environment and develop an action plan to implement in their actual work environment

Join Us



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(Management Development International)**

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Senior Consultant & Trainer

Conduct various management consulting and assurance activities ,



SUSANTO SALIM

Experience

- Management Consultant- KAP Johan, Malonda & Partner
- GM - PT Cahaya Adi Alam (Honda Lawadinata Group)
- Senior Trainer _ MDI Audit
- Committee Member _ PT Berdikari Karya Mandiri
- Lecturer in Cost management, Auditing, AIS, Fraud Auditing, Internal Control (COSO) - Tarumanagara University

Email : vstsalim@gmail.com

HP 0816-1956221

Education & Certification

- Bachelor Degree in Accounting
- Master Degree in Strategic Management
- Certified Public Accountant
- Certified Professional Management Accountant
- Chartered Accountant
- ASEAN CPA

Skills

- Assurance Services
- Delivering Financial Management Training
- Design Accounting Information System Fraud
- Examining

Your Facilitators



Ferry Atmadi

Area Spesialisasi : Management, Leadership, Strategic Management, Supervisory, Communication, Finance and Negotiation.

Klien yang pernah bekerjasama : Mercedes Benz, Toyota Astra Motor, Auto 2000, Astra Daihatsu Motor, Mitra Pinasthika Mustika, Raja Garuda Emas, Unilever, Axis, Indosat, Circle K, Orang Tua Group, Boehringer Ingelheim, BI, OJK, Nestle dll

Pendidikan & Pelatihan :

- **Master of International Management (with honors), Thunderbird School of Global Management, Thunderbird, Phoenix, Arizona, USA**
- **Doctorandus, Fakultas Ekonomi, jurusan Akuntansi, Universitas Gadjah Mada , Yogyakarta - Indonesia**
- **Loyola College, Semarang, Indonesia**
- **Berbagai seminar, workshop, dan pelatihan dari TACK Training International, London; ILO, Geneva and APO Supervisory Development Program, Lahore, Pakistan**
- **Berbagai seminar, workshop, dan pelatihan dari TMI (Transformation Managed with Inspiration)**

Pengalaman Kerja :

Hingga saat ini :

- **Pendiri dan Direktur Eksekutif MDI-TACK Training International**
- **Partner dari TACK Training International, London, UK (beroperasi di lebih dari 60 negara); TMI (Transformation Managed with Inspirations), Denmark, GI Group, Italia dan Video Arts, UK**
- **Partner Senior dari KAP Drs. Johan, Malonda, Mustika & Rekan, Certified Public Accountants (member of Baker Tilly International)**
- **Pengajar Luar Biasa Prasetiya Mulya Business School**
- **Mengembangkan dan membawakan program pembelajaran Kepemimpinan, Manajemen, Keuangan/Akuntansi, softskills dll ; fasilitator pelatihan/ seminar/workshop yang disesuaikan dengan kebutuhan berbagai organisasi, industri serta level peserta dalam bahasa Indonesia dan bahasa Inggris**

Pengalaman Kerja sebelumnya :

- **Pendiri, Direktur, dan fasilitator dari Program Pengembangan Eksekutif & Program Pengembangan Pengusaha Kecil-Menengah , Program MM- Prasetiya Mulya Business School**
- **Dosen Universitas Tarumanegara**
- **Planning and Control Manager dari Putera Group, Pulp and Paper Industry**
- **Consultant/Supervisor SGV-Utomo (menjadi Andersen Consulting / Accenture)**

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Website <http://www.mditack.co.id>



Modul - 1

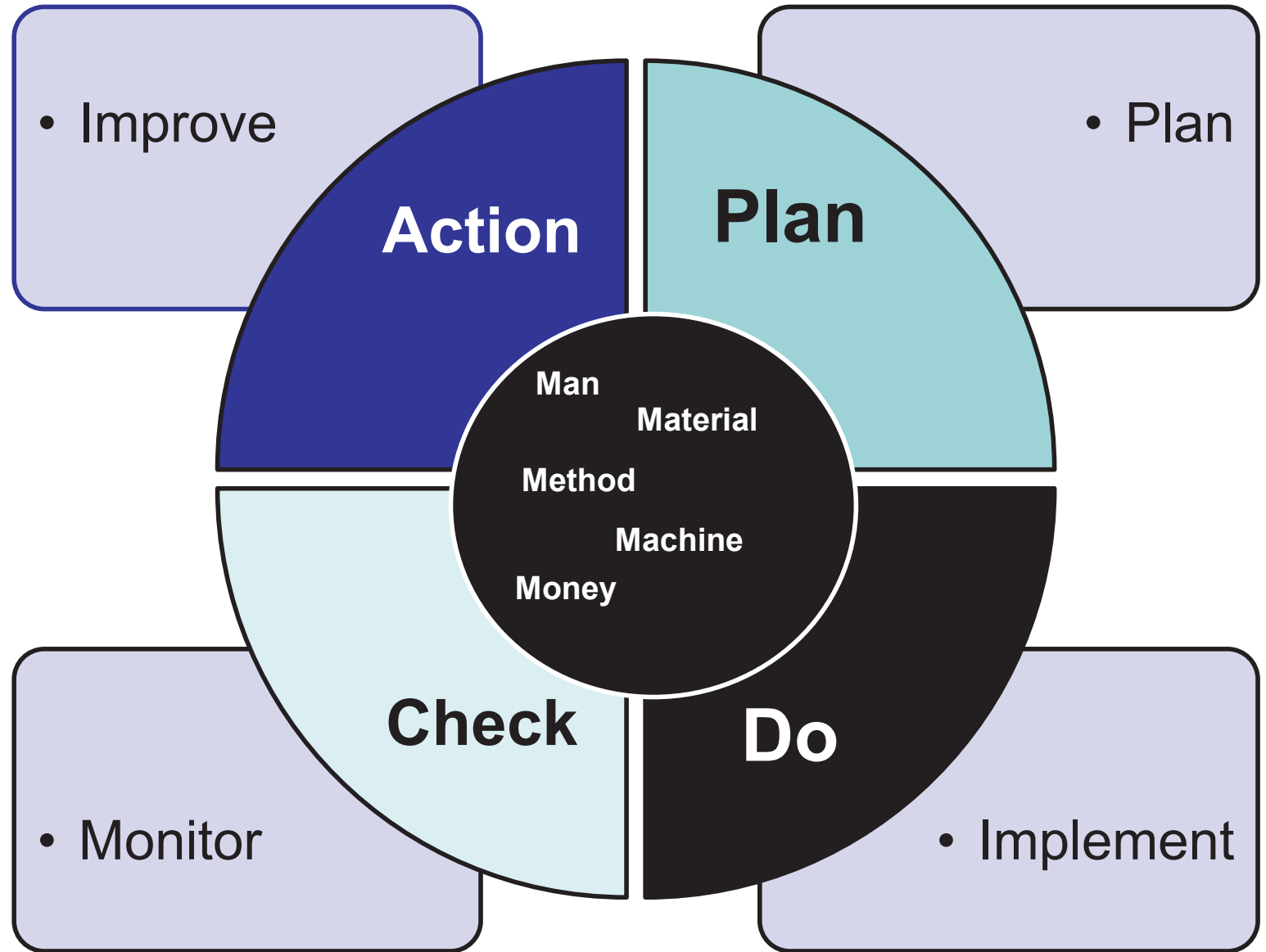
Business Leaders' Role in Financial Management

WHAT IS MANAGEMENT?

Management is the process of defining the goals of a company and implementing activities to achieve those goals, with the resources available **EFFECTIVELY** and **EFFICIENTLY**



MANAGEMENT PROCESS



WHO ARE THE STAKEHOLDERS OF A BUSINESS?





What are the requirements for a sustainable business?

- Getting support from its stakeholders
- Attractive to potential stakeholders

"Attractive" criteria for stakeholders

- Gain more value from the "sacrifice" that has been given
- Better than other alternatives
- There is a possibility of getting results again at a later date

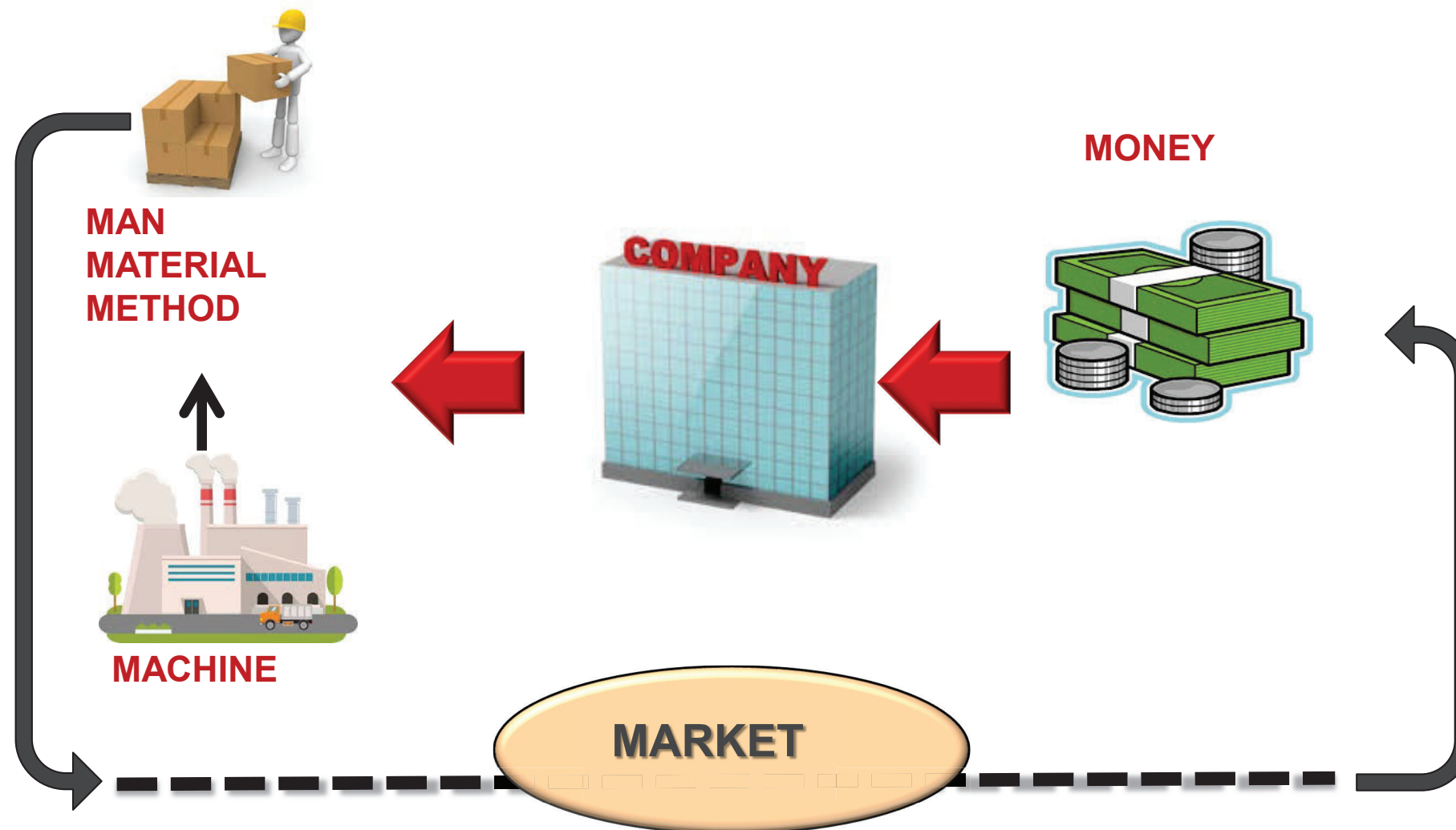


FINANCIAL MANAGEMENT

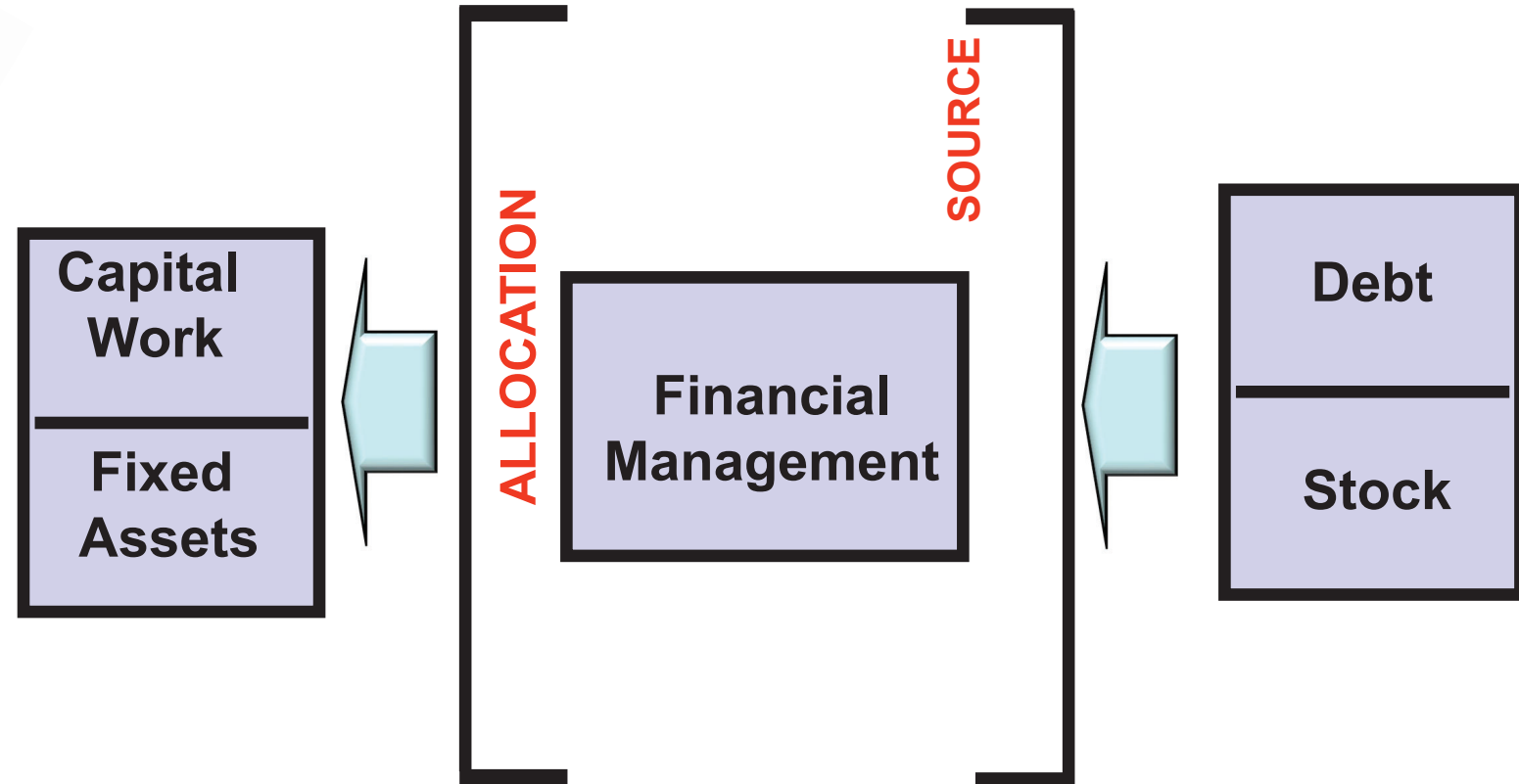
The process of understanding the company's objectives and implementing financial management to achieve the company's objectives, including funding and spending effectively and efficiently



ENTERPRISE RESOURCE CYCLE



INTERNAL FUND CYCLE



- Funds come from external sources
- Funds allocated to projects and/or assets
- The funds are then transferred back to the source of funds

The Profit Concept

In general, the definition of profit is :

Positive difference between the amount generated and the amount disbursed / sacrificed

PROFIT =

SALES - COSTS

(VOLUME x PRICE/UNIT) - (VOLUME X COST/UNIT)

VOLUME X (PRICE / UNIT – COST / UNIT)

Types of Profits

1. Gross Profit
2. Operasional Profit
3. EBITDA (Earning Before Interest, Tax, Depreciation & Amortization)
4. EBIT (Earning Before Interest, Tax)
5. Net Profit



Profitability Concept

Profit should be compared to :

a. Sales Revenue of the business (Turnover):

➤ Return On Sales

$$\text{ROS} = \frac{\text{PROFIT}}{\text{SALES REVENUE}} \times 100\%$$

Company	Profit	Sales	ROS
Co A	Rp 10 mio	Rp 100 mio	10.0 %
Co B	Rp 10 mio	Rp 80 mio	12.5 %



Profitability Concept

Profit should be compared to :

b. Capital Employed by the company

➤ Return On Capital Employed

$$\text{ROCE} = \frac{\text{PROFIT}}{\text{CAPITAL EMPLOYED}} \times 100\%$$

Company	Profit	Capital	ROCE
Co A	Rp 10 mio	Rp 200 mio	5.0 %
Co B	Rp 10 mio	Rp 250 mio	4.0 %

How can we improve company's profitability ?



Modul - 2

Understanding Financial Statement & My Contribution

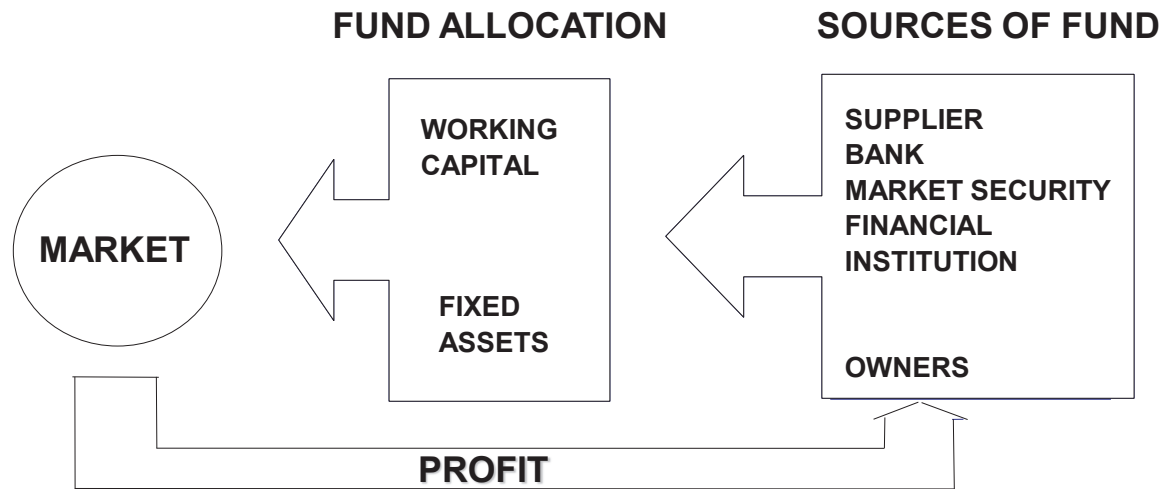
FINANCIAL STATEMENTS

Financial Statements provide information about financial position, results of operation and cash flow of a company



as a foundation, combined with business and economy analysis, in order to make a forecast and project the future

FLOW OF FUND IN A BUSINESS



- Fund source maybe external/internal
- Fund allocated to working capital or fixed assets
- Management utilize fund to fulfill obligations to sources of fund and generate profit

FINANCIAL MANAGEMENT

- **Managing assets and liabilities**
- **Managing profits**
- **Managing cash**

3 BASIC FINANCIAL STATEMENTS

- **Balance Sheet**
 - List of assets, liabilities and company's equities at a particular point in time
- **Profit and Loss Statement (Income Statement)**
 - Results achieved in sales revenue deducted by the costs incurred over a period of time
- **Statement of Cash Flow**
 - Measures the movement of money coming into and going out of a company during a period of time

BALANCE SHEET

DEFINITION

a SNAPSHOT

**of the assets, liabilities and owner's equity
of the company at a particular date**

PURPOSE

shows

**the financial position of a company
at a particular date**

BALANCE SHEET

ASSETS	LIABILITIES/ EQUITY
Amount owned by the company	Amount owed by the Company
Rp 10 million	Rp 10 million

Fund usage :
Where money is spent to

Fund source :
Where money comes from


BALANCE SHEET

3 Main parts of BALANCE SHEET :

ASSETS	LIABILITIES
	EQUITY



Assets may consist of :
Current Assets and Fixed Assets

EXAMPLES OF FINANCIAL RECORDS



USE
**WORKING CAPITAL
(CURRENT ASSETS)**

CASH BILL	10
STOCK MATERIAL	50
STOCK GOODS	50
EQUIPMENT & MACHINERY	140
VEHICLE	250
TOTAL	500

SUMBER
DEBT

BANK DEBT	200
CAPITAL	
PRIVATE STOCKS	300
TOTAL	500

2 MAIN ASSETS :

A. CURRENT ASSETS

- *Cash*
- *Short term investment*
- *Note receivables*
- *Account receivables*
- *Inventories*
- *Unbilled revenue*
- *Prepaid expenses*

B. NON CURRENT ASSETS

- *Long term investment*
- *Fixed assets*
- *Intangible assets*
- *Deferred charges*
- *Other assets*

What is Depreciation ?

**Depreciation is
the allocation of the cost of tangible
assets as expense of the periods
in which services are received
from the assets**

LIABILITIES

*All of the company's unsettled financial obligation to other parties;
Liabilities are sources of fund from creditors*

LIABILITIES

2 CATEGORIES

A. CURRENT LIABILITIES (SHORT TERM)

- Accounts payable
- Notes payable
- Tax payable
- Deferred charges
- Due long term liabilities
- Deferred revenue

B. LONG TERM LIABILITIES

- Bonds
- Other long term liabilities

CAPITAL (OWNERS' EQUITY)

Owners' equity is :

The company's long-term capital
which comes from a combination of :

- shares
- capital reserves
- and retained profits

COMPONENTS OF A BALANCE SHEET

INDONESIA

➤ **AKTIVA (Harta)**

- Aktiva Lancar
- Investasi (penyertaan)
- Aktiva Tetap
- Aktiva yang tidak berwujud
- Biaya ditangguhkan
- Aktiva lain-lain

➤ **KEWAJIBAN (Hutang)**

- Kewajiban Lancar (jangka pendek)
- Kewajiban jangka panjang
- Pendapatan ditangguhkan
- Kewajiban lain-lain

➤ **MODAL**

- Modal saham
- Laba yang ditahan
- Penilaian kembali

ENGLISH

➤ **ASSET**

- *Current Asset*
- *Investment*
- *Plant & Equipment*
- *Intangibles*
- *Deferred Cost*
- *Other Assets*

➤ **LIABILITIES**

- *Current Liabilities*
- *Long-term Debt.*
- *Deferred Revenues*
- *Other Liabilities*

➤ **CAPITAL**

- *Paid in Capital*
- *Retained Earning*
- *Appraisal Capital*

BALANCE SHEET As of 31 December 2009

ASSETS		LIABILITIES & OWNER'S EQUITY	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash	Rp.	Accounts payable	Rp.
Notes receivable	Rp.	Notes payable	Rp.
Accounts receivable	Rp.	Accrued expense	Rp.
Inventories	Rp.	Unearned revenue	Rp.
Accrued revenue	Rp.		
Prepaid expense	Rp.		
INVESTMENT		LONG TERM LIABILITIES	
Investment in stocks	Rp.	Bank Loan	Rp.
Investment in bonds	Rp.	Bonds	Rp.
NON-CURRENT ASSETS		OWNERS' EQUITY	
TANGIBLE ASSETS		Common Stock	Rp.
Land	Rp.	Retained earnings	Rp.
Buildings	Rp.		
Equipment	Rp.		
Vehicle	Rp.		
INTANGIBLE ASSETS			
Goodwill	Rp.		
Patent	Rp.		
Trademark	Rp.		
Total Assets	Rp.	Total Liabilities & Owner's Equity	Rp.

Example :
BALANCE SHEET as of 31 December 2009
 (in millions of Rp)

Current Assets		Current Liabilities	
Cash	40,4	Account payable	56,1
Account receivables	68,2	Short term loan	42,4
Inventories	86,6	Other liabilities	<u>66,2</u>
Others	<u>21,4</u>	Total current liab	164,7
Total Current Assets	216,6		
		Long Term Liabilities	143,2
Fixed Assets	185,0	Common stock	22,8
Patent	66,2	Retained earnings	<u>186,1</u>
Other assets	<u>49,5</u>	Total Equity	<u>208,9</u>
	<u>300,2</u>		
JUMLAH AKTIVA	516,6	Total Liab & Equity	516,6

PROFIT AND LOSS STATEMENT (INCOME STATEMENT)

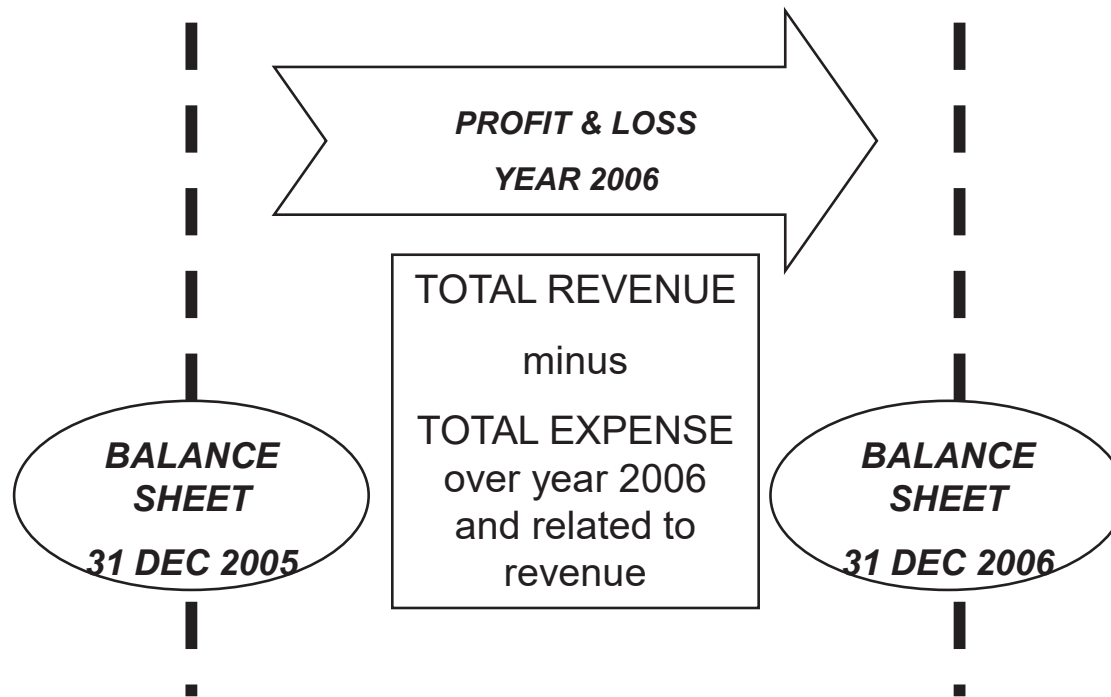
Definition

Report on revenue, expenses, profit/loss of the company over a certain period of time

Purpose

Measure how profitable a business has been over a certain period of time, usually one year, from its normal operations

PROFIT & LOSS



PROFIT & LOSS

4 MAIN SECTIONS OF PROFIT & LOSS

1. Revenue from the company's main business
2. Operational expenses
 - Selling expense and
 - General / administration expense
3. Income and expenses from outside the company's normal business
4. Extraordinary gain or loss

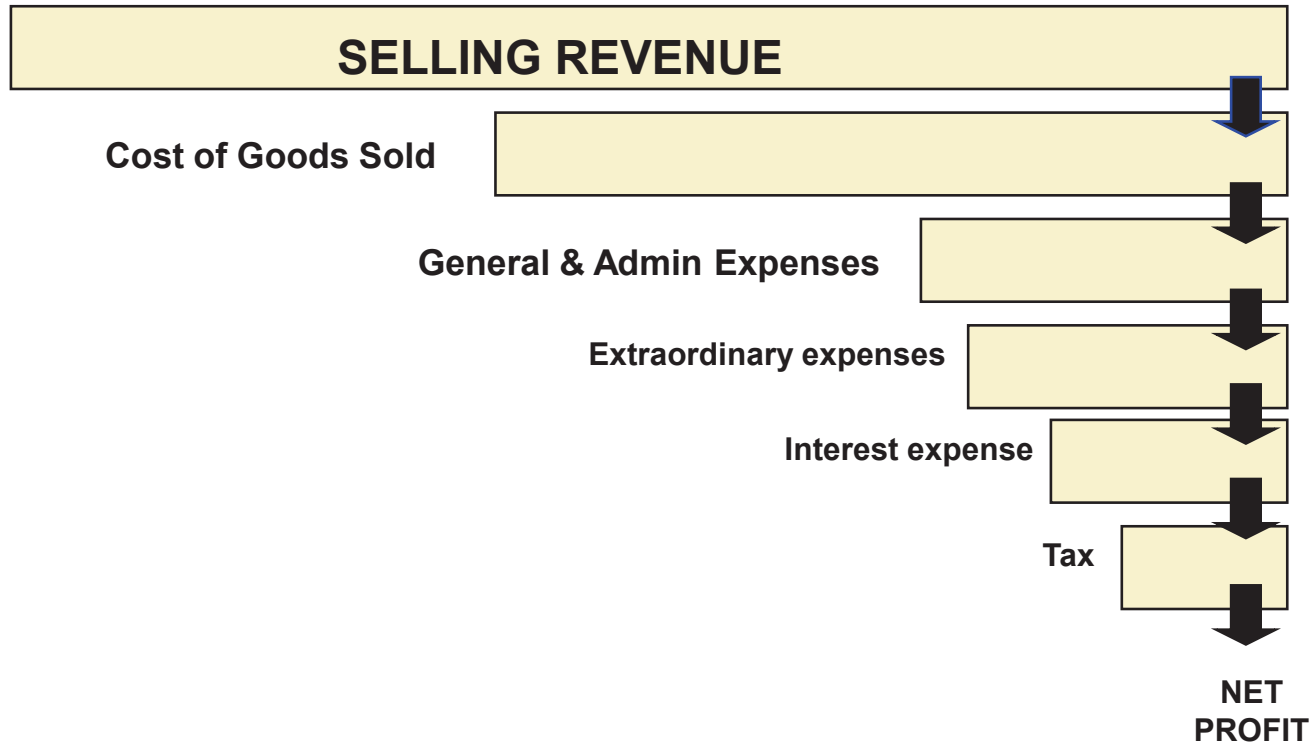
PROFIT & LOSS COMPONENTS

➤ Penjualan	<i>Sales Revenue</i>
➤ Beban Pokok Penjualan	<i>Cost Of Goods Sold</i>
➤ LABA KOTOR	➤ GROSS PROFIT
➤ Biaya Penjualan	<i>Selling Expense</i>
➤ Biaya Administrasi dan Umum	<i>General Admin Expense</i>
➤ LABA OPERASI (LABA USAHA)	➤ OPERATING PROFIT
➤ Pendapatan dan Beban Lain-lain	<i>Other Income or Expense</i>
➤ LABA SEBELUM POS LUAR BIASA	➤ PROFIT BEFORE EXTRAORDINARY GAIN/LOSS
➤ Pos Luar Biasa	<i>Extraordinary Gain/Loss</i>
➤ LABA SEBELUM BUNGA DAN PAJAK PENGHASILAN	➤ EARNING BEFORE INTEREST AND TAX (EBIT)

PROFIT & LOSS COMPONENTS

- | | |
|---|---|
| ➤ LABA SEBELUM BUNGA DAN PAJAK | ➤ <i>EARNING BEFORE INTEREST AND TAX (EBIT)</i> |
| ➤ Beban Bunga
LABA SEBELUM PAJAK | ➤ <i>Interest Expense
EARNING BEFORE TAX (EBT)</i> |
| ➤ Pajak Penghasilan
LABA SETELAH PAJAK (LABA BERSIH) | ➤ <i>Corporate Tax
EARNING AFTER TAX (NET PROFIT)</i> |

PROFIT DISTRIBUTION



STATEMENT OF CASH FLOW

Presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities

3 MAIN CATEGORIES IN CASH FLOW

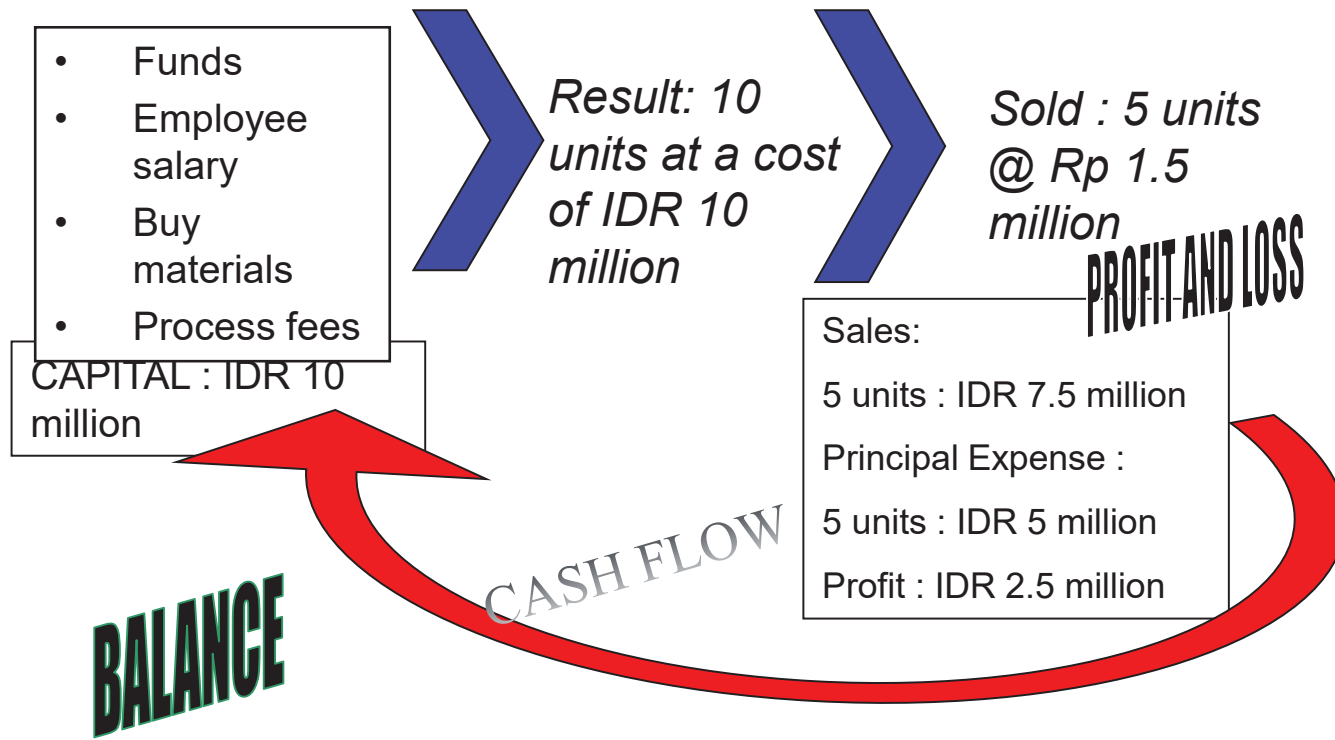
1. Operating Activities
2. Investing Activities
3. Financing Activities

EXAMPLE : CASH FLOW Year 2009

(in millions of Rupiah)

Beginning balance		2,750
Cash in		
Cash sales	6,250	
Account receivable received	3,250	
Working capital loan	<u>1,500</u>	
Total cash in	11,000	
Cash out		
Cash payment	10,000	
Account payable paid	1,850	
Tax payable paid	<u>1,000</u>	
Total cash out	12,850	
Net cash flow		<u>(1,850)</u>
Ending balance		900

WHAT IS THE CYCLE OF FUND MANAGEMENT IN A BUSINESS?



PRINCIPLES OF ACCOUNTING & FINANCE

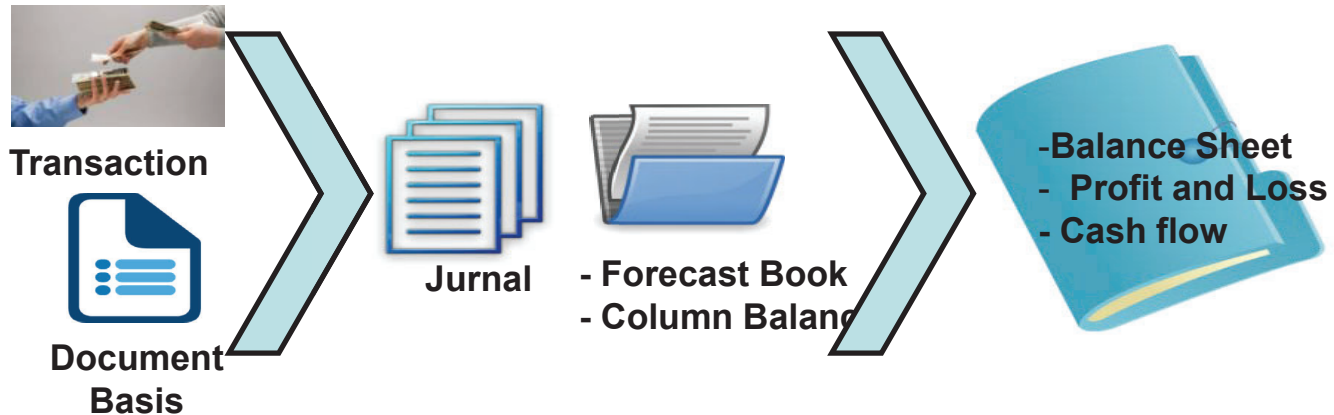
4 Principles in Preparation of Financial Statements:

1. Going Concern
2. Consistency Principle
3. Principle of Caution
4. Accrual Principle

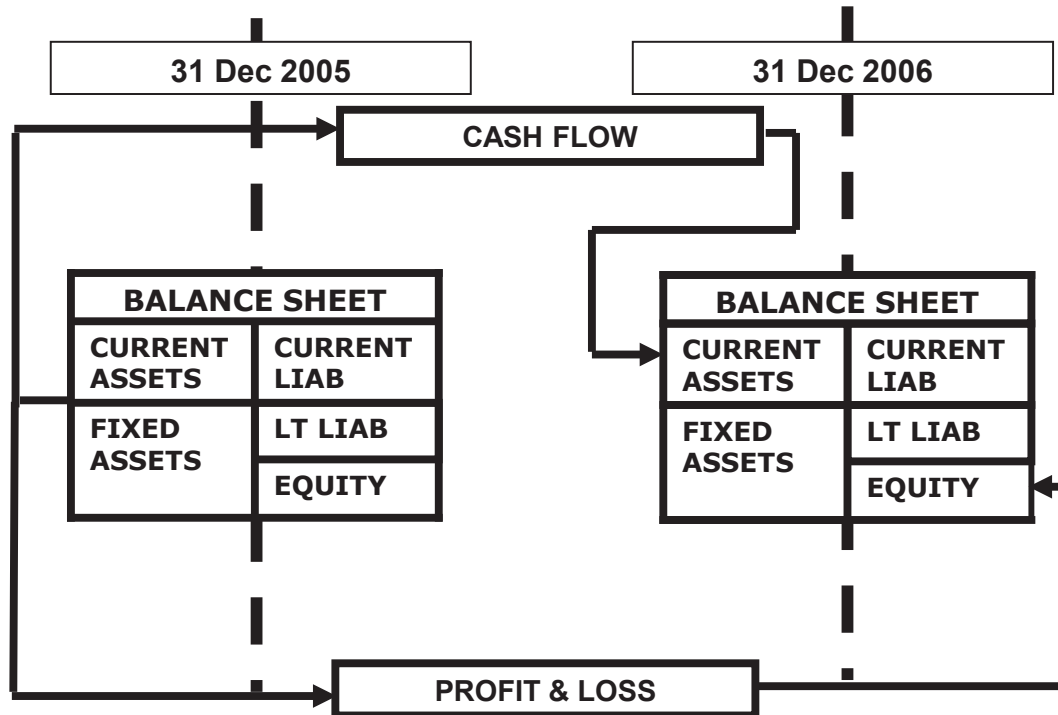


FINANCIAL ACCOUNTING TRANSACTION PROCESS

From transaction to Financial Statement:



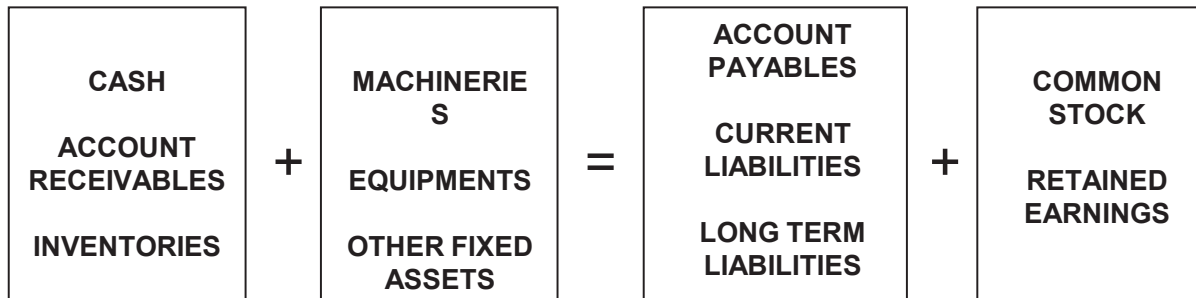
Interrelation between Financial Statements



ACCOUNTING EQUATION

ASSETS = LIABILITIES + EQUITY

CURRENT ASSETS + FIXED ASSETS = LIABILITIES + (EQUITY + RETAINED EARNINGS)



Module - 3

Working Capital Management

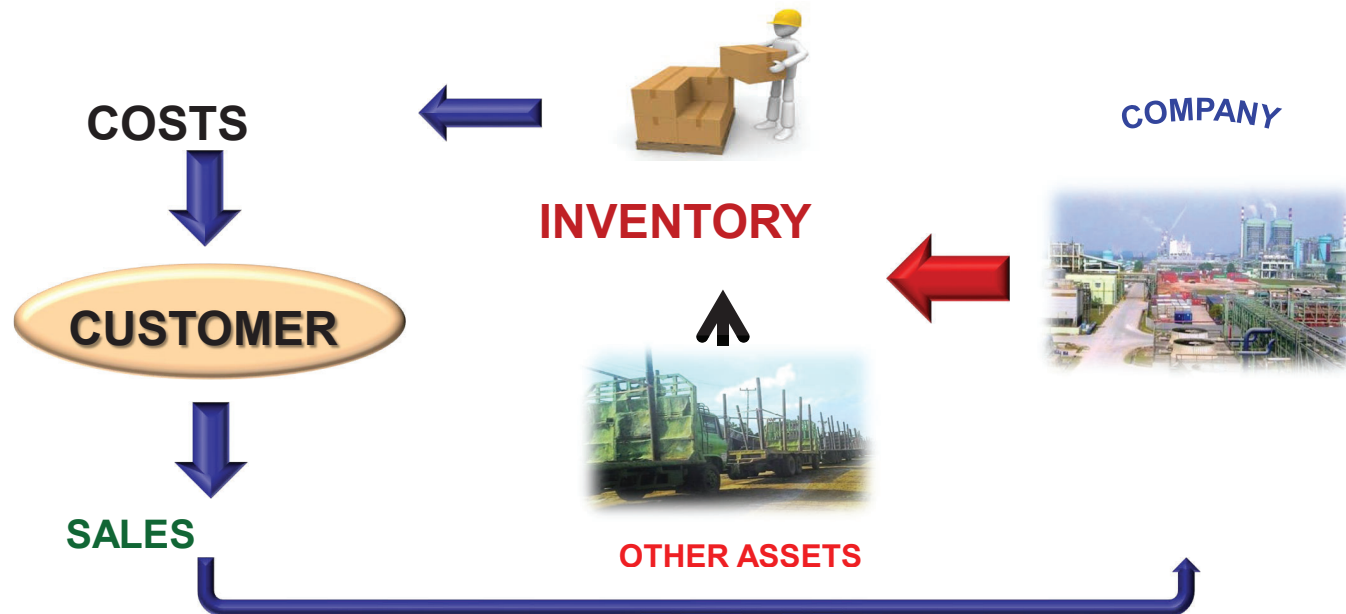


Working Capital Definition

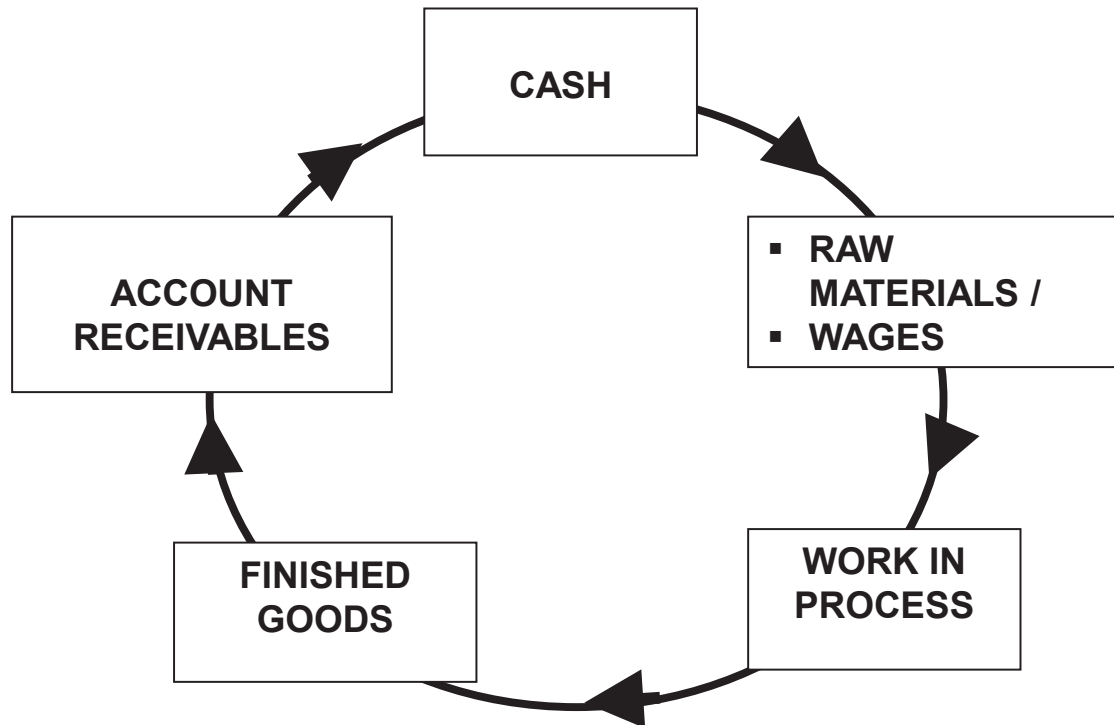
Working Capital is

a 'circulating capital' that circulates through the business with the objective of generating profit

OPERATIONAL CYCLE



Working Capital Cycle



COMPANY ASSETS

CURRENT ASSETS

- Cash
- Accounts receivable
- Inventory (Raw Materials, Semi-finished goods, Finished goods)
- Others

FIXED ASSETS

- Tangible Fixed Assets
- (land, buildings, machinery, etc.)
- Intangible Fixed Assets
- Others



Working Capital Management

Why is it important?

- ❖ Most of the time is spent managing working capital
- ❖ Working capital is a big investment
- ❖ Investment in working capital
- ❖ (cash, inventory, and trade receivables), often impossible to avoid



The Amount of Working Capital

How much working capital is required, depending on:

- ❖ The size of the business scale
- ❖ Type of business
- ❖ Sales volume
- ❖ Technologies used
- ❖ Attitude, liquidity and profitability



Working Capital Management

- Cash/bank management
- Accounts receivable management
- Inventory management



CASH MANAGEMENT

Motives of Holding Cash/ Bank :

- ❖ Transaction motives
- ❖ Prudent motives
- ❖ Speculation motives

Cash & Bank Management

- Cash calculation
- Reconciliation
- Cash and bank procedures
- Cash and bank records
- Cash and bank statements



ACCOUNT RECEIVABLE MANAGEMENT

Purpose of Account Receivable Management

- ❖ Managing bad debt
- ❖ Reducing cost of working capital
- ❖ Increasing the speed of working capital cycle
- ❖ Increasing effectiveness on sales

ACCOUNT RECEIVABLE MANAGEMENT

- ❖ Aging Schedule and Analysis
- ❖ Confirmation
- ❖ Recording and Collection Procedures

INVENTORY MANAGEMENT

Why Inventory Management is Important :

- ❖ The cycle of inventory is longer than account receivables
- ❖ Inventories consist of huge investment
- ❖ Inventories are materials

INVENTORY MANAGEMENT

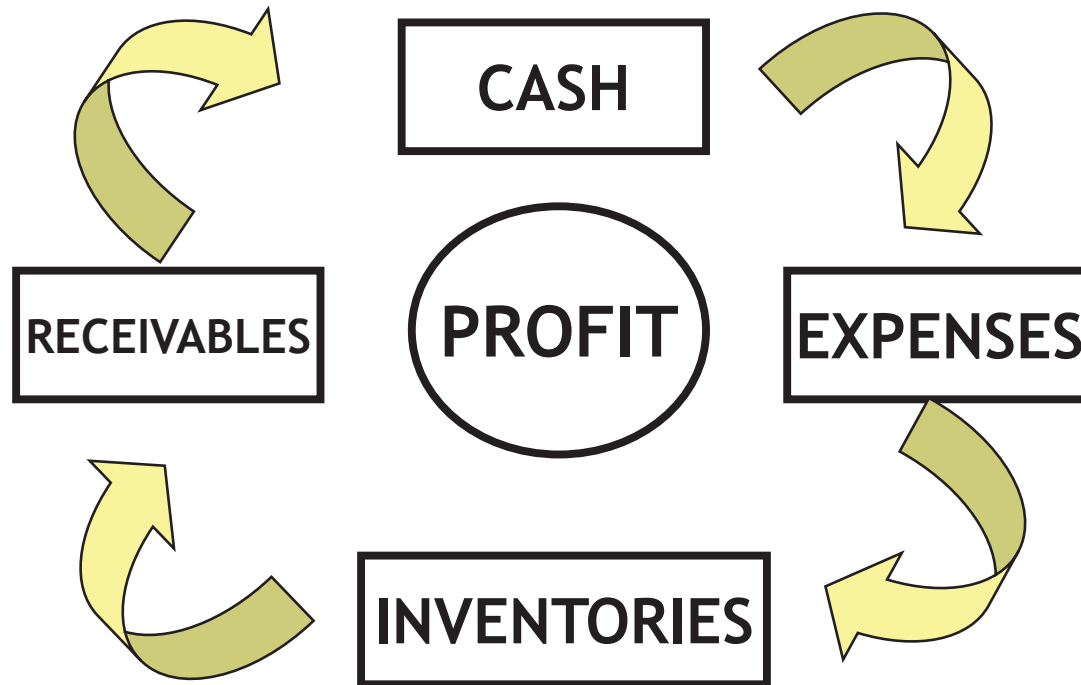
- ❖ Inventory Taking
- ❖ Incoming and Outgoing Procedures
- ❖ Records
- ❖ Analysis
- ❖ Reports

Working Capital Management

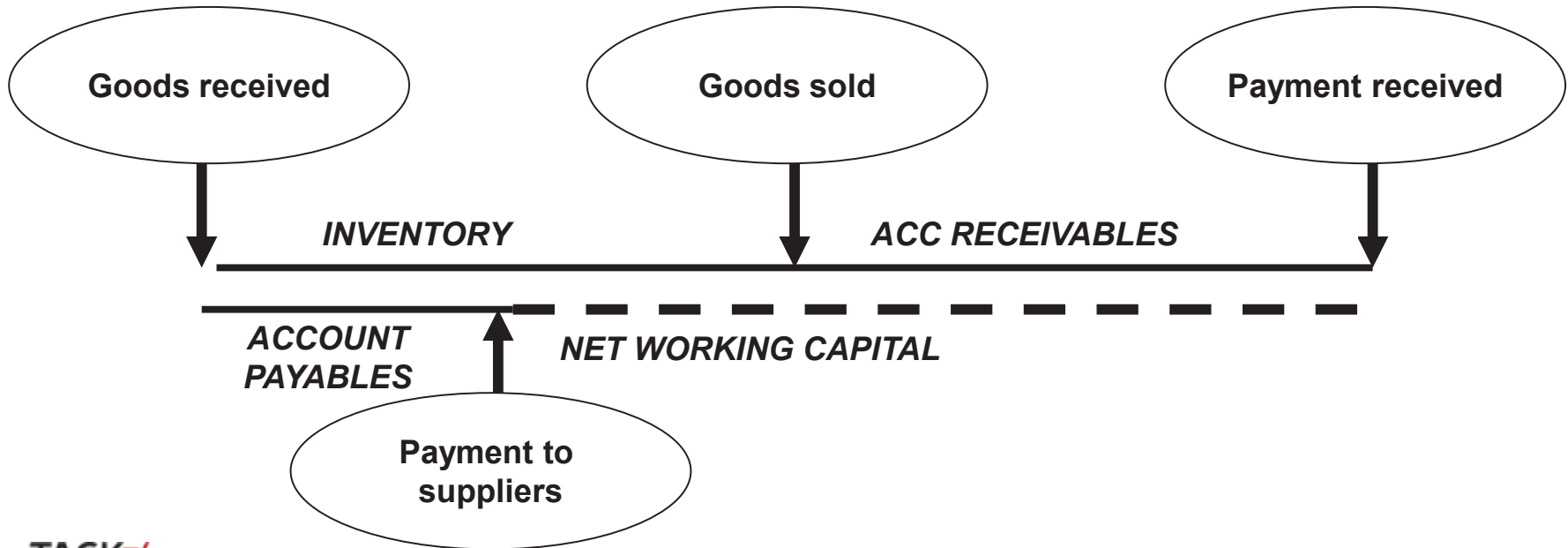
Things to Consider in Determining Buffer Stock

- ❖ Location of the supplier
- ❖ Unanticipated sales
- ❖ Delivery time to the customer

WORKING CAPITAL CYCLE



NET WORKING CAPITAL



NET WORKING CAPITAL

***NET WORKING CAPITAL =
CURRENT ASSETS
- CURRENT LIABILITIES***

Module - 4

Financial Statement Analysis



Financial Statement Analysis

Important information for the ‘stakeholders’

- **Shareholders**
- **Banks / creditors**
- **Suppliers**
- **Customers**
- **Employees**
- **Government**
- **Public**

Purpose of Financial Statement Analysis

In general, they are categorized into :

1. Liquidity aspects
2. Profitability aspects
3. Solvency aspects

Financial Statement Analysis

Tools of Analysis :

1. Horizontal Analysis
2. Vertical Analysis
3. Ratio Analysis
4. Special Analysis

TOOLS OF ANALYSIS :

1. Horizontal Analysis

- Comparative
- Trend
- Index

HORIZONTAL ANALYSIS INCOME STATEMENT

	2004	Change %	2005	Change %	2006
REVENUE	8,500	5.88	9,000	10.00	9,900
COST OF GOODS SOLD	4,500	-5.66	4,250	17.65	5,000
GROSS PROFIT	4,000	18.75	4,750	3.16	4,900
GENERAL ADM EXPENSE	3,800	7.89	4,100	-2.44	4,000
OPERATING PROFIT	200	225.00	650	38.46	900
OTHER EXPENSE	125	20.00	150	100.00	300
PROFIT BEFORE TAX	75	566.67	600	20.00	600
TAX	22.5	566.67	150	20.00	180
NET PROFIT	52.5	566.67	350	20.00	420

TOOLS OF ANALYSIS :

2. Vertical Analysis

- **Common Size**
- **Structural**
- **Composition**

VERTICAL ANALYSIS

INCOME STATEMENT

	2004	%	2005	%
REVENUE	8,500	100.00	9,000	100.00
COST OF GOODS SOLD	4,500	52.94	4,250	47.22
GROSS PROFIT	4,000	47.06	4,750	52.77
GENERAL ADM EXPENSE	3,800	44.70	4,100	45.56
OPERATING PROFIT	200	2.35	650	7.22
OTHER EXPENSE	125	1.47	150	1.67
PROFIT BEFORE TAX	75	0.88	600	6.67
TAX	22.5	0.26	150	1.67
NET PROFIT	52.5	0.62	350	3.89

TOOLS OF ANALYSIS :

3. Ratio Analysis

- a) **Liquidity Ratio**
- b) **Activity Ratio**
- c) **Profitability Ratio**
- d) **Solvency Ratio**

Financial Statement Analysis

a) Liquidity Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- *A measure of short-term debt-paying ability*

Financial Statement Analysis

a) Liquidity Ratio

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

- *A measure of short-term debt-paying ability excluding inventories*

Financial Statement Analysis

b) Activity Ratio

$$\text{Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

- *A measure of the ability of assets to generate sales*

Financial Statement Analysis

b) Activity Ratio

$$\text{Account Receivable Turnover Ratio} = \frac{\text{Credit Sales}}{\text{Account Receivable}}$$

- *Indicates how quickly receivables are collected*

$$\text{Average Collection Period (Days Sales Outstanding)} = \frac{\text{Account Receivables}}{\text{Sales per day}}$$

- *Indicates in days how quickly receivables are collected*

Financial Statement Analysis

b) Activity Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

- *Indicates how quickly inventory sells*

$$\text{Days of Inventory Held} = \frac{\text{Inventory}}{\text{Cost of Goods Sold per day}}$$

- *Indicates in days how quickly inventory sells*

b) Activity Ratio

$$\text{Net Working Capital Ratio} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Sales}}$$

Indicates effectiveness and efficiency of working capital in generating sales

Financial Statement Analysis

3. Profitability Ratio

$$\text{Gross Profit Margin} = \frac{\text{Net Sales} - \text{Cost of Goods Sold}}{\text{Net Sales}}$$

- *A measure of the profitability of the company's product*

Financial Statement Analysis

3. Profitability Ratio

$$\text{Operating Profit Margin} = \frac{\text{Net Sales} - \text{Cost of Goods Sold} - \text{Selling, General and Administrative Expenses}}{\text{Net Sales}}$$

- A measure of the productivity of sales to generate profit

Financial Statement Analysis

3. Profitability Ratio

$$\begin{array}{l} \text{Earning Power of Total Investment} \\ \text{Rate of Return on Total Asset / ROA} \end{array} = \frac{\text{Profit Before Interest and Tax}}{\text{Total Assets}}$$

- *A measure of the productivity of assets to generate operating profit regardless of how the assets are financed*

Financial Statement Analysis

3. Profitability Ratio

$$\text{Net Earning Power Ratio} \quad = \quad \frac{\text{Net Sales after Tax}}{\text{Total Assets}}$$

(Rate of Return Investment/ROI)

Financial Statement Analysis

3. Profitability Ratio

$$\text{Rate of Return for the Owners} = \frac{\text{Net Profit After Sales}}{\text{Total Equity}}$$

(Rate of Return on Net Worth/ROE)

- The rate of return earned on the stock-holders' equity in the business

Financial Statement Analysis

d) Solvency Ratio

$$\text{Solvency Ratio} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

- A measure of composition between debt to equity

$$\text{Long Term Debt to Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Equity}}$$

- Indicates a relative size between long term debt to equity

Financial Statement Analysis

d) Solvency Ratio

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

- *Indicates how much assets are funded by debt*



Module - 5

Cost Behaviour & Cost Analysis



FINANCING AND COST PRICE

**COST is a sacrifice made in
a certain period to earn
income**

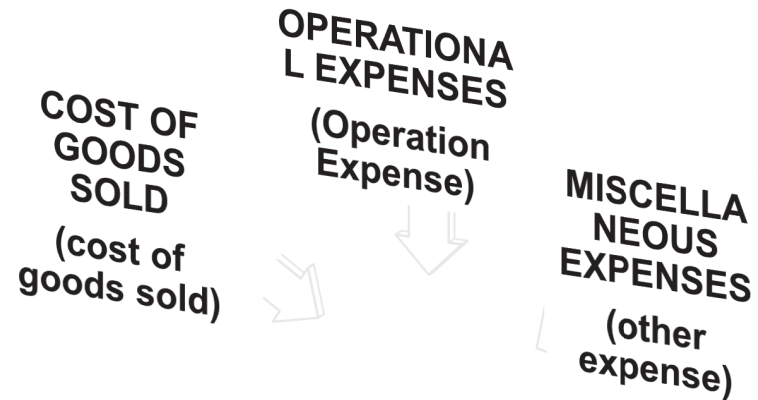
COSTING

COST is a payment of cash or its equivalent or the commitment to pay cash in the future for the purpose of generating revenues

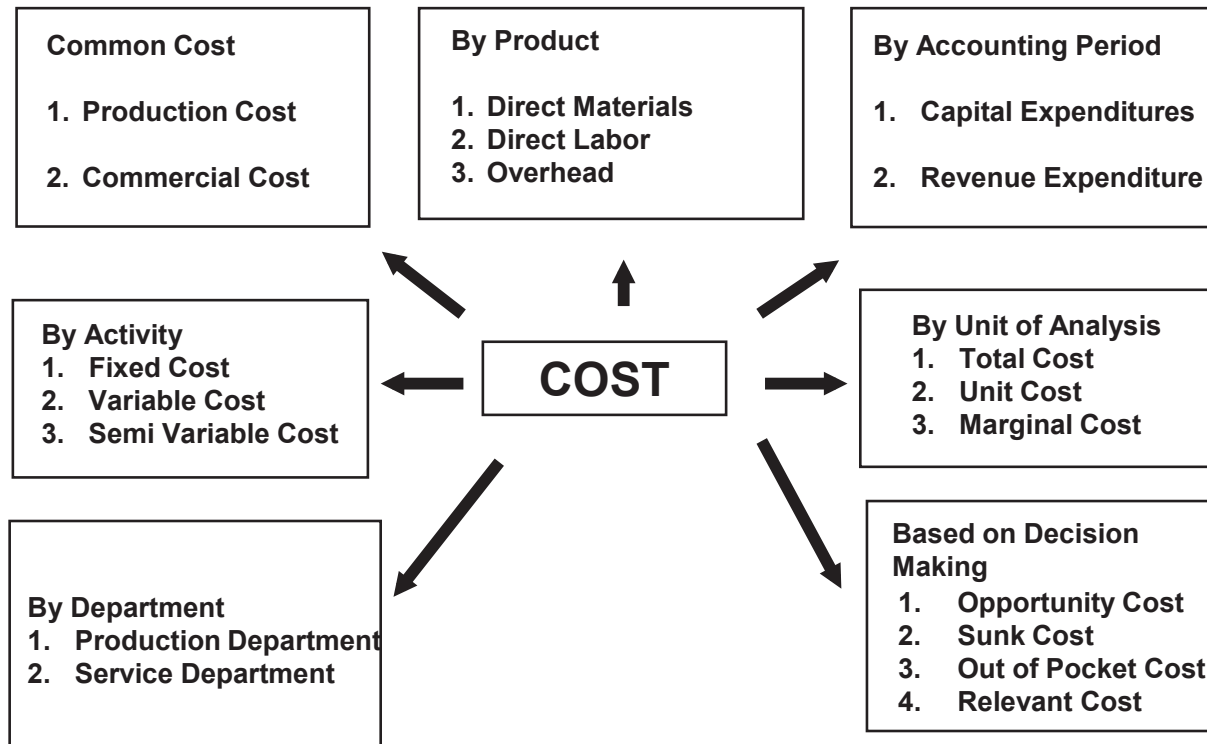
EXPENSE is Assets used up or services consumed in the process of generating revenues

COST & EXPENSE ANALYSIS

ANALYSIS 1 :



COST DETERMINATION



Cost of Goods:



Miscellaneous Loads :
Non-operational expenses
Interest load
Tax burden

Operational Expenses :
Marketing expenses
Logistics burden
General load

COST BEHAVIOUR

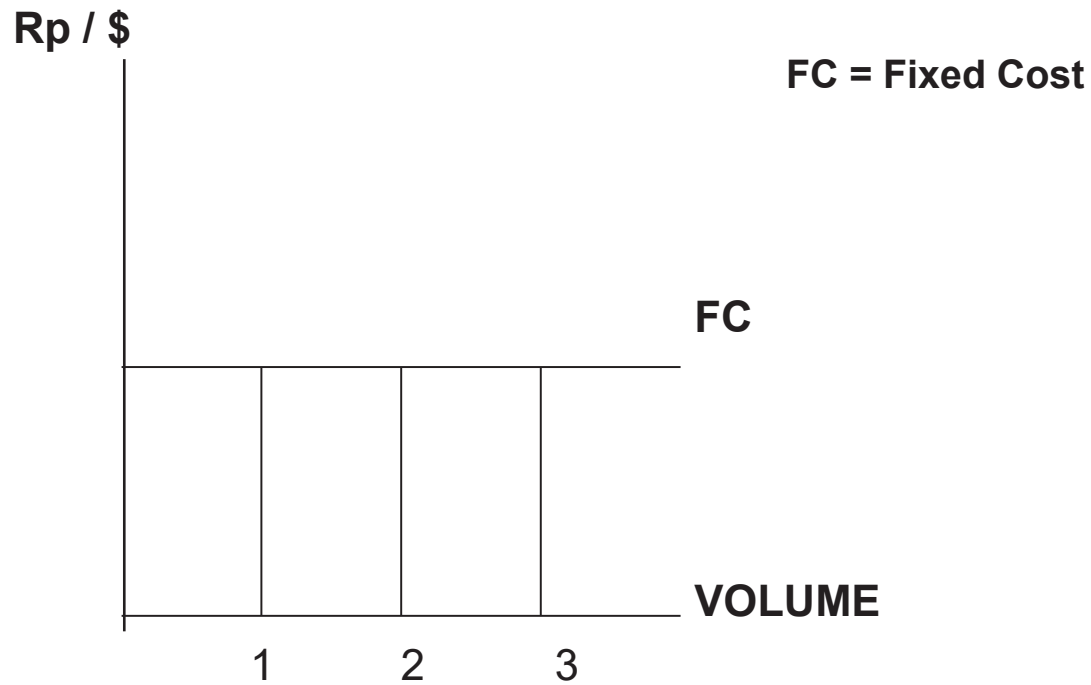
FIXED COST

Cost which is fixed in a certain scale

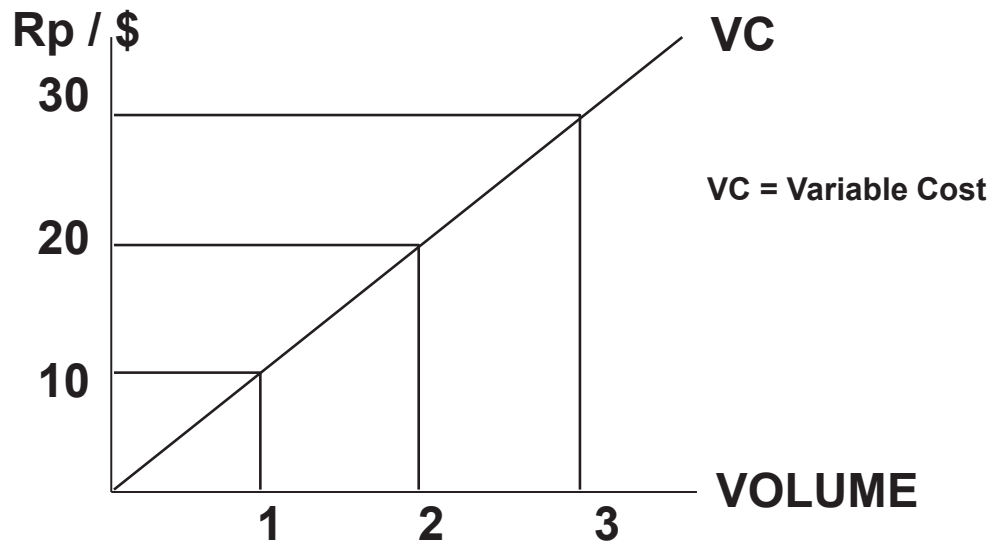
VARIABLE COST

Cost which is proportional to the activity

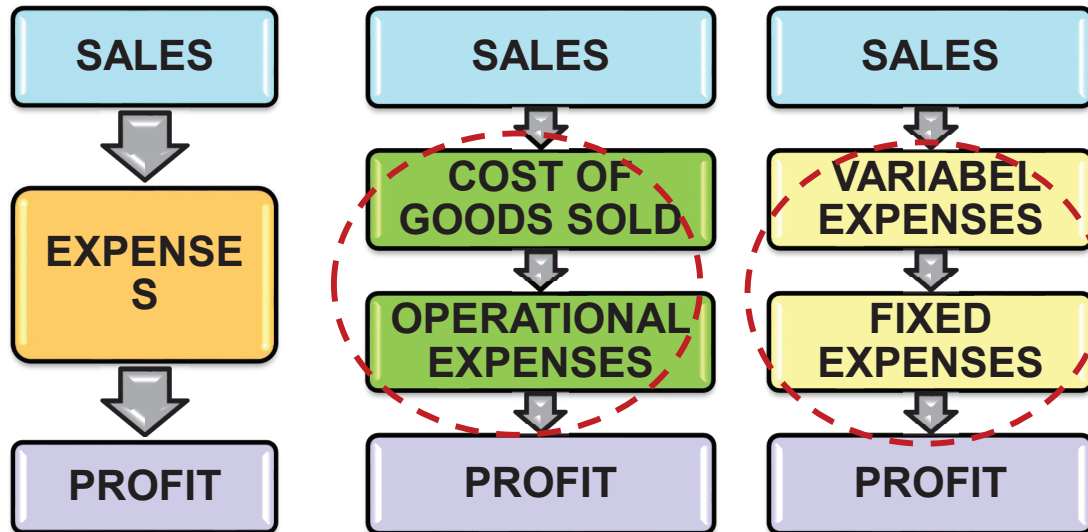
FIXED COST GRAPH



VARIABLE COST GRAPH



COST CLASSIFICATION



PLANNING AND MANAGING CORPORATE COSTS



DO YOU EXPERIENCE

1. Are your division/department's operational costs getting fatter?
2. The cost efficiency program has been carried out with maximum effort but the results are not satisfactory?
3. Operational and general costs are out of control
4. Desperate for costs incurred

COST

Sacrifices or expenditures made by a company or individual that aims to obtain more benefits from the activities carried out.

TYPE OF COSTS

1. Based on behavior:
 - a. Variable costs
 - b. Fixed costs

2. Based on usage :
 - a. Value added cost
 - b. Non value added cost

VARIABLE COST vs FIXED COST

Variable costs are costs that change following the activities of the company/division/department

Example: Paper usage cost

Fixed costs are costs that tend to remain constant or unchanged even though the activities of the company/division/department change within the relevant range

Example: Building depreciation costs, rental costs

VALUE ADDED COST vs NON-VALUE ADDED COST

Value added cost is a cost that provides added value to the company so that it is necessary for the company

Non-value added cost is a cost that does not provide added value to the company so it is not actually necessary but always exists

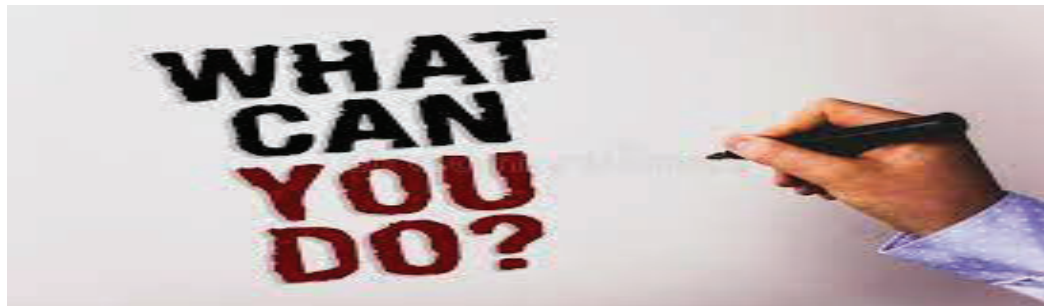
COST EFFICIENCY STRATEGY STEPS

1. Make a list of all the expenses that exist in our company/division/department
2. Analysis of existing cost types: variable or fixed; value added or non-value added
3. Root Cause Analysis
4. Implement a cost-reduction strategy

COST-SAVING SMART STEPS

1. Create a budget
2. Eliminate/reduce non-value added costs
3. Optimize the role of technology
4. Reduce energy costs (Go Green)
5. Improve work processes
6. Capex: Fixed Asset: Lease vs Buy
7. Reduce unproductive assets
8. Focus on the little things too

WHAT CAN YOU DO??





Module - 6

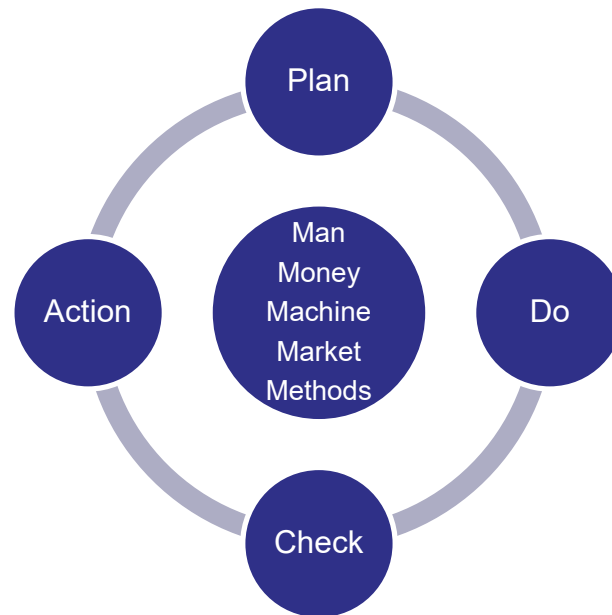
Profit Planning & Budgeting

MANAGEMENT

The process of defining the company's goals and implementing activities to achieve those goals, with existing resources **EFFECTIVELY** and **EFFICIENTLY**



MANAGEMENT LIFECYCLE

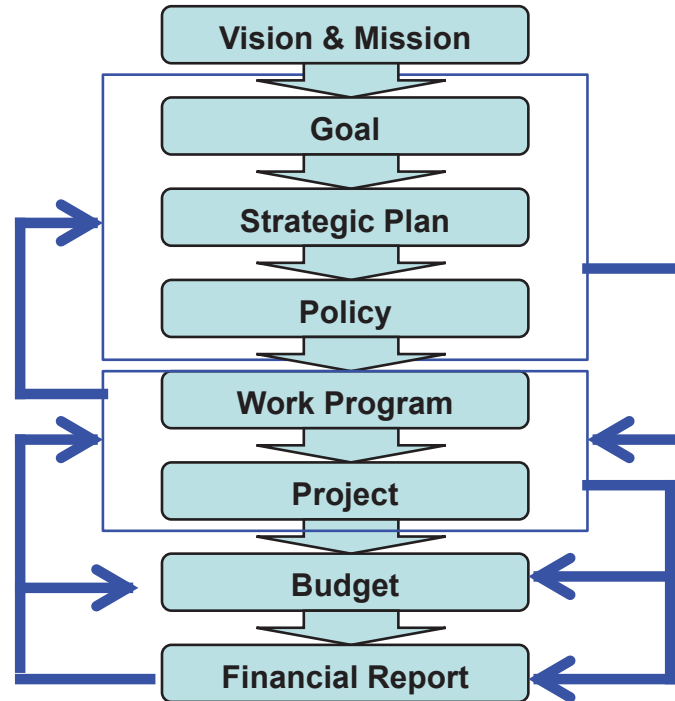


BUDGETING

BUDGETING DEFINITION

The financial expression of an agreed plan for a given future period; A systematic and quantitative translation of work programs, usually in monetary units for a certain period of time

MANAGEMENT SYSTEM



BUDGETING

WHAT IS BUDGETING ?

It is a process of

- preparing a comprehensive financial plan
- collecting relevant data and information
- distributing the planning task
- developing a plan
- implementing a plan
- controlling and evaluating the implemented plan

BENEFITS OF BUDGETING:

1. **Systematic Planning**
Blue print of activities the company will perform in the future
2. **Implementation Guidance of Company's Activity**
Internal communication tool which links various units in organization and links lower and upper management levels (clear authority and responsibility)
3. **Work Coordination Tool**
Tool to influence and motivate managers and employees to continuously act efficiently and effectively in accordance to the company's objectives
4. **Work Controlling Tool**
Standard performance to analyze actual performance
5. **Activity Evaluation Tool**
Tool for improvement and enhancement

BUDGETING

DISADVANTAGES OF BUDGETING :

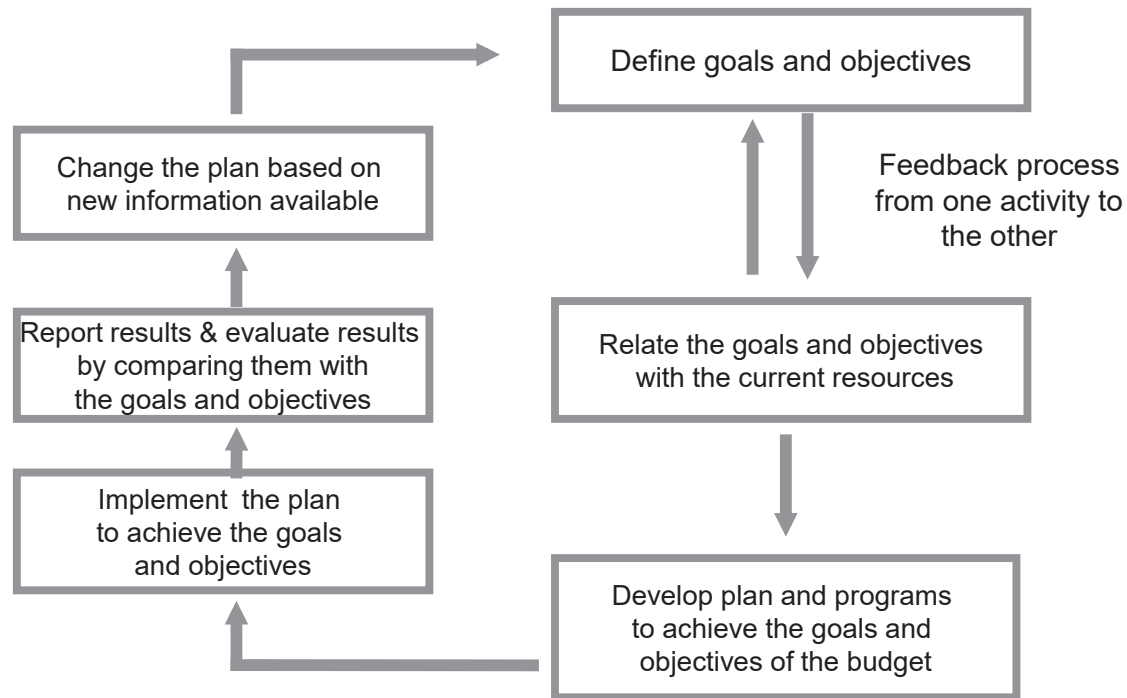
- Inaccurate estimates
- Needs to be adjusted to changing situations
- Implementation is not automatically
- Does not replace *management judgment*

CONDITIONS OR BASIC BASIS OF AN EFFECTIVE BUDGET

- Strong support from top management
- Clear authority and responsibilities
- Responsibilities (and authority) for the preparation, implementation and supervision of a clear and formally stated budget
- Relationship between budgeting and accounting
- Budget socialization
- Awareness of the usefulness and limitations of budgeting
- Length of budget period
- Clear goals of the budget



THE BUDGETING CYCLE



BUDGETS TYPES

1. **Appropriation Budget**

Budget that sets maximum amount spent for specific tasks.

2. **Performance Budget**

Budget sets maximum amount spent based on function, activity, or project.

3. **Fixed Budget**

Based on *one level of activity* for specific period.

Level of activity can be express by :

- Capacity
- Total productions
- Total hours

4. **Flexible Budget**

One that can be adjusted easily to show budgeted revenue, costs and cash flows at *different levels* of activity.

ACTIVITY-BASED BUDGETING

Budget System where the budget is made based on the activities/work programs to be carried out



Important Factors of this Type of Budget

ACTIVITY



BUDGETING

Master Budget

Consists of a number of interrelated budgets that collectively summarize all the planned activities of the business for the next period

MASTER BUDGET CLASSIFICATION

I. Operating Budget

- Sales Budget
- Production Budget
 - Direct Material Budget
 - Direct Labor Budget
 - Overhead Budget
- Cost of Goods Sold Budget
- Selling Expense Budget
- General & Adm Budget
- Budgeted Income Statement

II. Budgeted Financial Statements

- Capital Expenditure Budget
- Cash Budget
- Budgeted Balance Sheet
- Changes in Financial Statement Budget

BUDGETING PRINCIPLES

***“People
-not numbers-
get things done”***





Module - 7

Financial Aspects in Decision Making (Capital Budgeting)

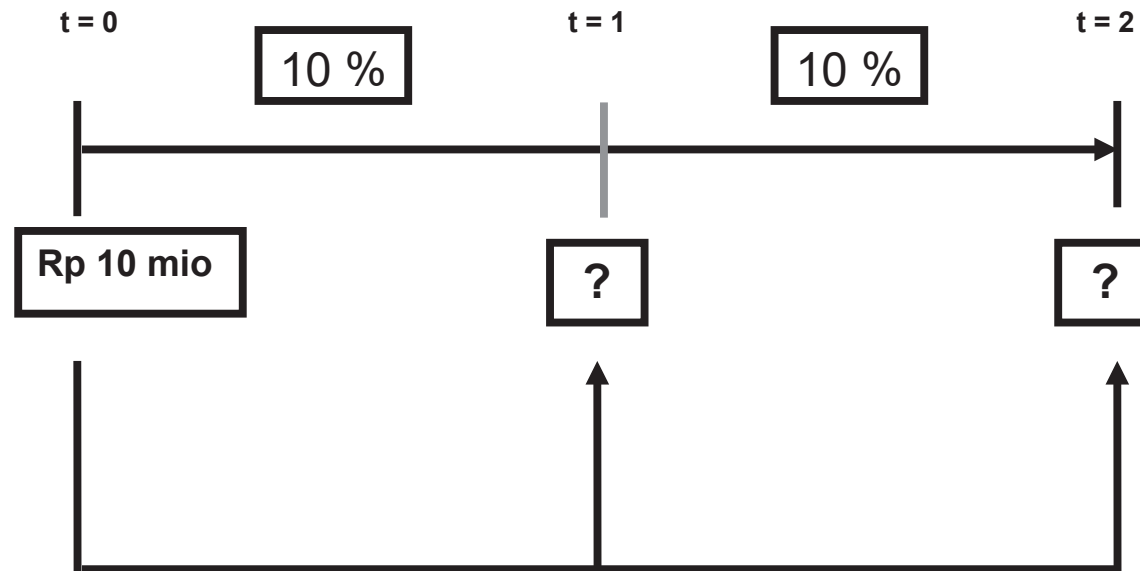
TIME VALUE OF MONEY

**comparing present cash outflow with
future benefits**

or

**comparing Present Value
with Future Value**

FUTURE VALUE PROCESS



FUTURE VALUE

$$FV_{r,n} = P \times (1 + r)^n$$

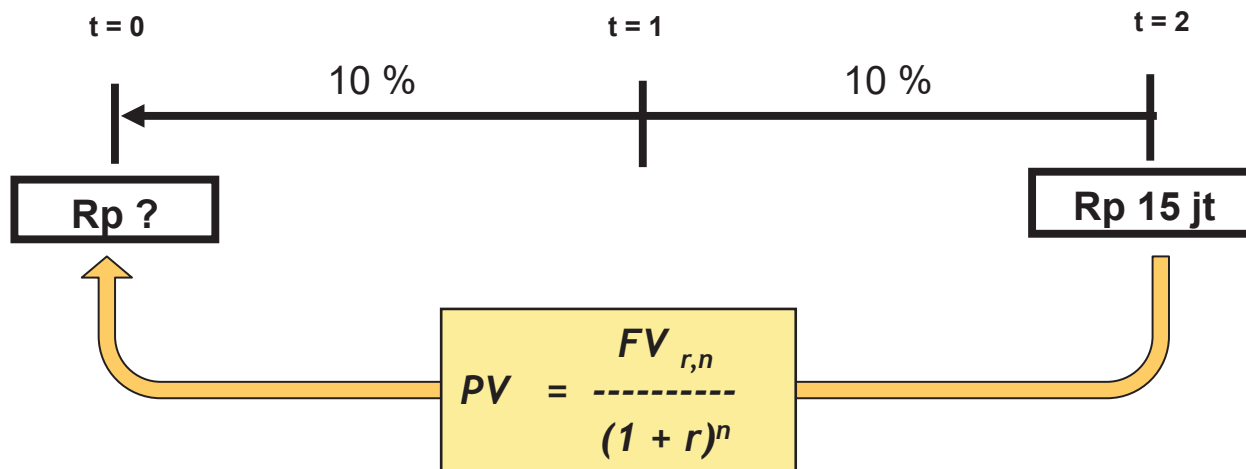
P = *initial value*

r = *interest rate*

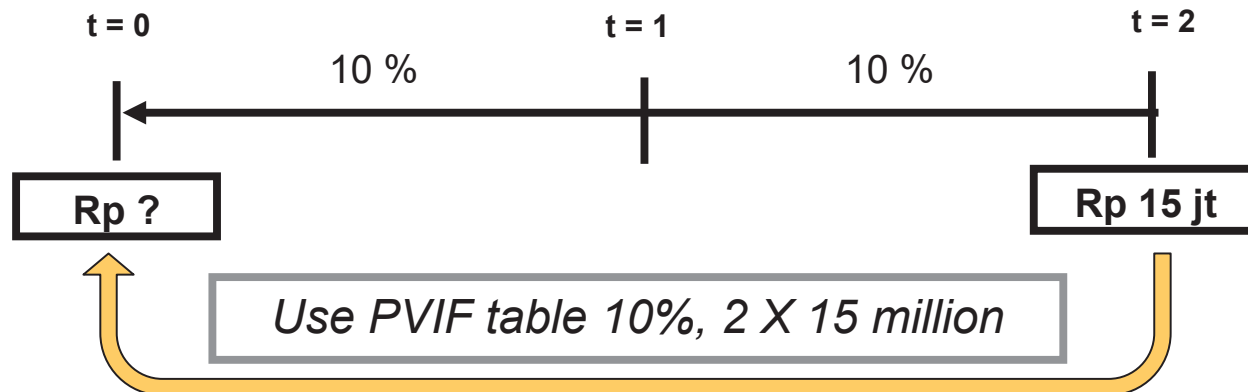
n = *period*

$$FV_{10\%,2} = 10 \text{ mio} \times (1 + 10\%)^2$$

PRESENT VALUE PROCESS (DISCOUNT PROCESS)



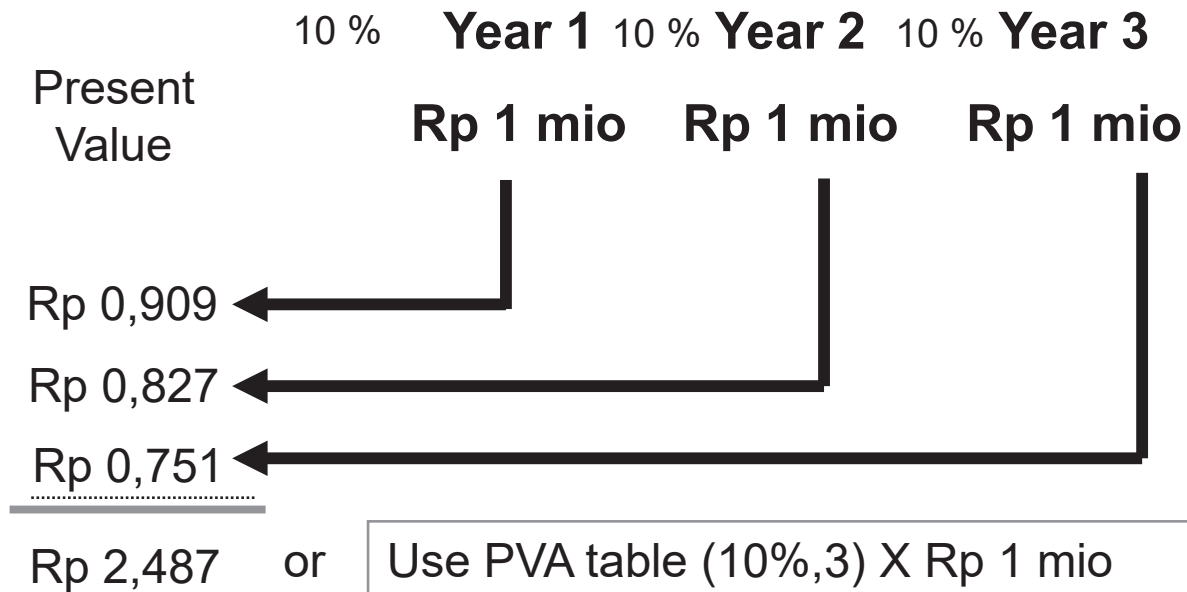
PRESENT VALUE PROCESS (DISCOUNTING PROCESS)



ANNUITY

A series of cash flows (cash outflows or inflows) in the same amount for all periods

PRESENT VALUE OF ANNUITY



INVESTMENT ANALYSIS

Capital Expenditure

Expenditures that will bring benefits or yields for more than 1 year period

Capital Budgeting

The process of evaluating and prioritizing Capital Investment opportunities with return more than 1 year period

CAPITAL BUDGETING

Why Capital Budgeting is needed?

- Resources are limited, and once committed to a fixed investment, they generally cannot be released
- There may be alternative options.
- The need to identify the real worth of future benefits

TYPES OF INVESTMENT

Replacements

- *Replacement for process improvement*
- *Replacement for cost reduction or efficiency*

Expansions

- *Expansion of existing products*
- *Launching of a new product*

Others

- *Buildings*
- *Other facilities*

CAPITAL BUDGETING PROCESS

Step 1 :

Determine the initial outlay of the investment

Factors to be considered :

- ***Cost of investment***
- ***Expenses such as installation, shipping and insurance***
- ***Residual value of the replaced asset***
- ***Tax from selling the replaced asset***

CAPITAL BUDGETING PROCESS

Step 2 :

Determine the sources of financing

There are 3 alternatives :

- ***Own equity***
- ***Borrowings***
- ***Combination of equity and borrowings***

CAPITAL BUDGETING PROCESS

Step 3 :

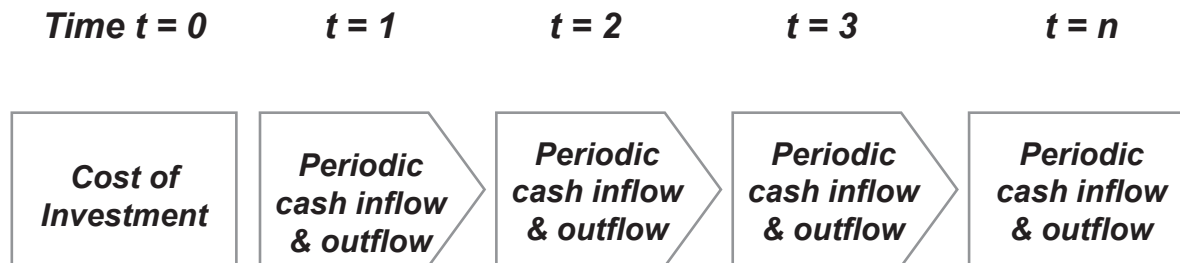
Determine the cash flow pattern of the proposed investment

Consider all cash inflows and cash outflows affected by the investment

CAPITAL BUDGETING PROCESS

Step 4 :

Calculate cash inflows and cash outflows in step 3



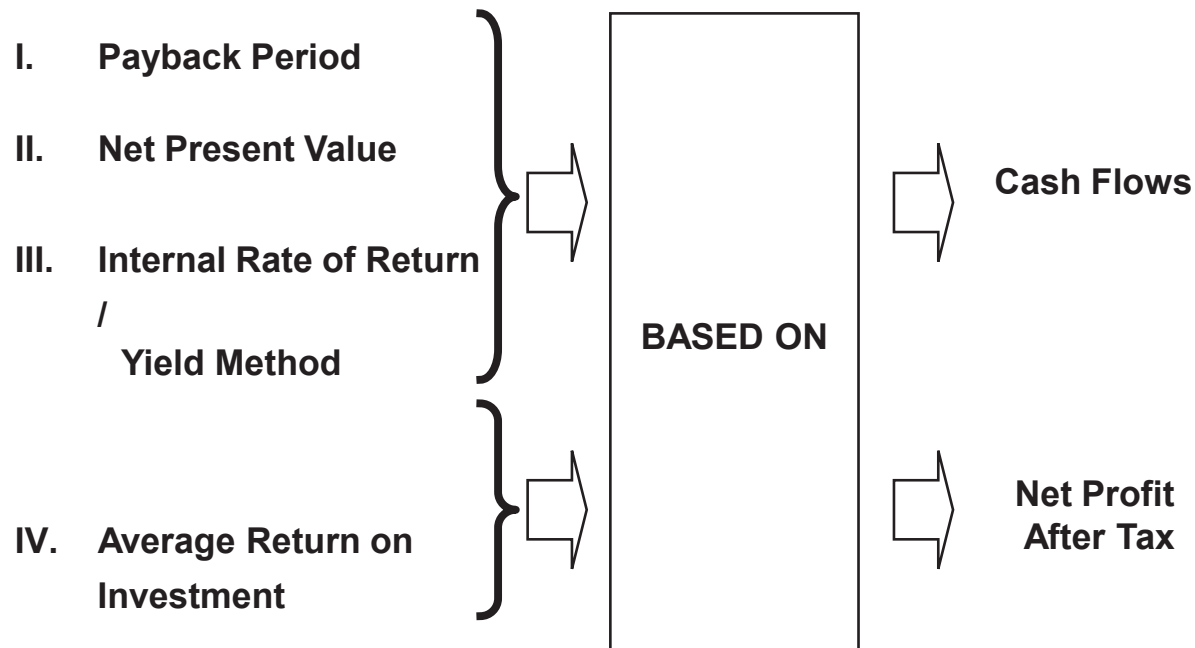
- **Net cash flow is the difference between cash inflow and cash outflow**
- **Time is based on years of economic life of investment**

CAPITAL BUDGETING PROCESS

Step 5 :

***Evaluate the investment feasibility
by using the appropriate
capital budgeting methods***

CAPITAL BUDGETING METHODS



I. PAYBACK PERIOD

Suatu periode yang diperlukan untuk dapat menutup kembali pengeluaran investasi dengan menggunakan “PROCEEDS” atau Arus Kas Bersih (Net Cash Flows)



PAYBACK PERIOD

Analysis :

Initial investment = Rp 100 mio

Net cashflow = Rp 40 mio / year

$$\frac{100 \text{ mio}}{40 \text{ mio} + 40 \text{ mio} + 20 \text{ mio}}$$
$$(1 \text{ yr} + 1 \text{ yr} + \frac{1}{2} \text{ yr})$$

Payback period = 2,5 tahun

PAYBACK PERIOD

Is the number of years needed to recover its initial investment by using Net Cash Flows

Payback Period of investment (A)	Compared to ↓	Maximum Accepted Payback Period (B)
----------------------------------	------------------	-------------------------------------

(A)	<u>Shorter</u> than	(B)
-----	---------------------	-----

⇒ Proposed Investment **accepted**

(A)	<u>Longer</u> than	(B)
-----	--------------------	-----

⇒ Proposed Investment **rejected**

ADVANTAGES OF PAYBACK PERIOD

- **Simple; easily calculated**
- **Useful to analyze investment with rapid cash return**
- **Analysis on investment return, time risk indicator for management**
- **Quick analysis method, better than judgment**

DISADVANTAGES OF PAYBACK PERIOD

- Ignores the timing of future cash flows
- Ignores the total profitability and cash flows anticipated after the period calculated as payback period
- Ignores project risks

NET PRESENT VALUE METHOD

Calculate the difference between present value of investment and present value of cash inflow

Cash inflows will be discounted based on predetermined rate of return.

Total present value of cash inflow exceeds initial outflow → proposed investment **accepted**

Total present value of cash inflow less than initial outflow → proposed investment **rejected**.

NET PRESENT VALUE

Analysis :

Initial Investment = Rp 100 million

Net cashflow = Rp 40 million / year

Investment life = 5 years

Interest rate is around 24 % p.a.

>> Discount rate = 24 %

Cashflow pattern : Annuity >> same amount / year

Use Present Value Annuity (PVA) table, with a discount factor of 24 %

PVA of Cash Flow of 40 million/year for 5 years is :

$2.745 \times 40 \text{ mio} = 109.80 \text{ mio}$

NPV = - 100 mio + 109.80 mio = 9.80 mio

ADVANTAGES OF NPV

- Consider time value of money/ timing of future cash flow
- Consider the total profitability and cash flows anticipated over the entire life on an investment
- Utilize comprehensive investment value-added principle

DISADVANTAGES OF NPV

- Some consider difficult to use
- Management needs to decide cost of capital level beforehand
- In order to compare project A and B with different values, need to use current net value index

INTERNAL RATE OF RETURN / YIELD METHOD

- The real rate of return from a project is the rate at which the NPV return the value of 0 (current investment value = current value of cash received)
- If interest rate > discount rate → investment proposal accepted

Internal Rate of Return should be found by a trial and error method

IRR Method

Analysis :

From previous NPV case :

PVA of Cash Flow 40 million for 5 year is :

$$2,745 \times 40 \text{ million} = 109.80 \text{ million}$$

NPV at discounted rate 24% =

$$- 100 \text{ million} + 109.80 \text{ million} = 9.80 \text{ million}$$

Trail with discounted rate 30 % :

PVA of Cash Flow 40 million for 5 year is :

$$2,436 \times 40 \text{ million} = 97.44 \text{ million}$$

NPV at discounted rate 30% =

$$- 100 \text{ million} + 97.44 \text{ million} = -2.56 \text{ million}$$

Using interpolation method, to find the discounted rate where NPV = 0

k = 30%	k = ? %	k = 24%
-2.56 million	0	9.8 million

$$9.80 / (9.80 + 2.56) \times (30\% - 24\%) = 4.76 \%$$

$$\text{Then, IRR} = 24 \% + 4.76 \% = 28.76 \%$$

METODE IRR

- ◆ If the IRR $>$ (greater than) the Relevant Interest Rate (discount rate)
- ◆ Investment proposals accepted
- ◆ If the IRR $<$ (less than) the Relevant Interest Rate (discount rate)
- ◆ Investment proposal rejected



ADVANTAGES OF IRR

- Consider time value of money
- Consider the total profitability and cash flows anticipated over the entire life on an investment
- Expressed in percentage term which are familiar to
- Easy to grasp and communicate

DISADVANTAGES OF IRR

- Cumbersome >> Hard to get the accurate percentage because of the trial and error method
- The method assume that “return” obtained, will be invested back into the project