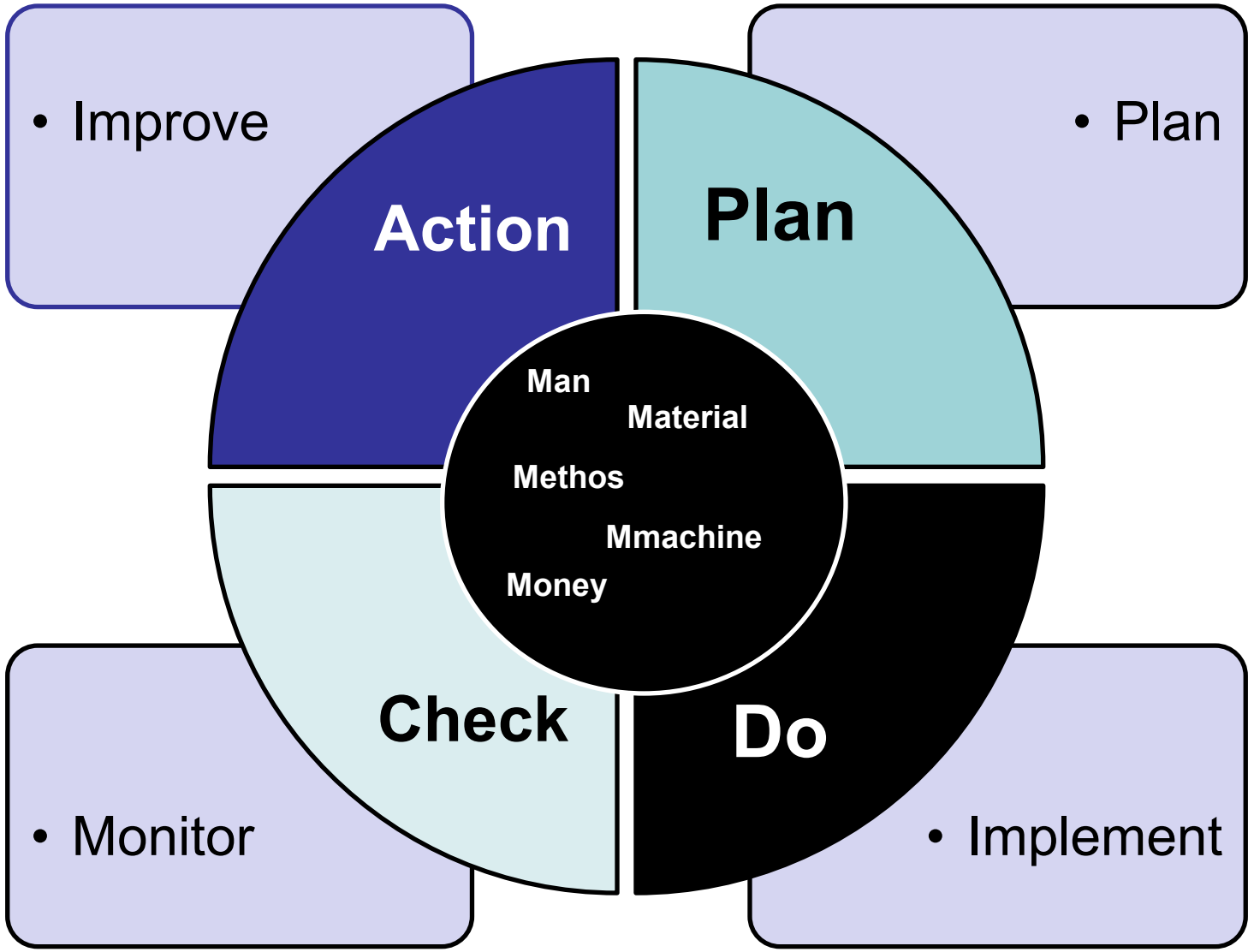
Module - 1

Fundamentals of Financial Management for Functional Leaders

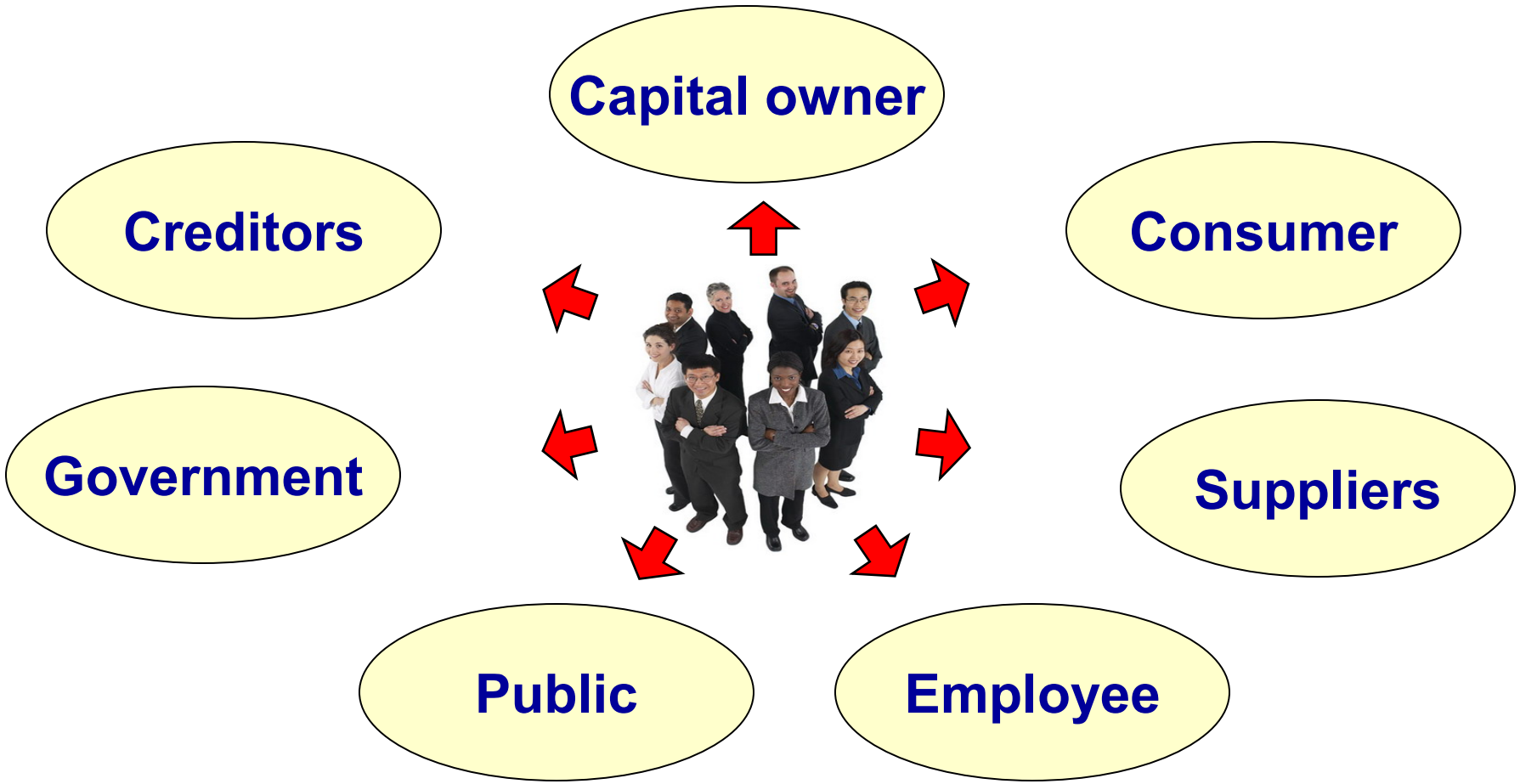
WHAT IS MANAGEMENT?

Management is the process of defining company goals and implementing activities to achieve those goals, with existing resources.
EFFECTIVELY and EFFICIENTLY

MANAGEMENT PROCESS



WHO ARE THE STAKEHOLDERS OF A BUSINESS?



What are the requirements for a sustainable business?

- Get support from stakeholders
- Attractive to potential stakeholders

"Attractive" criteria for stakeholders

- Obtain 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

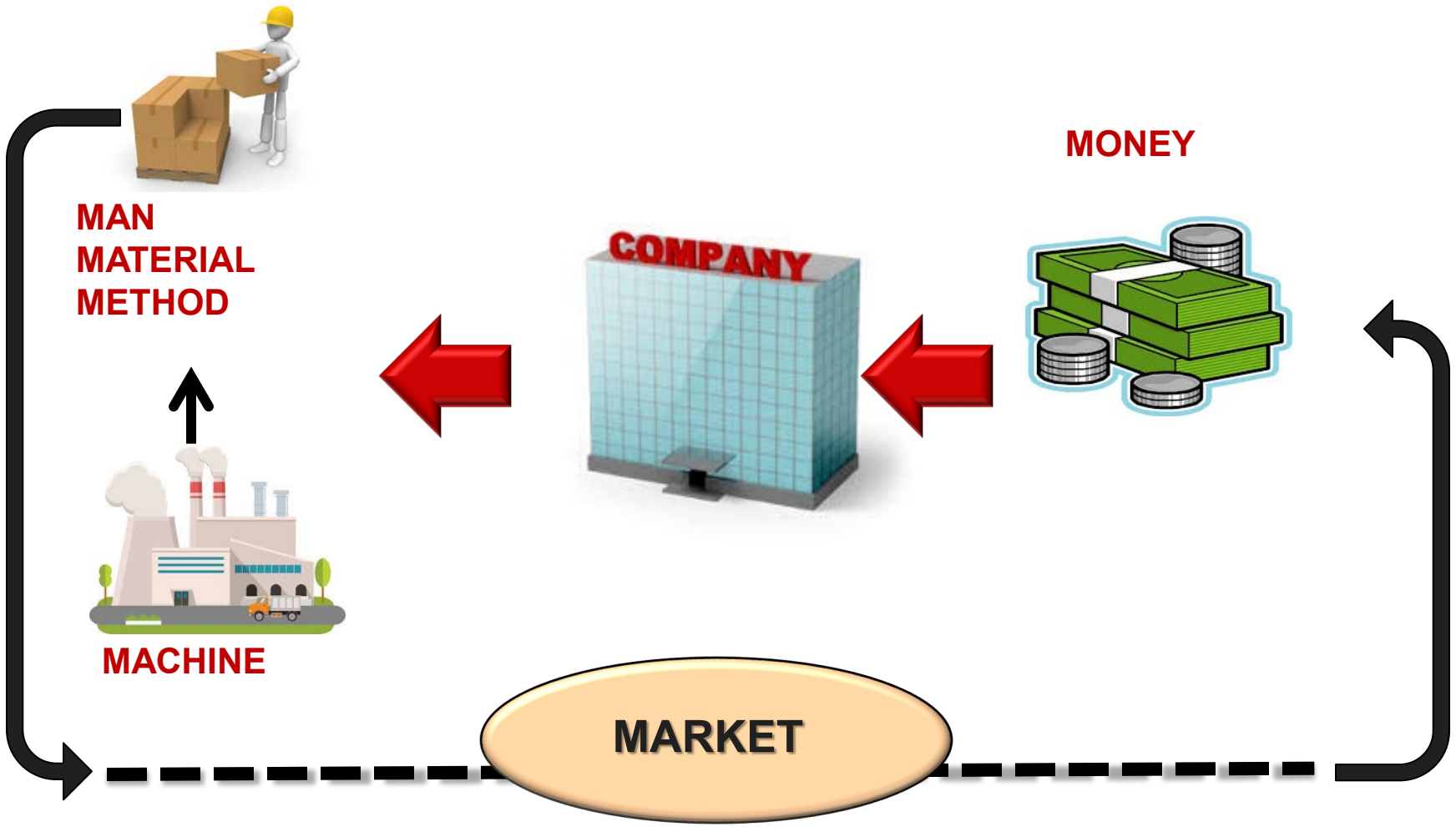
FINANCIAL MANAGEMENT

The process of understanding company goals and implementing financial management to achieve company goals, including funding and spending effectively and efficiently.

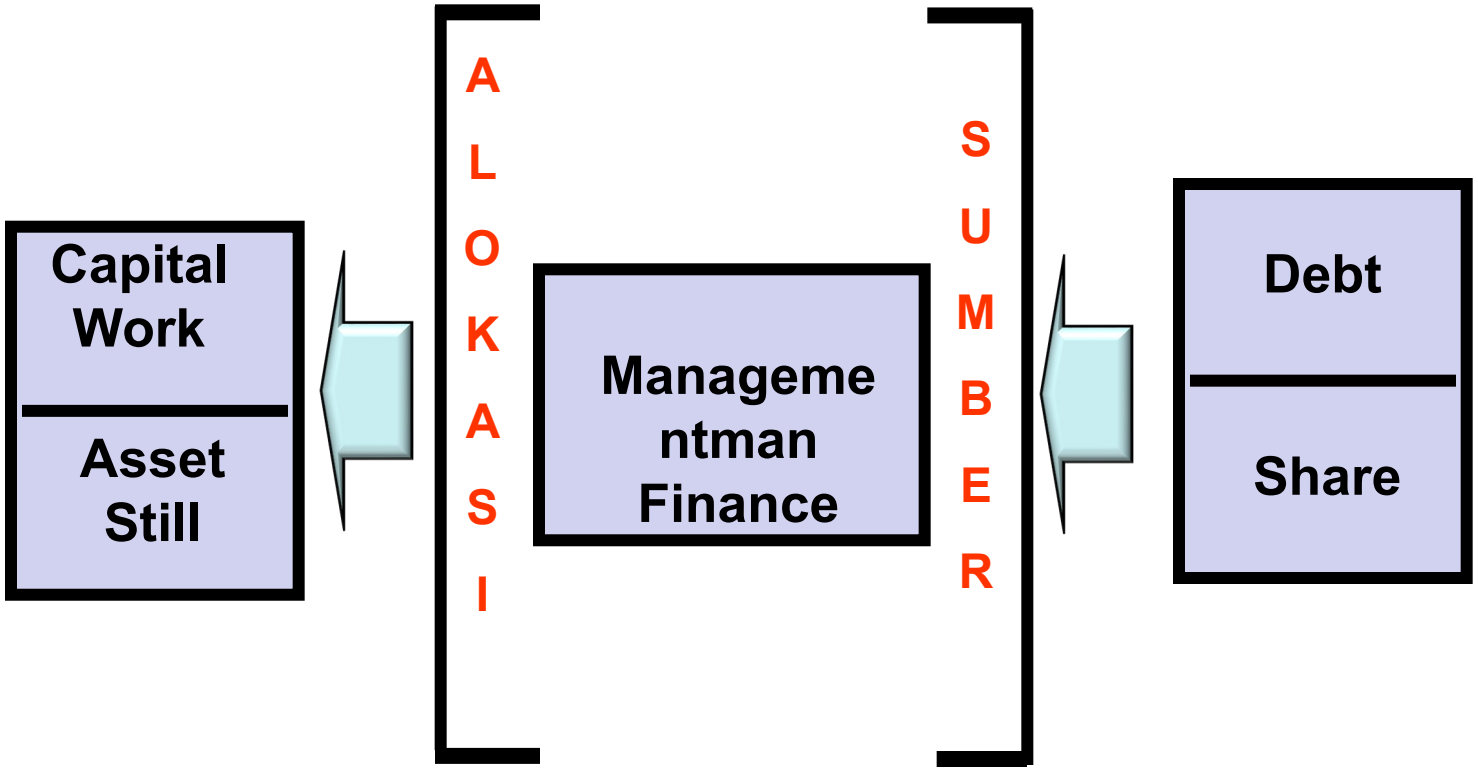
SCOPE
FINANCIAL MANAGEMENT

Planning,
income,
expenditure
and financial supervision
according to company targets

COMPANY RESOURCE CYCLE



FUNDING CYCLE IN A COMPANY



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

How cycle management funds in a business?

- Funds
- Employee salary
- Buy materials
- Processing costs

*Results :**10 units**at a cost of Rp. 10 million*

Sold: 5 units @ Rp 1.5 million

CAPITAL: Rp. 10 million

Sale :

5 units: Rp. 7.5 million

Basic costs:

5 units : Rp. 5 million

Profit: Rp. 2.5 million

Draft Profit

In general, the definition of profit is:

Positive difference between the amount earned and amount spent/sacrificed

PROFIT = SALE - FEES

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

PROFIT =VOLUME X (PRICE / UNIT – COST / UNIT)

Types of Profit

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

Draft Profitability

EBITDA is associated with:

a. Sales level of the business:

Return On Sales

$$\text{ROS} = \frac{\text{EBITDA}}{\text{SALE}} \times 100\%$$

COMPANY	EBITDA	SALE	ROS
PT A	Rp. 10 Million	Rp. 100Million	10.0%
PT B	Rp. 10Million	Rp. 80Million	12.5%

Draft Profitability

EBITDA is associated with:

b. Funds invested in business

Return On Investment

$$ROI = \frac{EBITDA}{INVESTMENT\ FUNDS} \times 100\%$$

COMPANY	EBITDA	TOTAL INVESTMENT FUND	ROI
Company X	Rp. 10 Million	Rp. 200 Million	5.0%
PT Y	Rp. 10Million	Rp. 250 Million	4.0%

How Increase EBITDA?

Module - 2

Working Capital Management

Working capital

- It is capital used to carry out company operational activities.

- Investments made in asset smooth (a set short term), such as cash, receivables business and supplies

Cycle Operational

FEES - FEES

COMPANY

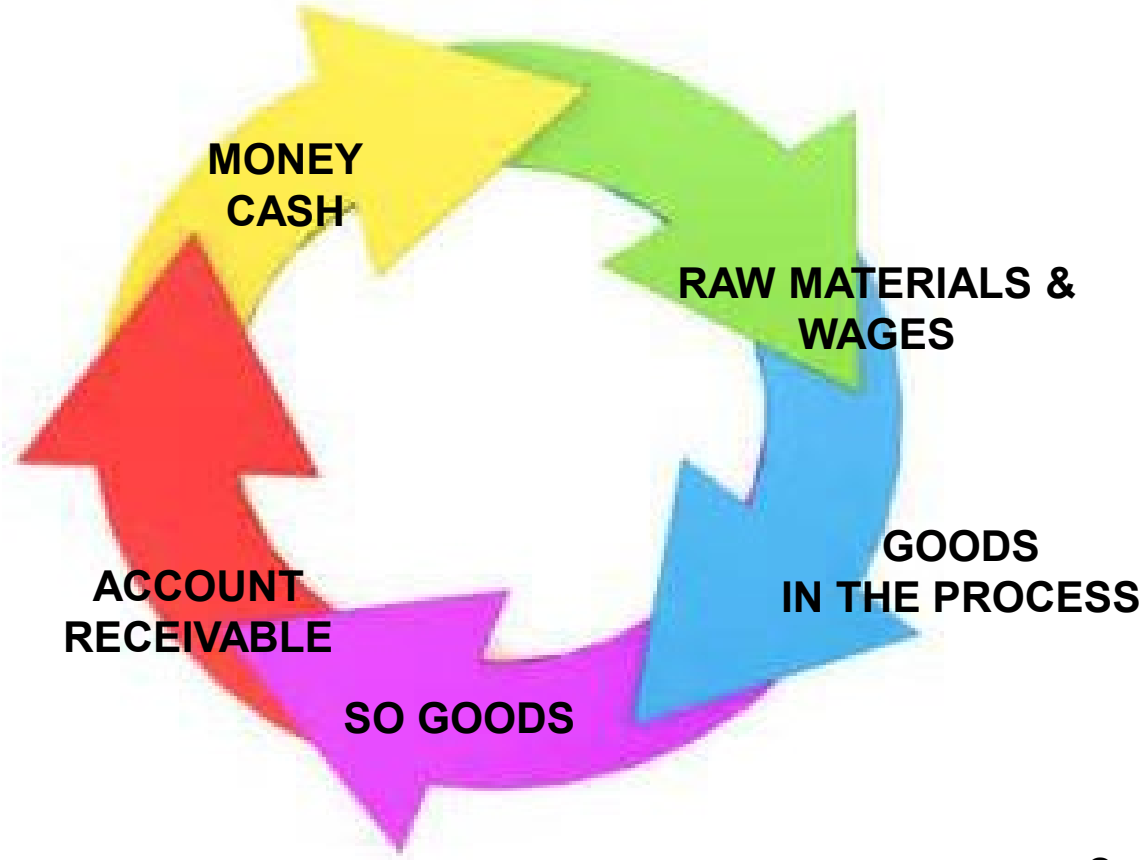
GOODS TRADE

CONSUMER

SALE

ASSET SUPPORTERS

Working Capital Cyclea



COMPANY ASSETS

CURRENT ASSETS

- Cash
- Accounts receivable
- Inventory (Raw Materials, Semi-finished Goods, Finished Goods)
- Etc

FIXED ASSETS
(NOT SMOOTH)

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

orking Capital Management

Why is it important?

- Most of the **time** used to manage working capital
- Working capital is **investment** big
- Investment in working capital (cash, inventory, and accounts receivable), often **impossible to avoid**

Amount of Working Capital

How much working capital is needed depends on:

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

Working Capital Management

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

Cash Management

Cash Management Objectives:

- Transaction requirements
- The need for precaution
- The need for speculation

Cash & Bank Management

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

Accounts Receivable Management

Objective

- Reduce the risk of uncollectible accounts receivable
- Lowering working capital costs
- Accelerate working capital turnover
- Increase sales effectiveness

Accounts Receivable Management

- Aging Schedule and its analysis
- Confirmation
- Procedures for recording and collecting receivables

Inventory Management

Why is it important?

- The inventory cycle is often **longer** from the accounts receivable cycle
- Inventory requires a certain amount **investment funds**
- Inventory value **quite expensive** and often **at risk**

Management Supply

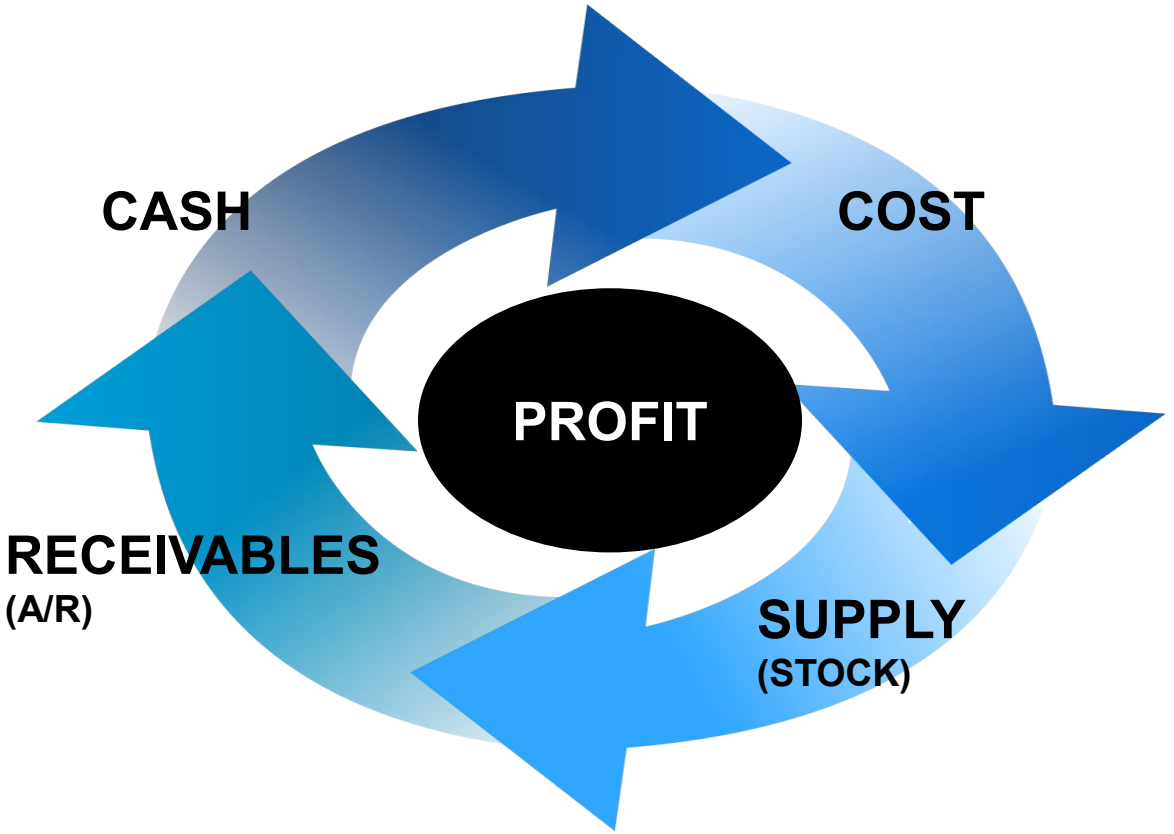
- Check inventory
- Incoming and outgoing goods procedures
- Recording
- Inventory cycle analysis
- Reporting

Inventory Management

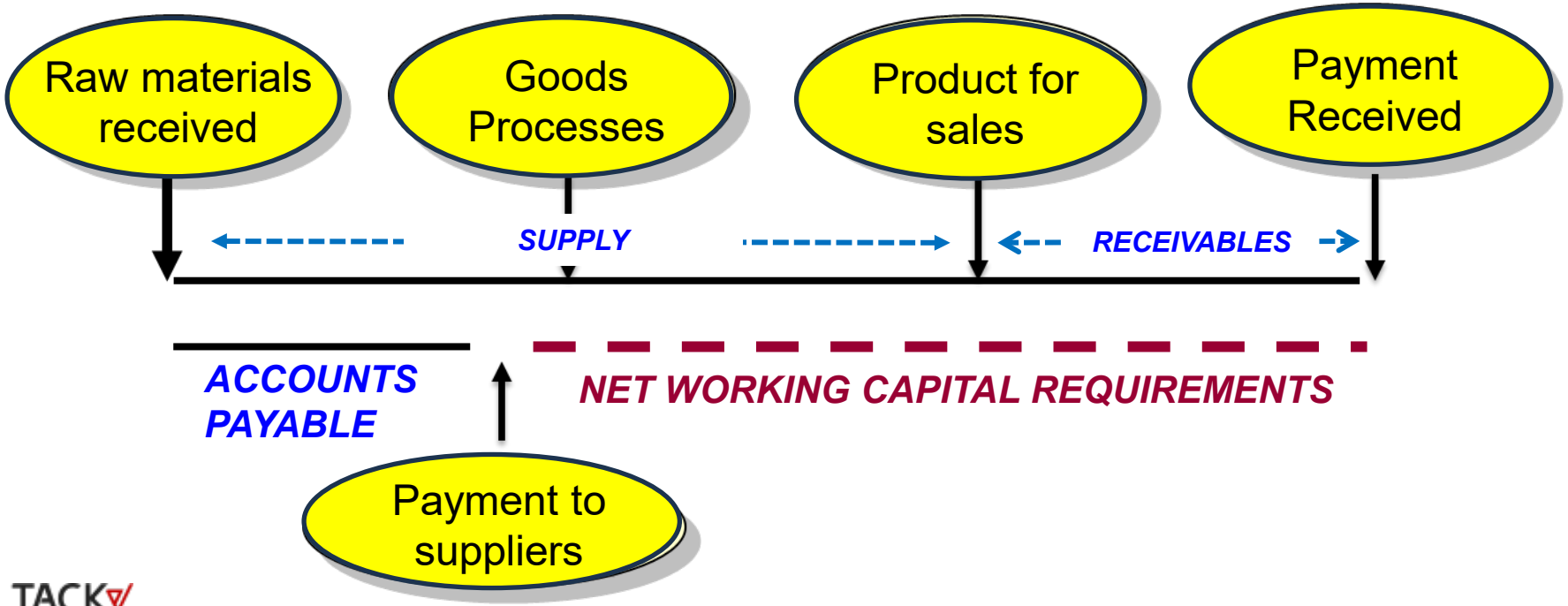
Minimum inventory levels are often unprofitable. Considerations include:

- **Source** or **supplier** located far from the company location.
- Level **fluctuating sales** need sufficient stock to anticipate sudden spikes in demand
- Customers need**on-time delivery service level**

WORKING CAPITAL CYCLE



Net Working Capital



Net Working Capital

NET WORKING CAPITAL =
CURRENT ASSETS – CURRENT LIABILITIES

NET WORKING CAPITAL =
CURRENT ASSETS – CURRENT LIABILITIES

Module - 3

Cost Behavior & Control

COST CONCEPT

COSTis ***sacrifice*** *which is done in* ***one period*** *specific to* ***earn income***

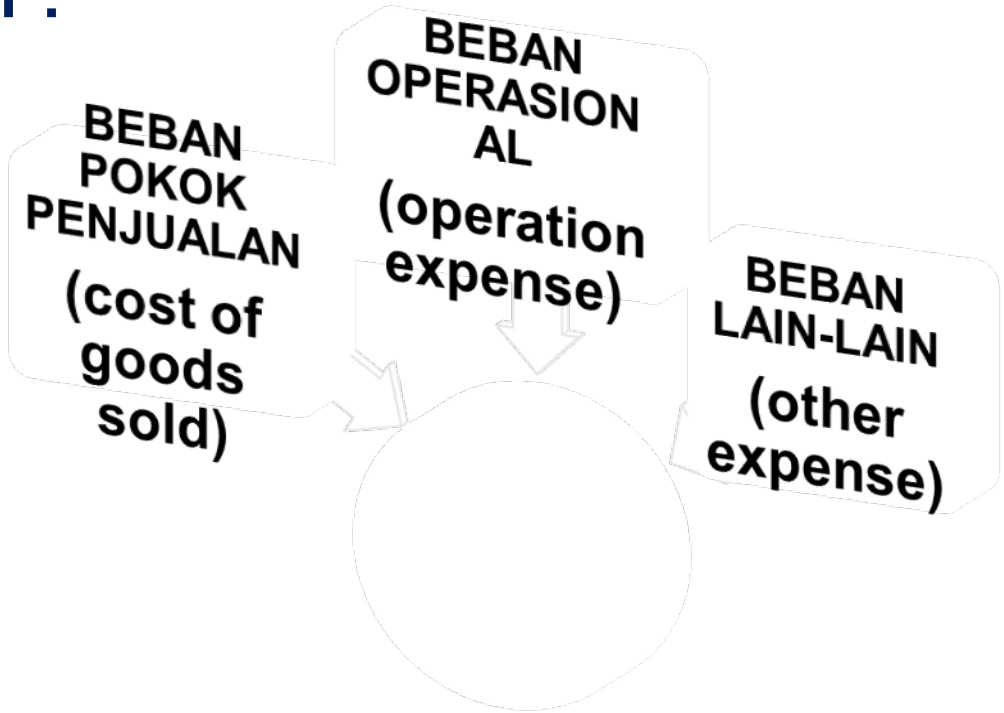
COST CONCEPT

COST is *the cost that **will** provide benefits in the future*
→ ***BALANCE***

EXPENSE is *the cost that **has** used to produce achievements*
→ ***INCOME STATEMENT***

ANALYSISFEES & EXPENSES

ANALYSIS 1 :



Beban Sales Points:

Beban Operational :

- Beban marketing
- Beban logistics
- Beban general

Beban Etc :

- Beban non-operational
- Beban flower
- Beban tax

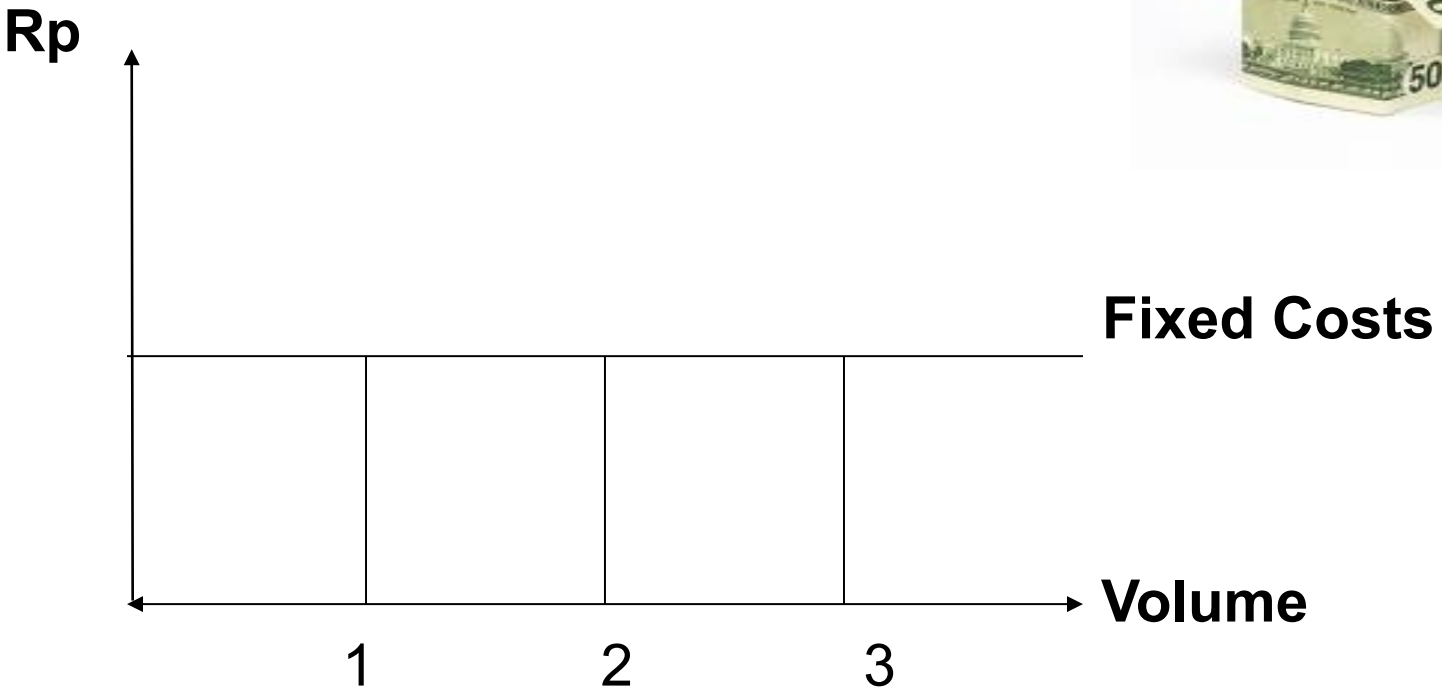
ANALYSIS COST

Fixed Costs :
Costs that are not affected by company activities

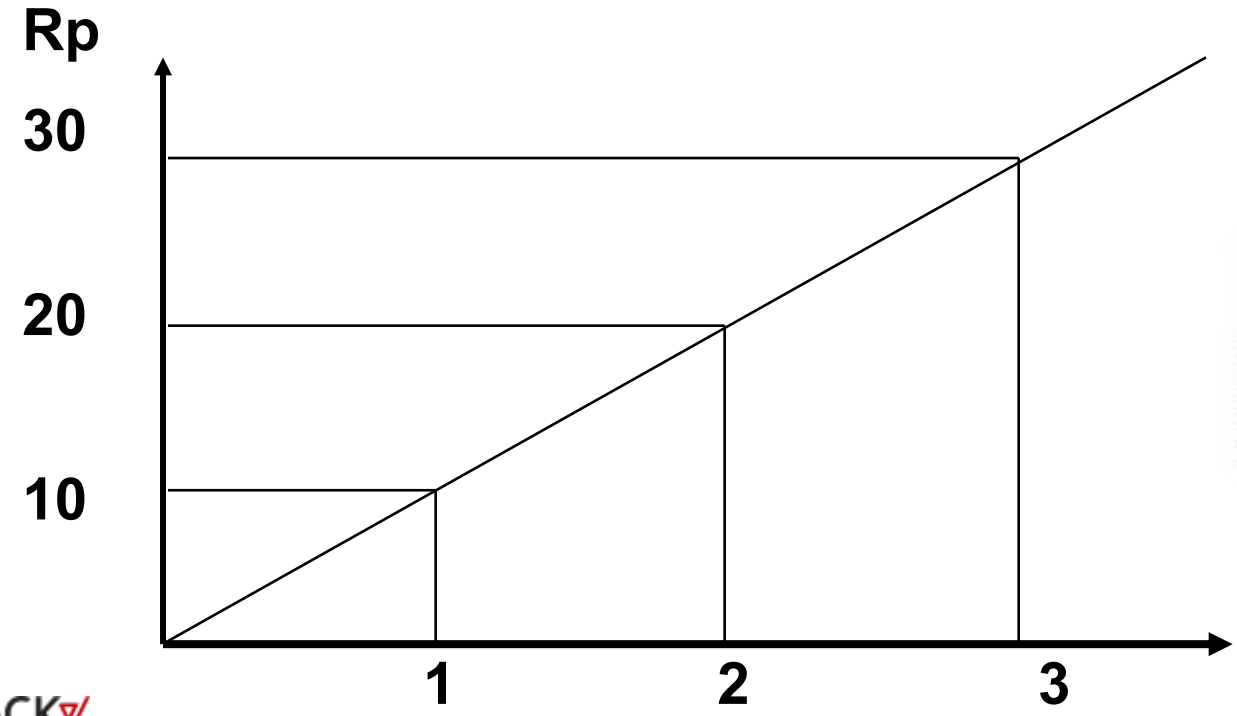
ANALYSIS 2 :

Variable Costs :
Costs that change proportionally with changes in company activity

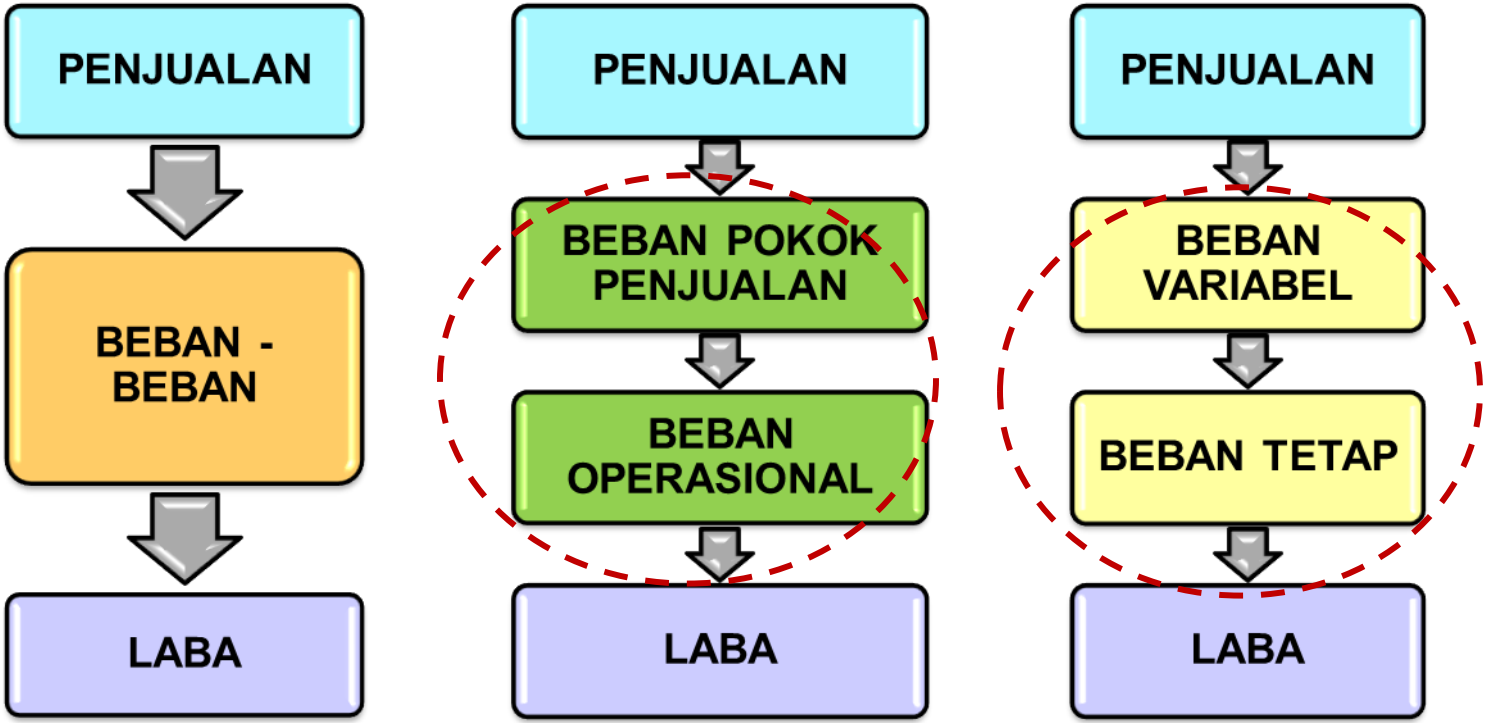
FIXED COST
(In Graphics)



VARIABLE COST
(In Graphics)



COST CLASSIFICATION



PLANNING AND MANAGEMENT OF COMPANY COSTS

ARE YOU EXPERIENCING

1. Are your division/department's operational costs continuing to grow?
2. Cost efficiency programs have been carried out with maximum effort but the results are not satisfactory?
3. Operating and general costs are out of control
4. Desperate about the costs incurred

COST

Sacrifices or expenses made by a company or individual with the aim of obtaining more benefits from the activities carried out.

IS COST PLANNING AND MANAGEMENT NECESSARY???

- Types of responsibility centers: Cost Center, Profit Center, Investment Center
- Effective vs Efficient

  Effective: Doing The Right Things

  Efficient: Doing Things Right

TYPE OF COST

1. Based on his behavior:
   - Variable costs
   - Fixed costs
2. Based on use:
   - Costs that have added value (value added cost)
   - Costs that do not have added value (non value added cost)

VARIABLE COST vs FIXED COST

Variable costs are costs that change according to the activities of the company/division/department.

Example: Paper usage costs

Fixed costs are costs that tend to remain the same or not change even if the company/division/department's activities change within a relevant range.

Example: Building depreciation costs, rental costs

VALUE ADDED COST vs NON-VALUE ADDED COST

Value added costs are costs that provide added value to the company and are therefore necessary for the company.

Non-value added costs are costs that do not provide added value to the company so they are not actually necessary but are always there.

COST EFFICIENCY STRATEGY STEPS

1. Make a list of all costs in our company/division/department
2. Analysis of the types of costs available: variable or fixed; value added or non-value added
3. Analyze the activities that cause costs (Root Cause Analysis)
4. Implement cost reduction strategies

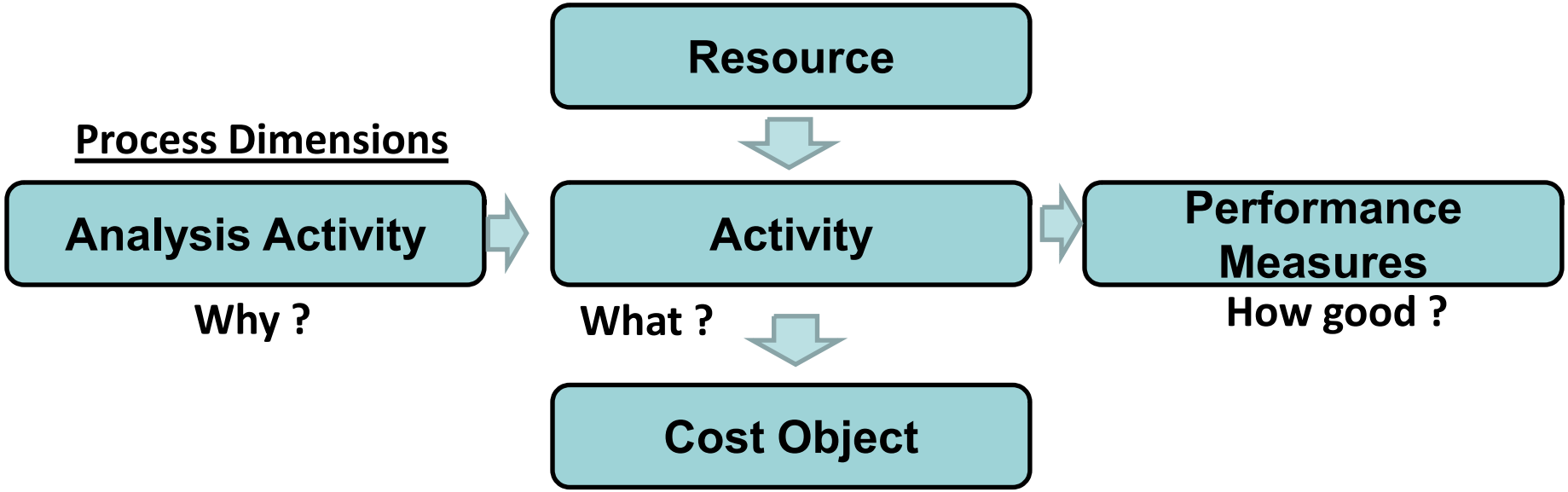
SMART STEPS TO COST SAVING

1. Make 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 assets : Rent vs Buy
7. Reduce unproductive assets
8. Focus on the little things too

Cost Analysis

- Determine whether the costs are variable or fixed.
- Determine whether costs are relevant
- Determine whether the cost adds value
- Perform root cause analysis to determine whether activities are value-added or not.
- Conduct a cost benefit analysis

Manage Activities & Costs



Activity Analysis

- Value-Added Activities
  - Providing added value
  - May contain unnecessary actions that can be better managed for cost efficiency.
- Activities Not Carrying Value (Nonvalue addendd)
  - All activities that do not provide added value
  - Examples: moving, waiting, inspecting, storing
  - Needs to be better managed for cost efficiency

ActivityForCost Efficiency

- **Elimination**
  Eliminate nonvalue-added activities
- **Selection**
  Choosing a more efficient alternative
- **Reduction**
  Reducing the time/resources required (without sacrificing quality)
- **Sharing**
  Centralize activities involving several business units

Cost Control

A set of cost accounting methods and management techniques aimed at improving cost efficiency within an organization.

Cost Control Methods

- Budgeting system
- Standard Costing
- Variance analysis
- Financial ratios
- Cost benefit analysis

Standard Costing

The method used to calculate a cost based on a predetermined standard so that if the actual cost deviates from the standard, a variance analysis can be carried out.

Variance Analysis

- Price Variants
- Quantity Variant
- Working hours variations
- Tariff Variants
- Variable overhead variance
- Fixed overhead variance

Financial Ratios

- Ratio of operating expenses to total expenses
- Ratio of overhead to total expenses
- Load ratio between periods
- etc

Cost benefit analysis

One of the risk assessment techniques used to select a decision option

Basic Cost Benefit Analysis Chart Template

PROJECT TITLE					
AUTHOR		DATE		VERSION	0.0.0

BASIC COST BENEFIT ANALYSIS CHART						
PROPOSED ACTION / ALTERNATIVE	BENEFITS	BENEFIT IMPACT HIGH=3 MEDIUM=2 LOW=1	COSTS	COSTS IMPACT HIGH=3 MEDIUM=2 LOW=1	RATIO BENEFITS / COSTS	RANKING


RESULT and
discussion

WHAT CAN YOU DO??

Module - 4

Financial Aspects in Decision Making (Capital Budgeting)

TIME VALUE OF MONEY

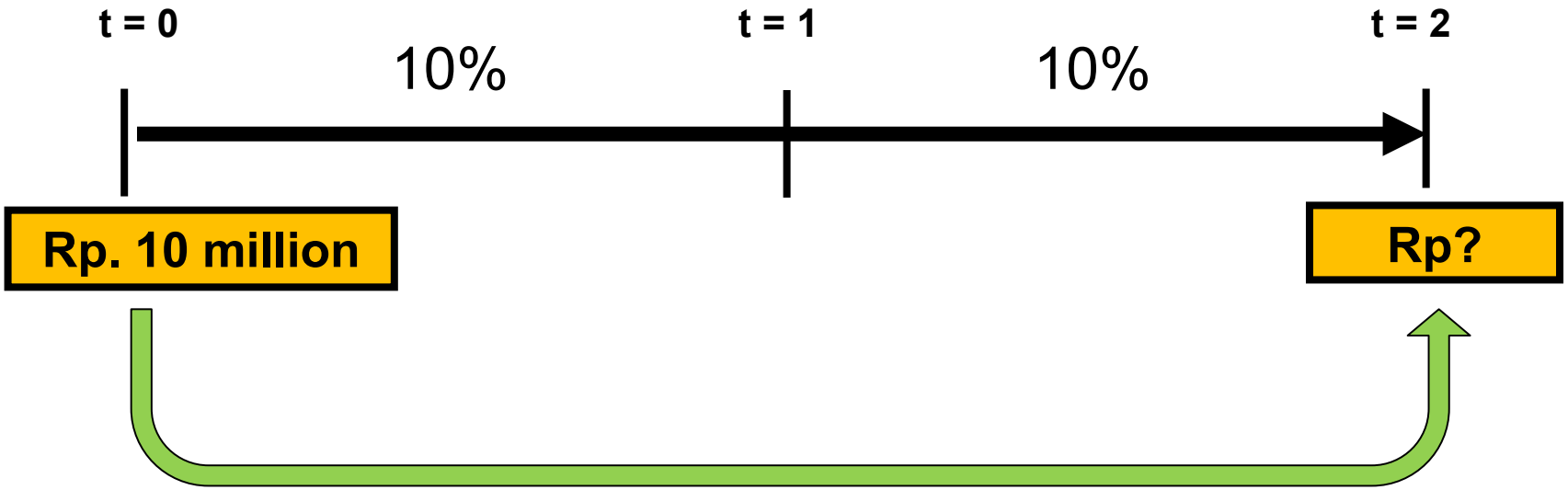
Compare

current cash flow expenditure

versus

benefits in the future

FUTURE VALUE PROCESS



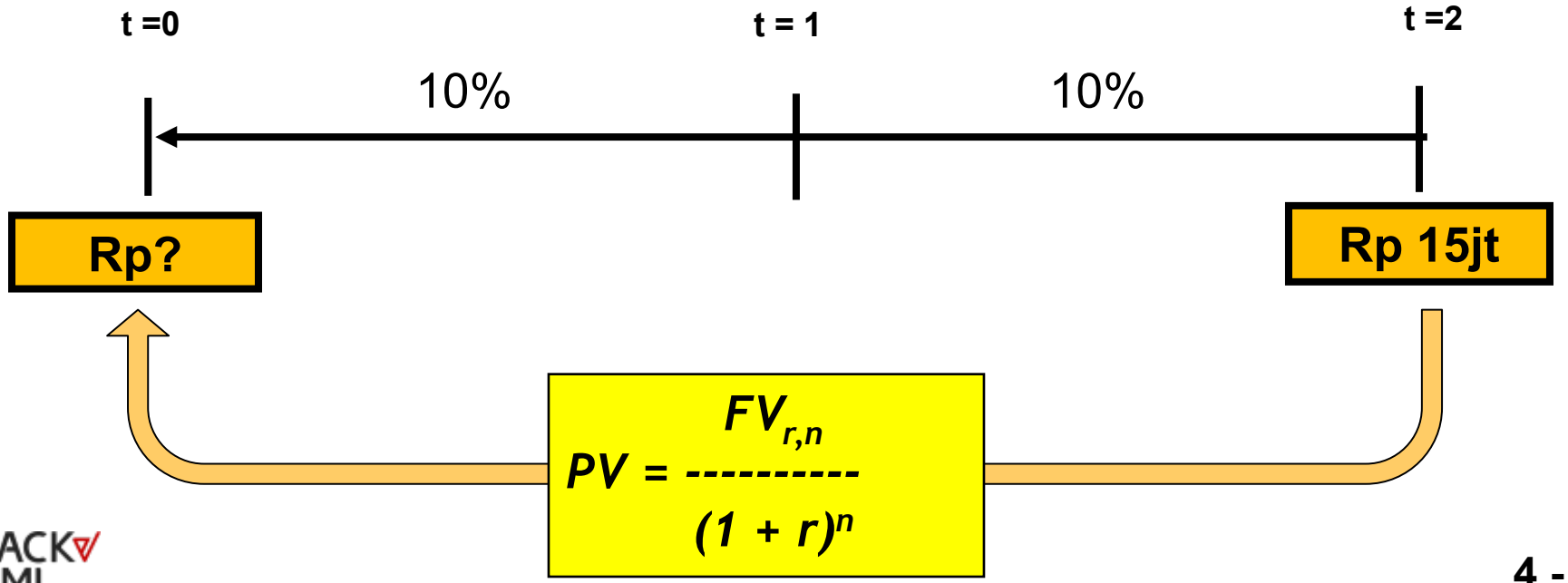
FUTURE VALUE (FUTURE VALUES)

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

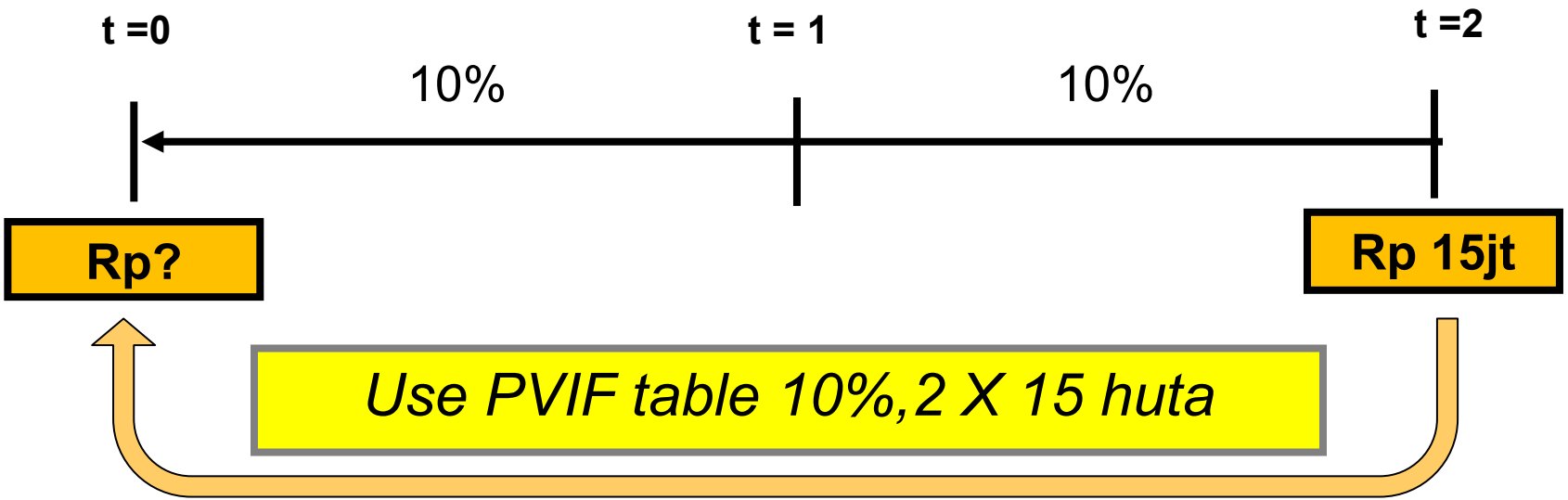
P = principal, or initial amount in the year
r = interest rate
n = period

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

PRESENT VALUE PROCESS (DISCOUNT PROCESS)



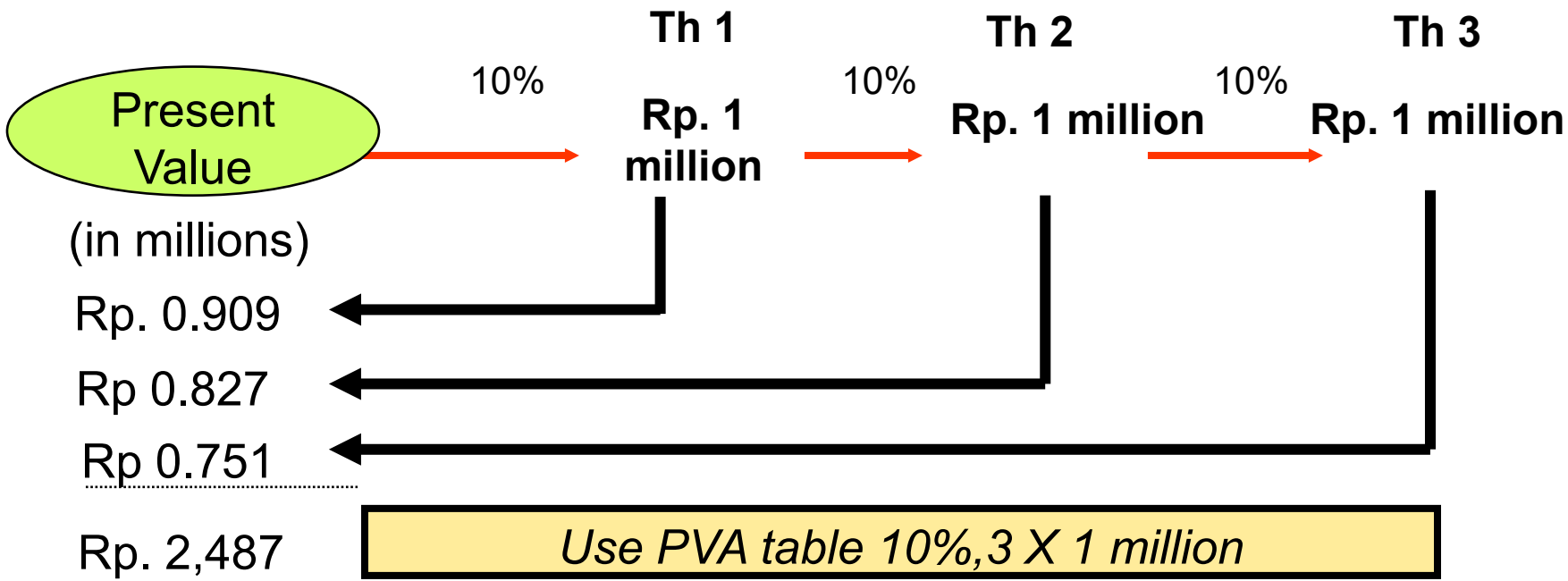
PRESENT VALUE PROCESS (DISCOUNT PROCESS)



ANUITY

*A series**payment (cash out)***
*or**receipt (cash in)***
throughout a certain period of time,
*in**same value for money***

PRESENT VALUE ANNUITY
(PRESENT VALUE OF ANNUITY)



INVESTMENT DECISION ANALYSIS

Capital Expenditure (Capital Investment)

- ***Expenses incurred by the company****with the hope of****provide benefits or results (benefits) for a period of more than 1 year***

Capital Budgeting

- *Overall****planning process****And****decision-making****about****disbursement of funds with a repayment period of more than 1 year***

INVESTMENT DECISION ANALYSIS

Why is it necessary?

To find out whether **investment today**
get **satisfactory result**
From **future acceptance**

INVESTMENT CLASSIFICATION

Replacement

- *Replacement for business continuity*
- *Replacement for cost reduction*

Expansion

- *Extension of existing products*
- *Market expansion or new products*

Etc

- *Office building*
- *Other facilities*

INVESTMENT ASSESSMENT PROCESS

Stage 1 :

- *Determine **initial investment value** from **the investment to be made**, for example the purchase price of a machine, or the initial outlay for a project.*

Key factors to consider:

- *Acquisition cost*
- *Installation, delivery and insurance costs*
- *Income or sales value (if any) from the old assets*
- *Tax (if any) from the sale of old assets*

INVESTMENT ASSESSMENT PROCESS

Stage 2 :

- *Determine**capital or source of funds that will be used.**In this case there are 3 alternative choices, namely:*
  - ***All own capital***
  - ***Capital from other parties** (bank or financial institution) in its entirety*
  - ***Some of the capital it self** and **some of the other parties***

INVESTMENT ASSESSMENT PROCESS

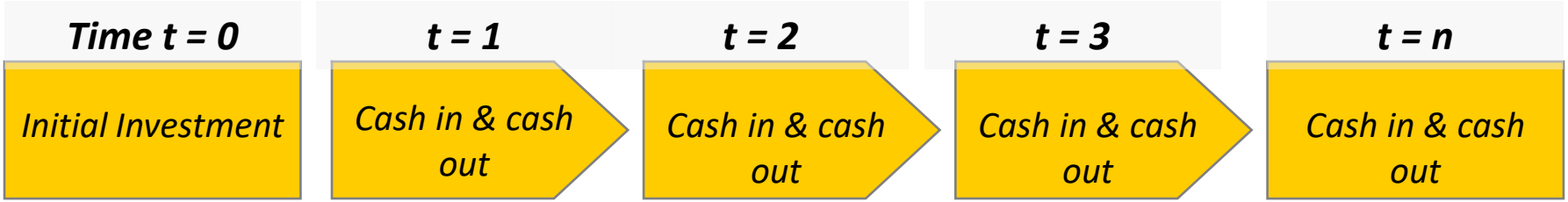
Stage 3 :

- *Estimating* ***cash flow pattern of the proposed investment***
- *Take everything into consideration* ***cash flow impact****, Good* ***cash in*** *and also* ***cash out****,* ***that will occur as a result of making an investment***

INVESTMENT ASSESSMENT PROCESS

Stage 4 :

- *Do **calculation of cash inflow** and **cash out** which is estimated at stage 3*



*So that it is obtained **net cash flow (difference between cash inflow and outflow)** For **each period analyzed (Net Cash Flow) The period range considered**, usually **associated** with **the age of the investment being analyzed***

INVESTMENT ASSESSMENT PROCESS

Step 5:

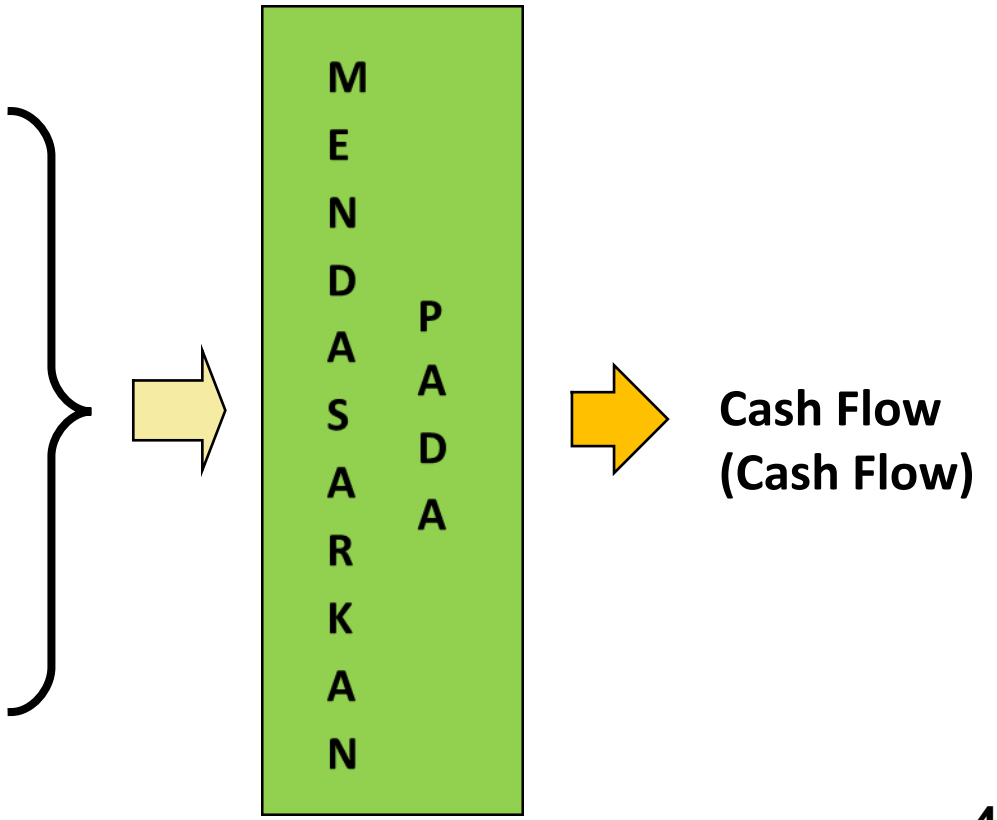
*Do **investment feasibility assessment,** with **using the appropriate method***

ASSESSMENT METHODS INVESTMENT

I. Recovery Period (Payback Period)

II. Present Value (Net Present Value/NPV)

III. Internal Profit Rate (Internal Rate of Return / IRR)



I.PAYBACK PERIOD

A period required to be able to ***recoup investment expenditure*** *by using "****PROCEEDS****" or* ***Net Cash Flow (Net Cash Flows)***

PAYBACK PERIOD

Example :

Initial investment = Rp. 100 million

Net cash flow = Rp 40 million / year

$$\frac{\text{100 million}}{\text{40 million}}$$

(1 year + 1 year + ½ year)

Payback period = 2.5 years

PAYBACK PERIOD

Payback Period of the proposed Investment (A)	compared to with	Maximum acceptable Payback Period (B)
(A)	More ***short*** than	(B)
(A)	More ***long*** than	(B)

Suggestion Investment **accepted**

Suggestion Investment **rejected**

ADVANTAGES OF THE PAYBACK PERIOD METHOD

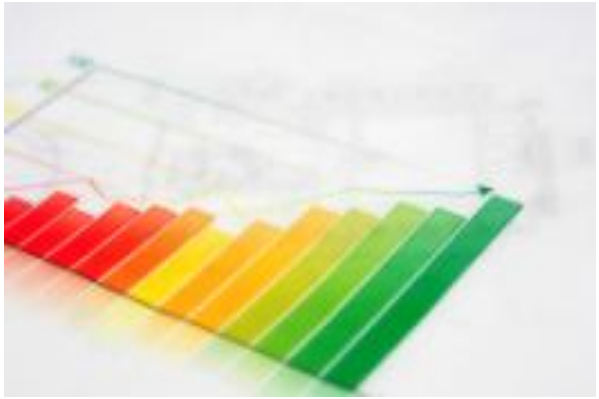
- **Easy to count**, because it's simple
- Can be used for **investment that quickly returns results in cash**
- Because **gives an idea of the speed of principal return**, So **provide time risk indicators to management**
- This method **fast**, because it is better than methods based on feelings.

WEAKNESSES OF THE PAYBACK PERIOD METHOD

- **Ignore** factor **time**
- **Ignoring income** earned over a period that has already returned the investment
- **Ignoring the risk value** project if any

II.NET PRESENTVALUE

Count **difference** between
present value of investment with
present value of revenue **net cash**



- *Cash in*used in this method are:
- ***A cash flow*** **discounted**

  a basic bag **cost of capital (*cost of capital*)**
  or **"*rate of return*"** which are desired

NET PRESENTVALUE

Example :

Initial investment = Rp. 100 million
Net cash flow = Rp 40 million / year
Investment age = 5 years
Bank credit interest rates are around 24% (Discount rate = 24%)

Cash flow form: Annuity >> same amount / year
Use the Annuity Present Value table (table B),
with a discount factor of 24%

PVA from Cash Flow 40 million for 5 years is:
2,745 X 40 million = 109.80 million

NPV = - 100 million + 109.80 million = 9.80 million

NET PRESENTVALUE

Present value of future net cash flow receipts	> (bigger)	Investment Value	→	**investment proposal accepted**
Present value of future net cash flow receipts	< (smaller)	Investment Value	→	**investment proposal rejected**

SUPERIORITY NPV METHOD

- **Taking into account**time factor
- **Taking into account** income factor earned during the project is used
- Use**the principle of overall investment value addition**

WEAKNESS NPV METHOD

- Some people find it difficult/complicated to use
- Management must first determine the level of capital costs.
- To compare project A with project B which have different values, you must use the net present value index.

III. IRR METHOD
(INTERNAL RATE OF RETURN)

Count **interest rate** Which **equate the present value of investments** with **present value of future net cash flow receipts**

Basically Internal Rate of Return must be searched by trial and error

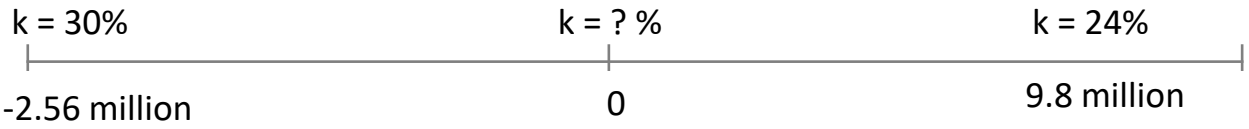
IRR METHOD

Example :

From the previous NPV case discussion:
PVA from Cash Flow 40 million for 5 years is:
2,745 X 40 million = 109.80 million
NPV at a discount rate of 24% = - 100 million + 109.80 million = 9.80 million

Let's try with a discount rate of 30%:
PVA from Cash Flow 40 million for 5 years is:
2.436 X 40 million = 97.44 million
NPV at a discount rate of 30% = -100 million + 97.44 million = -2.56 million

Use the interpolation method to find the discount rate when NPV = 0.



9.80 / (9.80+2.56) X (30%-24%) = 4.76 %

Then IRR = 24 % + 4.76 % = 28.76 %

IRR METHOD

- If IRR **>** (greater than) the Relevant Interest Rate (*discount rate*)

  → investment proposal **accepted**

- If IRR **<** (less than) the Relevant Interest Rate (*discount rate*)

  → investment proposal **rejected**

ADVANTAGES OF THE IRR METHOD

- **Taking into account** time factor
- **Taking into account** in come factor earned during the project is used
- **Percentage figures** that may be obtained **easier to understand** rather than current value or by index
- With **percentage figure**, making it easier to organize **ranking** for some projects

WEAKNESSES OF THE IRR METHOD

- Some say **hard to use**
- This method is assume that "**results" obtained, reinvested at the percentage rate earned**