
MANAGING FINANCE IN SMALL FIRMS



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Dato' Dr Haji Abdul Murad
Ahmad



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Salam sejahtera
YAR, — tur Mahathir.

Saya pengkond
seta Bole
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MANAGING FINANCE IN SMALL FIRMS

Dato' Dr Haji Abdul Murad Ahmad
DSNS, PMC, PJK, JP

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*“Dedicated to my dear wives Bismi & Bib
and children Yana, Sha Sha, Nurul and Keeme
for all the support they have given me
in my Law studies.”*

Dato' Dr Haji Abdul Murad Ahmad

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INTRODUCTION

This book forms one volume in the *Entrepreneurial Motivation* series. It stands alongside volumes which deal with various topics of importance to the businessman in Malaysia, in *Marketing For Small Firms in Malaysia*, and *Managing People in Malaysia*, and in particular, *Organising Your Business in Malaysia*. To that extent, some of the information contained in this book is dealt with at more length in other volumes in the series. This book however concentrates on the problems of financial management that face all small firms, and offers advice on how to overcome those problems.

The first point to make is that all small firms need to recognise that it is important, if they are to maintain a healthy existence, that they need to have someone in the company who will exercise responsibility for financial affairs. That person must also be confident that he or she has the necessary management and financial information to enable the proper monitoring of income, expenditure and cost.

Forward planning must also be made possible, and for this the financial controller must have information including:

- (a) an annual budget and any capital expenditure proposed
- (b) a quarterly variance analysis of income and expenditure against budget
- (c) an annual profit and loss account, and
- (d) an annual balance sheet.

Requirements such as these will not form a problem for many small firms: many companies have sophisticated ways of recording and using financial information for the more effective running of the business. But it is always important to remember that it is essential to be certain that it is possible to identify who is responsible for each area of financial management and control in the firm.

It is also important to maintain a record of how overheads are apportioned. There is no single method for such apportionment but keeping a suitable record for the needs of the individual firm is important. Some suggestions are included in this book, for standard methods of recording.

Effective costing methods are also discussed, because a small firm which miscalculates its costs can find itself facing trouble.

And no business stands still: it grows, or it declines, perhaps losing a part of its market share. So it is important to look to the future - constantly. Business expansion and financial planning are important issues for the small businessman and these also are matters that will be dealt with in this book, including the important issue of how to exercise controls over the future of the firm.

In this context, it is also necessary to consider the role played by the manager of a small business.

The manager should be aware that managing finance in any business is the one function that demands constant and direct attention. This function, or role, is not just the province of the specialist financial manager/accountant, it is also the province of the individual who is in overall control, and holds overall responsibility for the efficient working of the business - the business manager.

Moreover, more and more managers are now being given financial responsibilities, such as the control of budgets and cost centres.

In all businesses it is necessary to record the purchases, sales, receipts and payments in an orderly manner so as to determine accurately how much profit or loss is being made in any given period of time.

The owner of any business will want answers to certain basic questions, such as how much is the business earning, how much does it own, how much is it spending, how much does it owe and what is the amount of the owner's investment in the business. In many instances nowadays, computer-based information systems are used to satisfy the managerial needs quickly and accurately.

For non-accounting managers - into which category many managers will usually fall - there is a need to be aware of the basic principles and concepts used in the preparation of financial information so that they can make effective use of such information.

The success of the business clearly depends not only on competent internal financial management, but also on the way others, external to the business, view its financial health.

The production and presentation of financial information is essential to those interested parties who will make judgements and decisions that fundamentally affect everyone in the business. Who might these people be?

They include:

Managers

They can monitor and control the use of resources; control costs and activities against budgets.

Shareholders

They can make performance comparisons when choosing a business to invest in, or assessing the worth of existing investments they have made in a business.

Finance houses

Setting up a business can be expensive. It may be necessary to approach a bank or other lending house for financial support. Lenders can thus be provided with information to allow lending decisions to be made and are then enabled to assess the level of commitment made by the owners.

Employees

They are able to get a picture of the effectiveness of their efforts within the business and from this they can gauge the validity of discussions on rewards etc.

Suppliers

Orders for materials and equipment will necessarily be placed with suppliers. Such suppliers can also find financial information about the company very useful since they are thus able to check the credit worthiness of the company they supply.

But, as we shall see, it is in the hands of the owner or manager that ultimately the problem of profit maximisation will fall, and in this book we will look at some of the methods that might be used to deal with the problem.

CHAPTER ONE

FINANCIAL MANAGEMENT

Is financial management necessary for the small firm in Malaysia?

Many businessmen try to get along without concerning themselves too much with the financial side of the business — they look upon the bookkeeping and accounting side as a bit of a nuisance and something that needs to be attended to only when there's time and leisure to do it. Which can be never!

Many look upon it as a chore — there are only twenty four hours in a day and time is at a premium in a small business. Priorities are dictated by the needs of the moment—the urgent will take priority over the important.

Nevertheless, it is essential for every businessman to consider the following questions:

- (a) what sort of financial controls operate within the business ?

MANAGING FINANCE IN SMALL FIRMS

- (b) what accounting information is available to help control the business ?
- (c) who prepares the information ?
- (d) when and how often is it available ?

Certainly, the answer to the original question posed is that managers of small firms must realise that financial management and control is crucial if a small business is to survive. This is even more the case if the plans are to extend the business because it will be necessary to obtain financial information quickly, and the manager will need to understand what the information means. But simplicity is always the key: elaborate and sophisticated systems are unnecessary for most small firms. The basic issues are that the business should be profitable and that liquidity problems should not arise that may destroy the business.

In order to chart a course for the future, an adequate bookkeeping system must be used so that the actual results achieved can be monitored against those that are planned. In order to do this it is useful if the budget headings and account headings within the bookkeeping system match. This eliminates the need for additional work and prevents the task of keeping the books from being seen as a bureaucratic nuisance of no real value. It is from the books of account that information should be gained and used to control the business.

ACCOUNTING RECORDS

Book-keeping and Accounts

The whole of financial accounting is based upon an accounting equation. For a business to operate, it must have resources which must have been provided by someone - either the owner or by someone else.

The equation is, therefore, Assets (i.e. resources) equals Liabilities (i.e. capital provided by the owner plus all other liabilities). It must be appreciated at the outset that book-keeping records will be maintained from the business's point of view and not from the owner's point of view. This applies even if you are a one man business.

The business must be treated as a separate entity. If you are operating as a limited company, this separation of owner and business has legal recognition - a company is a separate 'person' in law and can, for instance, sue and be sued in its own name. Consequently, if you introduce additional funds into your own business, the book-keeping entries will record not only the fact that the business has received those funds, but also that it owes you an equivalent amount, in other words the business has acquired an asset (cash) and also an equivalent liability (capital).

Transactions recorded in the accounts of a business need to reflect this. Many small firms use a system which requires two entries to be recorded for each transaction



Dato' Dr Hj Abdul Murad bin Ahmad is a Malay technocrat who ventured into business at a tender age. Since starting in the building and timber industry in the 1970s, he has confronted and overcome many challenges and obstacles including the economic depression of the mid 1980s '97 and corporate conflict. Armed with determination, Dato' Dr Hj Abdul Murad has successfully grown from strength in his diversification efforts to be now regarded as an influential corporate personality in the property, education, health and information technology sectors.

In order to further accentuate the prominence of Malay entrepreneurs, he formed a strategic alliance via a family owned business, Gabungan Kumpulan Murad.

Whilst pursuing business and corporate ambitions, Dato' Dr Hj Abdul Murad has constantly committed himself to self improvement through academic and intellectual pursuits in a variety of courses including business administration investment and IT. He has obtained a doctorate in Business Administration from Pacific Western University in the United States in 1992. His philosophy is "Doing Business While Studying".

Apart from being on the Board Of Directors of several companies, Dato' Dr Hj Abdul Murad is also a director of the Negeri Sembilan State Economic Development Corporation as well as some of its subsidiaries.

Dato' Dr Hj Abdul Murad has also lent his time to serve as Chairman of the Negeri Sembilan Orphanage Foundation, also as Treasurer of PEMADAM and Association of Spastic Rehabilitation Organisations, N.S. Chairman of Malaysia Crime Prevention Foundation, N.S. Branch, Member of Advisory Panel Bachelor Degree (Hons) for Furniture Technology, University Institute Technology Mara (UiTM), as well as serving as the President of Malay Chamber of Commerce & Industry Negeri Sembilan. He also sits as an Executive Committee Malay Chamber of Commerce Malaysia, Executive Chairman of Konsortium Dewan Holdings Sdn Bhd, Chairman of Institut Putra and Member of National Higher Education Fund Corporation (Ministry of Education).

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Dato' Dr Hj Abdul Murad regularly contributes his ideas through talks on entrepreneurship through TV, Media and Magazines. Currently he is reading Law at the University Malaya (UM) in the Bachelor of Jurisprudence (3rd year).

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