Innovation of Future Companies

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طلال أبوغزاله العالمية

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Part One:

Establishment of Small and Medium Businesses

Innovation of Small and Medium Enterprises

Financial Feasibility Study

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At the end of the session, we expect the following:

- Identify what project investment costs and operational costs are, the difference between them, and how to calculate and treat them accountingally.
- Identify the most important sources of funding for projects, the criteria for evaluating funding sources, and how to calculate them.
- Identify what the operating revenues and operational costs of the project are (fixed costs and variable costs) and how to treat them in accounting terms within a time period of one year.
- Acquiring basic skills to prepare a financial feasibility study for small and medium enterprises.

Training Methodology

Business Models

Brainstorming

PowerPoint Presentation

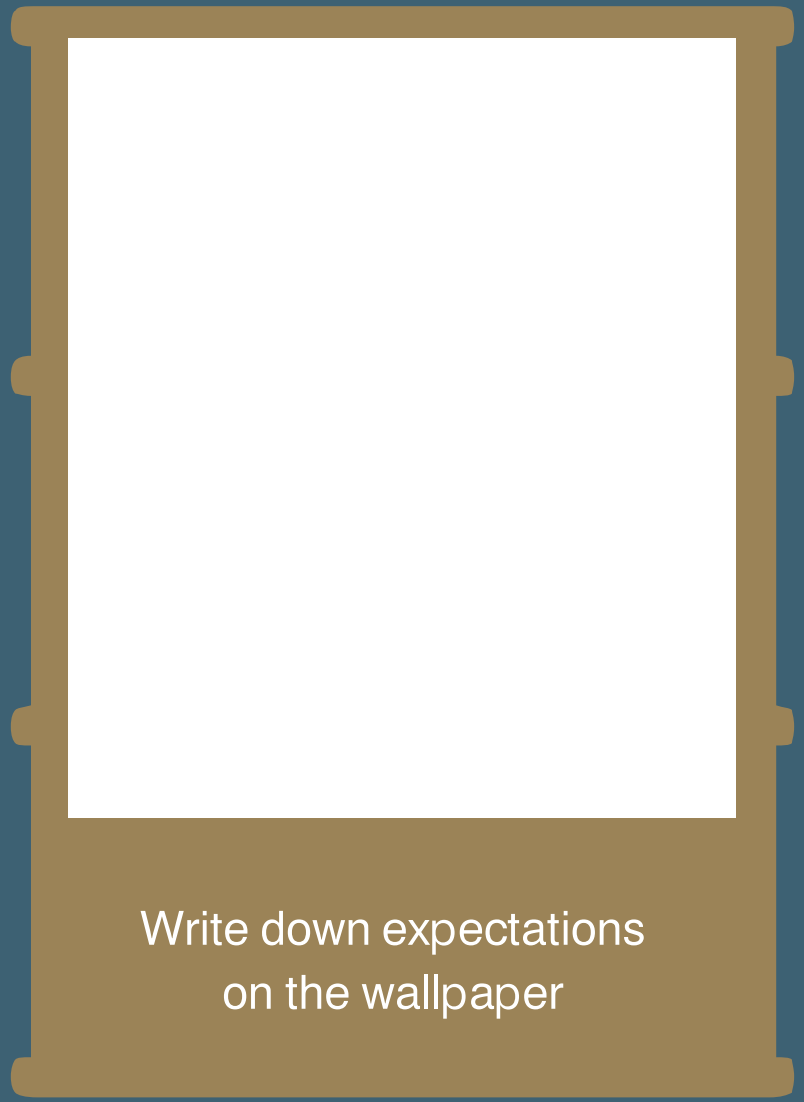
Group Discussion

Ask Direct Questions

Training Topics

- Study the costs of small and medium enterprises
- Financing feasibility for small and medium enterprises
- Operational feasibility of small and medium enterprises
- Financial feasibility analysis for small and medium enterprises

Participants' Expectations



Write down expectations on the wallpaper

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Pre-Test

Study the Costs of Small and Medium Enterprises

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Study Project Costs

Through the data and information that appear in the technical study, the project costs are studied, and the cost study answers two questions:

- What are the investment costs required for the project?
- What are the costs of producing that volume of expected sales?

First: Investment Costs

These are all the investment costs of the project from the stage of the emergence of the idea through the initial and detailed feasibility study of the project until the project begins operating and launching. These costs include:

- Capital costs (fixed assets + establishment expenses)
- Working capital (inventory for production cycle + liquid cash + accounts receivable + other current assets)

Capital Costs

These are the costs that include all the tangible and intangible assets necessary to operate the project during its entire economic life and consist of:

- Fixed asset costs: The costs of purchasing and obtaining fixed assets, such as the cost of machinery and equipment and their installation, the cost of land and buildings and their various equipment, the cost of furniture and equipment, etc.
- Establishment costs are all costs related to the process of establishing the project, such as feasibility study costs, registration costs, costs of administrative, legal and financial consultants, trial production costs , training workers to operate the project, inauguration and launch costs for the project, etc.

Working Capital (Current Assets)

These are the costs necessary to operate the project for one production cycle and include:

- One production cycle inventory: It is the inventory of raw materials needed for one production cycle, energy costs, spare parts, maintenance, packaging materials, transportation costs, etc.
- Cash: It is the liquid cash necessary to cover the costs of project expenses such as salaries, administrative, marketing and financial expenses, rental expenses for the project site, etc.

Practical Application

The trainer applies the financial feasibility study model in Excel (investment costs) in practice.

A working application on a ready project in the training hall

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Fixed costs:** These are costs that do not change with a change in the number of production units, such as: building rent, employee salaries, depreciation costs, general and administrative expenses, and financing installment costs.

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Variable costs:** These are costs that change with the number of production units, such as: raw materials, sales and promotion commissions, energy and fuel expenses, goods transportation expenses, etc.

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Costs associated with the activity that can be avoided if production is stopped:** Such as salaries for supervisors of production operations.

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Costs that continue to incur even if the production stops (can be avoided upon liquidation):** such as guard salaries and wages.

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Costs that cannot be avoided even if the project is liquidated and the assets are sold:** Depreciation costs of machinery and equipment (especially those that have no market value)

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Costs that are not related to production and are subject to management's disposal:** such as research and advertising expenses, consultants' and legal expenses.

Second: Annual Operating Costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Cash costs:** are all cash costs paid to others, such as: salaries, wages, rents, etc.

Second: Annual operating costs

These are all operational costs for one typical year, and the following are included within these costs:

- **Book costs:** are all costs that do not require current spending, such as: depreciation of machinery and equipment, etc.

Practical Application

The trainer applies the financial feasibility study model in Excel (operational costs) in practice.

With the distinction between what are cash operating costs and book operating costs.

A working application on a ready project in the training hall.

Financing Feasibility for Small and Medium Enterprises

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Sources of Financing for Small and Medium Enterprises

If the funds required to finance the project are less than the available funds, project owners will resort to various other sources of financing, and before that, the following is determined:

- Capital list
- Proposed schedule for capital payment.
- Proposed timetable for obtaining the loan or financing.
- Timetable for repaying the loan or financing.
- List of sources and uses of capital.

Sources of Financing for Small and Medium Enterprises

Funding sources for investment costs vary according to the following:

- Self-cash resources: such as money saved in cash by the project owner. It can be easily liquidated such as cash savings, deposits.
- In-kind resources: such as buildings, lands, gold, cars, and any in-kind property that can be part of the project and belong to the project owner.

Sources of Financing for Small and Medium Enterprises

- Islamic Financing: These are financing from Islamic banks at Murabaha rate and are usually in kind, not in cash.
- Commercial Loans: These are loans granted by commercial banks with a specified interest rate and are usually in cash.

Sources of Financing for Small and Medium Enterprises

- Partners' funds: dividing the project into shares and percentages distributed among the partners.
- Commercial credit: such as obtaining raw materials for one production cycle from wholesalers, suppliers, or a factory, where the project owner is granted a grace period to pay the value of production materials and supplies.

Sources of Financing for Small and Medium Enterprises

- White loans: facilities granted by banks and financing institutions in the country.
- In-kind grants: facilities granted by the state to youth, such as investment lands, business incubators, and training services for the project team.
- Cash grants: cash facilities granted by international and local organizations, banks, microfinance institutions and programs.

What are the Criteria for Studying the Best Sources of Financing?

When studying one or more sources of financing, focus should be placed on the following points:

- The investment amount is in local currency (which is the same currency as the selling currency in the market).
- The project owner's control and control over the funds obtained from any source of funding and directing them to serve the project in accordance with the planned vision.

What are the Criteria for Studying the Best Sources of Financing?

- Murabaha rate in Islamic banks, and borrowing interest rate in commercial banks.
- Method of calculating Murabaha in Islamic banks, interest rate in commercial banks.
- Required guarantees.

What are the Criteria for Studying the Best Sources of Financing?

- The duration of the financing or loan granted
- The grace period granted to pay the first installment.
- Facilities granted by Islamic and commercial banks and microfinance institutions.

What are the Criteria for Studying the Best Sources of Financing?

- Loss resulting from monetization (such as breaking deposits, selling gold, selling land of the project owner, etc.)
- Other costs incurred: financial advisor expenses, legal partnership contract expenses, etc.
- The opportunity cost of investing funds in the long term (2-5 years): A comparison between the financial returns of the project in the long term and the market interest rate.

What are the Criteria for Studying the Best Sources of Financing?

- Any financial returns that the project owner may lose as a result of the use of any of the assets, such as (buildings, lands, etc.), such as lost rent if one of the project owner's buildings or land is used.
- The optimal mix of project financing sources, some sources give the project the trust of those dealing with them, such as the multiplicity of project partners and their personal commitment to pay any amounts to others, such as (banks, merchants, service providers, etc.)

Financing Feasibility:

- If the funds required to finance the project are less than the available funds, one of the financing sources will be resorted to, provided that the financial returns of the project are capable of paying the installments of the various financing sources.
- If the required funds are not available, investment in the project is not made, regardless of the project's expected financial returns, except in one case, which is that the project is financed through non-refundable financial grants.

Operational Feasibility of Small and Medium Enterprises

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Project Operating Revenues:

- These are all revenues generated by the activity (monthly, annually) and are calculated through the equation (number of units sold * selling price)
- Project revenues are linked to the project's production capacity and the volume of demand:

1. The volume of demand may be greater than the project's production capacity. In this case, the project loses an opportunity to maximize financial returns, and competitors may enter the market.
2. The project's production capacity is greater than the volume of demand and is able to cover any increase in demand. In this case, the project is a barrier factor that hinders competitors from entering the market.

Practical Application

The trainer applies the financial feasibility study model in practice: the revenue sheet

An application on a ready project in the training hall.

Project Operational Costs:

These are all costs (monthly, annual) necessary to produce the expected sales. The costs include the following

First: Fixed costs are costs that **do not change** By changing the number of production units, such as: salaries and wages, rents, administrative and office expenses, utility, energy and maintenance costs, financing installment costs, depreciation expenses.

Practical Application

The trainer applies the financial feasibility study model in practice: fixed costs.

An application on a ready project in the training hall.

Project Operational Costs:

These are all costs (monthly, annual) necessary to produce the expected sales. The costs include the following:

Second: Variable costs, which are costs that **change** by changing the number of production units, such as: raw materials, sales returns, promotion, and sales commissions.

Practical Application

The trainer applies the financial feasibility study model in practice: variable costs.

An application on a ready project
In the training hall.

Net Sales Revenue

Net sales revenue =

Total number of sold units - sales and promotion returns - sales commissions

Gross Profit Margin

Gross profit margin (gross profit) =

Net sales revenue - raw material costs

Net Profit Margin before Taxes

Net profit margin before taxes =

Gross profit margin - salaries and wages - rents - administrative expenses - asset depreciation expenses - loan or financing installment

Net Profit Margin after Taxes

Net profit margin after taxes =

Net profit margin before taxes – (Net profit margin before taxes x ٪ income tax)

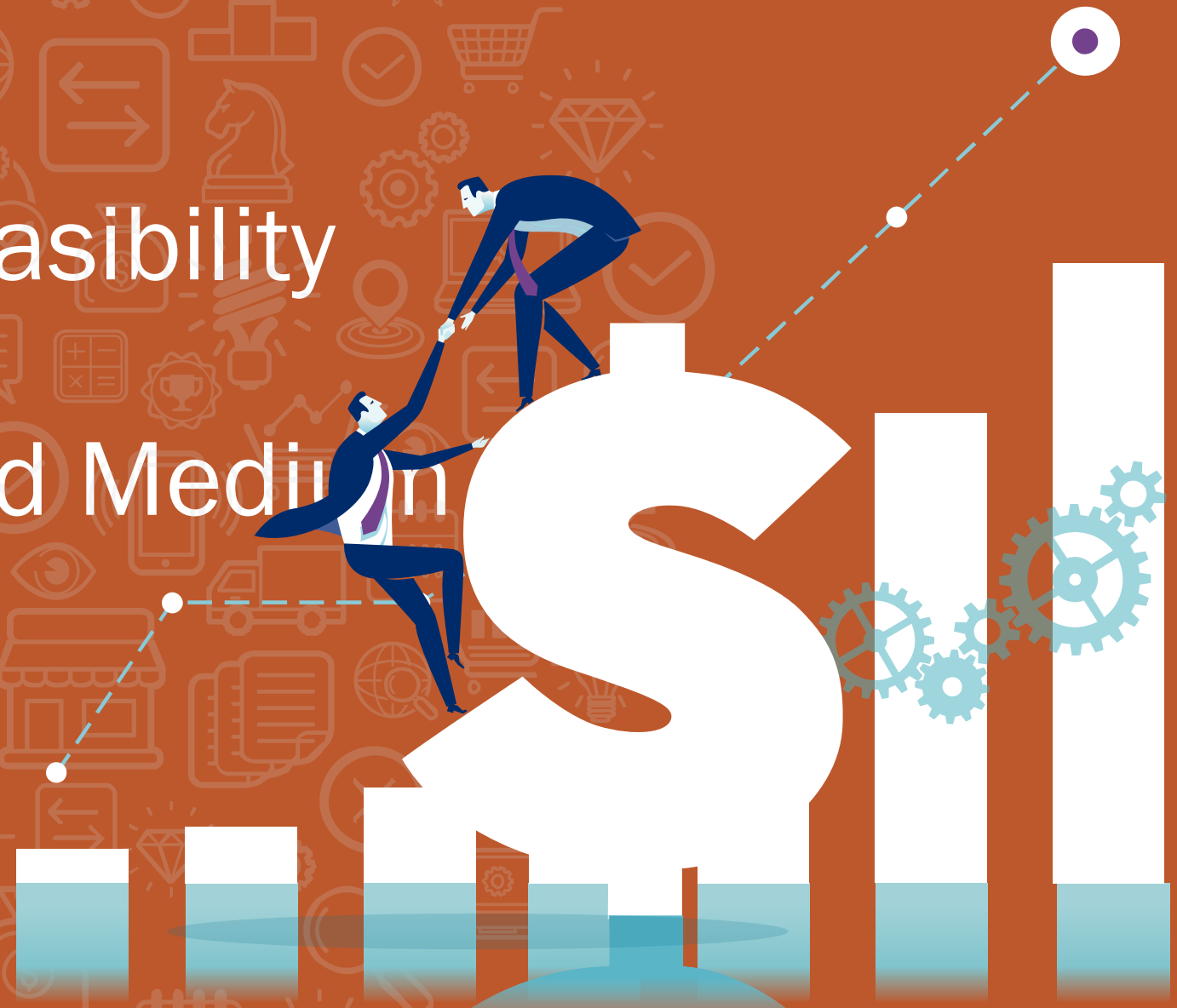
There are tax exemptions for startup projects of up to five years and vary from one country to another.

Practical Application

The trainer applies the financial feasibility study model in practice: the profit and loss statement.

An application on a ready project
In the training hall.

Financial Feasibility Analysis for Small and Medium Enterprises



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Break-even Point Analysis

Break-even:

- It is the point at which the project's operating revenues equal the total operational costs (variable costs + fixed costs).
- The total number of units produced or sold necessary to cover operational costs (variable costs + fixed costs)

Practical Application

The trainer applies the financial feasibility study model in practice, such as the break-even point.

An application on a ready project
In the training hall.

Break-even Point Analysis

An indicator that helps identify the extent of the project's flexibility, as it determines the lowest production level and/or sales levels at which the project can continue in the market without deciding to stop production or exit the market.

Payback Period (Time Standard)

It is the time period required to recover the cost of the spent investment, and we can calculate this through the following equation:

Payback period = investment cost ÷ annual net cash flow

Practical Application

The trainer applies the financial feasibility study model in practice, such as the payback period

An application on a ready project
In the training hall.

Payback Period Analysis (Time Standard)

The following is criticized for analyzing the payback period:

- Neglecting the time value of money.
- Neglecting the expected life of the project and the cash gains achieved during the payback period.

Payback Period Analysis (Time Standard)

To clarify :

- The project lifespan is the project's ability to continue in production regardless of the cash returns achieved.
- The project economic life is the project's ability to continue in production and achieve financial returns.

Average Rate of Return (Accounting or Financial Standard)

Average rate of return =

Average annual net accounting profit after depreciation and taxes ÷ investment cost

Practical Application

The trainer applies the financial feasibility study model in practice, such as the average rate of return.

An application on a ready project
In the training hall.

Analysis of the Average Rate of Return (Accounting or Financial Standard)

The following is criticized of the analysis of the average rate of return:

- Ignoring the time value of money and inflation.
- Ignore the project lifespan.
- This standard is based on the book basis and not on the basis of cash flows.
- Loading the project with some cost elements for which it is not responsible.

Participants' Graduation Projects

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Participants' Graduation Projects

- The trainer asks the participants to prepare graduation projects (which is a financial feasibility study for a project)
- The trainer receives the financial feasibility studies from the participants and reviews them.
- The trainer conducts individual sessions with each participant to provide feedback on the financial feasibility study.
- The results of the financial feasibility study are analyzed and the decision to invest or not is determined, along with explaining the reasons according to the financial indicators.

Participants' Graduation Projects

- Through the graduation projects submitted by the participants, the trainer evaluates the participants' understanding of preparing the financial feasibility study for the project in accordance with financial and accounting concepts and the feasibility study model.
- Participants are given the necessary advice and guidance to improve the financial feasibility study of the project under study.