

Module Six

Work & Financial Planning



WORK AND FINANCIAL PLANNING

The financial plan is an estimate of income and expenses of a business. It is also called the business budget. To estimate income from an aquarium fish trade, first you need to estimate the sales volume. The estimate of sales volume must consider the demand and the supply of particular fish species. Technical aspects of the supply process must be considered, including manpower, equipment needs, and timing and transportation during the various stages of supply.

Sample of a Financial Plan for a shipment

	<u>Exporters</u>			
	<u>Total</u>	<u>A</u>	<u>B</u>	<u>C</u>
Demand: Sept-Oct (Quantity of Specific Species)	3700	1000	1200	1500
Estimated Supply from Collectors (based on TAC)	1,400	400	500	500
Net Mortality of 10%	1,260			
Sales (in Rupiah, at Rp 10.000 each)	12.600.000			

Monthly Projection:	Total	Sept	Oct
Estimated Supply (Quantity)	1,400	800	600
Net Mortality	1,260	680	510
Sales (in Rupiah, at Rp 10.000)	12,600,000.00	6,800,000.00	5,100,000.00
Less: Operating Expenses			
Fuel	400,000.00	200,000.00	200,000.00
Packing Supplies & Materials	280,000.00	150,000.00	130,000.00
Workers Wages	300,000.00	175,000.00	125,000.00
Miscellaneous	100,000.00	50,000.00	50,000.00
Total	1,080,000.00	575,000.00	505,000.00
Projected Net Income	11,520,000.00	6,225,000.00	4,595,000.00

Break-Even Point : An operational and financial planning tool

Break-Even Point (BEP) is the sales volume or sales amount where Total Revenue equals Total Cost, hence, net income is zero. To compute Break-Even Point, cost elements of the business have to be analyzed and classified into Variable Costs and Fixed Costs. Contribution Margin or Gross Profit Per Unit of the product or item are also important elements in BEP calculation.

Elements needed to compute BEP:

Variable Costs: expenses that increase relative to an increase in sales volume, e.g., materials, freight, etc.

Fixed Costs: expenses that do not increase relative to an increase in sales volume, e.g., loan interest, depreciation, etc.

Contribution Margin: the gross profit per unit

BEP Calculation

The formula for computing BEP is as follows:

$$\text{BEP (in Sales Volume)} = \frac{\text{Total Fixed Cost Allocated for the Period}}{\text{Contribution Margin of 1 unit}}$$

Generally, this formula is applicable only to single products or items. **In the aquarium fish**

trade, this formula is not easy to apply, as usually one order or shipment includes multiple species of different value. For aquarium fish, the contribution margin is different for each species.

Why account for depreciation?

Some Coordinators do not realize that the Fixed Assets being used in their operation are part of their Capital, Equity, or Investment in the business.

Depreciation happens with the value of an asset is decreased due to wear and tear. Eventually, the asset might no longer be useful, and will need replacement. Depreciation should be considered an operating expense. If the business sets aside an amount corresponding to the depreciation, the Coordinator will avoid having to borrow money to finance replacement of fixed assets.

Another important element of the formula is the Fixed Cost. Fixed cost includes depreciation of Fixed Assets used in the business. We often see that Fish Collectors and Coordinators do not have an inventory record of their Fixed Assets. An inventory of the Fixed Assets used in the business should be recorded with the acquisition cost and date when the Fixed Asset was acquired. If these data are available, computation of the depreciation of the fixed asset is easier. Collectors and Coordinators can then calculate the Break-Even Point in terms of Total Sales Amount or Revenue. The formula is simply:

$$\text{Break-Even Revenue} = \text{Total Variable Cost} + \text{Fixed Cost}$$

In every Order from the Exporter, the Coordinator or Collector should determine the estimated variable expenses for a particular shipment based on the Operational Plan. Likewise, the Fixed Cost should be allocated to the period covering the operation of that shipment. Estimated Sales or Revenue at the level of the Coordinator can be calculated based on the unit selling price per species after taking into account the percent of mortality at each level.

To calculate Total Sales Amount that will result in a desired Net Income, the formula is:

$$\text{Sales} = \text{Total Variable Cost} + \text{Fixed Cost} + \text{Desired Net Income}$$

The BEP calculation guide is presented in the Annex and an example in the Presentation.