INTRO TO FINANCIAL MANAGEMENT

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What is Finance?

• **Formal definition**
  – The study of money management

• **Informal definition**
  – The dollars and cents *story of a business*
Many types of businesses

Nursery: orchids
Nursery: Foliage
Landscape: Foliage
Nursery-Landscape: Palms
Agribusiness
U-pick
Farmers market
The Framework

• How do we tell the story of a business?
  – Introduction
  – Plot
  – Conclusion
Introduction

• **Business plan**
  – How did you start your business?
  – Where is it going?
  – What are your goals?

• **Balance Sheet**
  – What do you have and owe?
  – How much are you worth?
Plot

• **Income Statement**
  – Are you making money?
  – Where is the money going?
  – What’s the conflict (expenses)?

• **Cash Flow**
  – Do you have enough money to stay afloat?
  – Do you need to borrow? Invest?
Conclusion

• Forecasting
  – What does your future hold?
  – How can you make the most money?
  – What could go wrong?

• Investment
  – Are you allocating resources well?
  – What do you need to do next?
The Glue

• **Financial records** are the “words” of your business’s story

• Without records, you can’t develop effective **financial statements**, file your **taxes**, or communicate your **vision**
Key Terms

• Part of telling your business’s story is learning the language of finance

• So let’s review some of the most important financial terms!
Key Terms

• **Capital** – wealth in various forms (money, machinery, etc.)

• **Budgeting** – allocating funds for a specific purpose

• **Leverage** – the amount of debt relative to the size of the business
BUDGET
ORGANIZE HER FINANCES
PREPARE FOR ANY FINANCIAL EMERGENCIES

Source: http://www.investopedia.com/terms/b/balanced-budget.asp
Key Terms

• **Balance Sheet** – a snapshot of the firm at a point in time

• **Asset** – A resource with value

• **Liability** – various forms of debt

• **Equity** – Net value of a business
Assets

- Beef cattle, poultry and fish.
- Trees in a forest.
- Plants for harvest
- Trees, plants and bushes from which agricultural produce is harvested (for example, fruit trees, vines and tea bushes).
Balance Sheet

\[ \text{ASSETS} = \text{LIABILITIES} + \text{EQUITY} \]
Balance Sheet
Key Terms

• **Income Statement** – a summary of business performance over a period

• **Revenue** – money received by a business over a period of time

• **Expense** – a cost of operating the business

• **Depreciation** – falling value of an asset

• **Net Income** – profit of a business
TOTAL REVENUE

-  

TOTAL EXPENSES

NET INCOME

Source: http://www.investopedia.com/terms/b/balanced-budget.asp
Key Terms

• **Cash Flow** – change in available cash at a point in time

• **Operating flows** – cash increase or decrease from normal operations

• **Investing** – allocating money to long-term assets

• **Financing** – raising money for a business
Financial Management Decisions

• Capital Budgeting
  – Planning and managing long-term investments

• Capital Structure
  – How you finance (fund) your operations

• Working Capital Management
  – Short-term cash flow decisions
Goal of Financial Management

• What is the overall goal of your business?
  – Maximize profits?
  – Minimize costs?
  – Survival?

• Let’s be precise
  – We want to maximize the market value of our business (equity)