Reasons for startups to require funding

Cash flow challenges

Inventory must be purchased, employees must be trained and paid, and advertising must be paid for before cash is generated from sales.

Capital investments

The cost of buying real estate, building facilities, and purchasing equipment typically exceeds a firm's ability to provide funds for these needs on its own.

Development cycles

Some products are under development for years before they generate earnings. The upfront costs of an exceed a firmThe up-front costs often exceed a firms ability to fund these activities on its own.

Primary financial objectives of entrepreneurial firms

Profitability

A company's ability to make a profit. Many startups are not profitable during their first 1 to 3 years, building their brands.

Liquidity

A company's ability to meet its short-term obligations. To do so, a firm must keep a close watch on accounts receivable and inventories.

Efficiency

How productively a firm utilizes its assets relative to its revenue and its profits.

Stability

The overall health of the financial structure of the firm, particularly as it relates to its debt-to-equity ratio.

Process of financial management

1. Preparation of historic financial statements

- Income statement
- Balance sheet
- Statement of cash flows

2. Preparation of forecasts

- Income
- Expenses
- Capital expenditures

3. Preparation of Pro Forma financial statements

- Pro forma income statement
- Pro forma balance sheet
- Pro forma statement of cash flows

4. Ongoing analysis of financial results

- Ratio to analysis
- Measuring results versus plans
- Measuring results versus Industry norms

Barringer, Bruce & D. Ireland. "Entrepreneurship. Successfully launching new ventures" Pearson, 6th Edition 2019