Financial management activities essay

Business, Accounting

Module: Financial Management Financial Management Broad Aim The aim of this module is to give participants an overview of the role of managers in controlling financial resources. Training outcomes By the end of this module, participants will be able to: •Identify the main elements of financial management and assess whether the financial management in their station is adequate •Identify the financial policies needed in a radio station •Develop a budget •Do a cash flow projection •Develop and interpret a variance report Activity 1. Problems with managing finances What are the main problems that your station has with managing money? What do you want to learn about managing money? What is financial management? Financial management is about planning income and expenditure, and making decisions that will enable you to survive financially. Financial management includes •financial planning and budgeting, •financial accounting •financial analysis, •financial decision-making and •action Financial planning is about: •Making sure that the organisation can survive Making sure the money is being spent in the most efficient way •Making sure that the money is being spent to fulfil the objectives of the organisation •Being able to plan for the future of the organisation in a realistic way. Financial Accountability In non-profit organisations, the money that you are using is held in trust – on behalf of the community that you serve. The money is not the personal possession of the individual staff members.

They have to account for how they used the money, to show that it was used to benefit the community. In a profit-making organisation, it is easy to hold management accountable. We simply ask: did they make a profit? In a non-profit making organisation we ask: did they use the money to benefit the community in the best possible way? Financial accountability can be broken down into two components: Financial Accountability Being able to account for the way the money is spent to: •donors •boards and committees •members, and •the people whom the money is meant to benefit Financial Responsibility: •Not taking on obligations the organisation cannot meet •Paying staff and accounts on time •Keeping proper records of the money that comes into the organisation and goes out of the organisationActivity 2. : Financial Policy Game Use this space to make notes from the game: Activity 3. : Financial policies Individual work (10 min) To ensure that finances are properly controlled, all organisations must have policies. Look at the table below and give your organisation a tick if it has got a policy on these things. Give yourself a tick if you know the policy.

Policy Organisation has policyI know policy Banks accounts – who can open it, what bank to use, etc, operating and signing cheques, withdrawing money Budgeting Who develops the budget How it is developedWho authorises it Non-budget expenditure Who can give permission to spend money on items not budgeted for Petty cash Who can spend it For what Receipts and deposits When to deposit Acquisition and disposal of fixed assets Payments and cheque requisition Staff loans Who can get loans Limits How often Use of private motor vehicles Rate of repayment Car hire What class of car For what purposes Long distance travel When you can fly (instead of using taxis, or private transport) Class of flights Travel allowances What the organisation will and won’t pay for Group Work (45 minutes)What policies do most of the stations represented in your group have and which do they not have? Identify one or two policies that your group wants to discuss what issues would the policy cover? What rules or guidelines would you set for radio stations? Activity 4. : Budget Role Play What went wrong in the role-play? What should they have done to avoid these problems? What have you learnt from this role-play? What Is A Budget? An organisation must have set policy about the budget process: •Who is responsible for the process? •Who will draft the budget? •Who will be consulted in drawing up the budget? When should the budget process start? •Who will approve the budget? •How will the budget be monitored and controlled? Activity 5. : A basic budget In pairs (15 minutes) Think about your home. What are the main items that you have to pay for? Think about items that you know you need to pay for regularly, and those that you pay once a year. Develop a budget that shows the income and expenditure in your home. ItemAmount Income items Many people only think about budgeting for expenditure. A budget must also show what income you anticipate getting and from whom. A budget is a planning tool.

You need to know what your income will be, before you can plan what to spend. Examples of possible income items: •Donations promised •Donations likely •Interest •Sales e. g. of promotional material, or other goods •Sale of advertising time •Fundraising events •Sales of services (e. g.

DJ at a function) •Sales of programmes Expenditure items Your budget must cover all the expected expenditure. There are two kinds of expenditure items: 1Capital costs: include the cost of the actual building, your equipment and furniture, cars etc. These are usually once off costs. You should budget for the replacement of items such as cars over a number of years. When you work out your budget, you will need to work out what new capital items you will be buying and which you will continue to pay off. 2Running costs: include all the costs of keeping the station running on a day to day basis.

Examples include rent, electricity, stationery, maintenance, petrol and service costs for cars, etc. Salaries and allowances are part of running costs. Running costs are recurring expenses – they recur every month or once a year (e. g. television licence, car licence, tax etc. •Fixed costs– these are items that have the same cost every month. Fixed costs do not depend on how much work you do.

Examples are: rent of premises, insurance, salaries, etc • •, •Variable costs – change, depending on the amount of work you do e. g. electricity, stationery, etc. Activity 6. : Developing a budget for an event Group work on developing a budget (45 – 60 minutes) Assume you are planning a special event on AIDS awareness. You want the day to target youth in particular, and to raise awareness about AIDS. At the same time, you want the day to promote your radio station.

You want people to go home at the end of the day deciding that they will always listen to your station in future. Step 1: Plan the events of the day. Step 2: For each activity, work out what resources you will need to use. Step 3: Develop a budget for the day. If you don’t know what an item will cost, tell us what you will do to find out the costs.

Step 4 Write up your budget on flip charts. Other groups will look at it in detail and give you feedback on your work. Examples of typical expenditure items Capital costs Equipment Building Computers Desks Car replacement fund Running costs General running costsRent Electricity and water Telephone and water Photocopying and printing Maintenance Licence NCRF membership Insurance Bank charges Audit fees Staff costs Staff salaries Staff benefits (e. g.

pension, medical aid etc.) Staff and volunteer training and development Volunteer Stipends Programming costs Transport Batteries Tapes Buying of programmes, news etc Promotion costs Hire of venue Hire of sound equipment Entertainers Promotional media: cards, pamphlets, posters, newsletters etc Printing costs Distribution costs Advertising /sales costs Transport Costs of running the car: Petrol Maintenance Activity 7. finding our what items cost Items Method of determining costs Capital items: e. g. car, computer, new equipment Rent Telephone Stipends Example of a radio station budget Useful tips when preparing a budget Compare Always compare your new budget against your statement of income and expenditure for the previous year Check against aims and objectives Does the budget allow you to put them into practice? Income Does your station generate income? Has this been properly calculated? Is it realistic? Costing? Are item cosseted in enough detail? Are the figures reasonable? Are they set under the right headings? Has anything been forgotten? Salaries Have you anticipated new staff members and included their salaries at the correct time? Have you budgeted for tax and other payments such as UIF etc? Consultation Have all the people in the organisation who are responsible for managing resources, reviewed the budget? Do they understand its contents and what is expected of them? Funding Have you considered carefully how the budget is to be funded? Is it realistic? Have you minimised the risks? What are the timing implications? Monitor / Control How do you plan to monitor and control your budget during the period? Have you considered what to do if anything goes wrong? I. e. if a source of funding falls through? Sustainability Have you considered the long-term existence of your organisation? How will it sustain itself? Is it reflected in your budget? Budgeting for different circumstances.

Some organisations prepare different versions of their budgets. •A survival budget – the bare minimum that you need in order to keep functioning •A working budget – which reflects the money that you confidently expect to get (based on firm promises and contracts) •An ideal budget – this includes projects or expansion based on what you hope to be able to raiseActivity 8. : Financial planning Case Study A literacy project was set up in Mbekweni Township to service the rural areas around Paarl in the Western Cape. The project went through all the correct procedures of strategic planning, setting objectives and drawing up a realistic budget based on these objectives. They identified office space which could be used for admin and training, determined their staffing requirements based on the number of learners they planned to work with, and carefully calculated all the other costs involved: training materials, transport, food, office expenses, etc. They received all the funding required according to their budget, enough to carry the project through for two years. The project seemed to be going extremely well.

They managed to get two very experienced literacy teachers and had increased the number of learners due to demand. The staff produced information material that they distributed to the community, through local church groups, free of charge. Their work was having a positive impact and everybody was talking about the project. More and more people wanted to enrol in their classes. They were just 10 months into the project when they suddenly realised that the funds they had were not going to last them for the two year period. In fact, they had barely enough money to pay the salaries and rent for the next two-months, never mind the cost of training itself. They went back to their funder to ask for immediate additional funding to keep the project going. While the funder was pleased with the success of the project, they were concerned that they had only been approached when the organisation was in a crisis.

What went wrong? What could have been done to prevent this situation? Cash flow planning Having an annual budget by itself is not enough. We need to break the budget down into income and expenditure on a monthly basis, and then link it to the cash available at the start of each period. This is called cash flow planning. Look at the cash flow budget on the next page.

In this plan, the budgeted amount is spread out over the year. If you know when actual income or expenditure will be made, then you allocate it to the correct month. The cash flow plan, sometimes also called a cash flow projection, is a useful planning tool. However, on its own it is still not enough.

Place cash flow plan here Activity 9. : Variance reporting The variance report is the most powerful control instrument you can use to keep control over your finances. The variance report helps you to keep track of the differences between the actual income and expenditure and the budgeted amounts.

Variance = Budget – actual If you overspend, you are in trouble: either you have to ‘ borrow’ money from another part of your budget, or you will end up owing somebody money. Under spending can sometimes be a good thing – it saves us money.

But sometimes, spending too little can be a problem. Can you think of examples when under-spending could be a problem in your organisation? Task for pairs (20 minutes) Look at the variance report on the next page. Identify problem areas. Discuss what the problems could be, and the implications for the project. What questions would you ask if you were a board member reviewing this report? Place variance report here. Item: Variance: Reason: Action to be taken: Item: Variance: Reason: Action to be taken: Item: Variance: Reason: Action to be taken: Item: Variance: Reason: Action to be taken: Item: Variance: Reason: Action to be taken: Item: Variance: Reason: Action to be taken: Strategies when you are short of money There are two ways of looking at your finance strategy Increasing your income Earn more money – Set targets for income to be earned each month •Make sure you cost your programmes and advertising time realistically. •Consider membership fees •Are there things you could sell (e. g.

T-shirts at events? services?) •Make sure that any money not being used is in interest baring events. Raise funds locally •Fund-raising events •Sponsorships Diversify your funding (make sure you don’t rely on only one or two funders) Decreasing your expenditure Save on everything: •Use less paper, do less printing, make fewer phone calls, etc. •Cut down on the use of vehicles •Cut down on the use of public transport •Cut services – offer cheaper services Use outside services to do things like bookkeeping, instead of hiring a full-time bookkeeper. Find cheaper suppliers for things like stationery and printing Look for cheaper premises, use less space Activity 10. : What have you learned? When you go home after this course, what advice would you give board members about monitoring your finances?