Section 5
Managing Finance

5.1 Introduction

This section will be split into three main parts

- Sources of funds
- Uses of finance
- Financial Reports
- Planning and Budgeting
- Using Financial Information

5.2 Sources of Funds

It is necessary to have funds (known as capital) in order to run your organisation's business. This is because the organisation will need to provide for initial expenditure, such as renting or purchasing premises, paying for wages, and so on.

In most organisations, additional funds are required from other sources. So, where does the money to finance an organisation come from?

The answer is that it flows in from a number of sources:

a) Fund raising

In order to raise some capital, most community organisations run events and activities to raise cash to survive and continue to carry out their mainstream work.

Many community organisations have charitable status and are not required to pay tax on monies raised in than manner. However the key point here is that all cash raised in this manner is recorded and banked. The more money that the group can raise the better. Apart from the intrinsic value of the cash itself to the functions of the group, fundraising can often lever further funds from grant aid. The message to funders is that "this group is really committed and capable!"

b) Loan capital or long-term liabilities

An organisation may require funding in addition to its own resources. Loans can be taken from banks, from mortgages on properties, leasing, or from hire purchase.

Because they have no say in the running of the organisation, the providers of the loan will normally require some kind of guarantee. For a community organisation the Board or Office Bearers may be required to provide a personal guarantee (which in fact extends their liability beyond that of their responsibility to the organisation). In a well-established organisation, the loans are normally given against the security of the organisations assets. These so-called charges on assets give the lender priority in terms of recovering his loan should the organisation fail or default on repayments.

c) Grant Aid

A number of sources of grant aid are available for different issues within a community organisation. The availability of grant aid depends on the specific circumstances of any organisation at any one point in time therefore it is not possible to talk generally about grant aid. It is important that organisations become sophisticated in the system of applying for grant aid. Good systems and clever understanding of all the requirements of funders will save a lot of time and much energy.

5.3 Uses of Finance

Having financed the organisation we must now see what the finance is used for. Usually the funds are used in two main ways:

- to purchase fixed assets
- to be used as working capital – to pay for wages, rent etc.

We will look at these in more detail.

Fixed Assets

Fixed Assets are purchased and owned by the organisation. They represent the means by which the organisation can effectively do its work. Before buying them, committees rationalise that their long term capacity to carry on will be enhanced by such assets. The term fixed is used because they are not for sale in the normal course. They include items such as land, buildings, office equipment, motor vehicles and computers. They are called tangible fixed assets of the organisation because they can be seen and touched.

Expenditure on fixed assets is known as capital expenditure.

Current Assets or Working Capital

The second use of finance is to provide funds for the everyday operation of the organisation.

At the same time as discussing current assets, it is convenient to consider current liabilities. This is because, in the course of everyday operations, we not only invest funds as shown above, but we also create liabilities - sums of money that we owe. For example, if we buy goods and services on credit, we owe our suppliers or trade creditors. Other liabilities may be to funders who reserve rights on grant-aided funds when they have not been used for the purpose intended. When we stop our organisation at a moment in time, the total of current liabilities, as money owing, is deducted from the current assets held at that time to give net current assets.

Current Assets – Current Liabilities = Net Current Assets

Current liabilities represent a reduction in the need for working capital.

Investments

Occasionally an organisation will have surplus cash. That is it cannot use the money for its services.

If the money surplus is likely to be short term (that is, the money will be required by the organisation again in the near future) short-term investments will be made which can be reconverted easily to cash as the need arises. If the surplus is continuing and long term, the board will want to invest for the long term to get the most profitable return on investment.

Community organisations must have sound financial controls. It may sound obvious but the primary purpose of maintaining good financial control is to ensure that the organisation remains in business. The work of your organisation is important - you have an obligation to go on providing your services to your community, stakeholder and funders. As a result you will find that sustainability will appear often in the following pages.

Having poor financial controls can only result in disaster. It is imperative that your organisation has in place a system for accounting for all income and expenditure and that the system responds to needs of all users.

Whatever your area of expertise, you need to understand the basics of financial management. This will give you an informed view about the organisation's performance, and allow you to play a full role in shaping its development and strategy.

5.4 Financial Reports

People sometimes shy away from financial figures and accounts for a variety of reasons. Sometimes they are put off by the fact that the black and white numbers arranged in columns and rows on a page are difficult to interpret, others just see it as a completely different language and sometimes people just look at the accounts and say to themselves that this is not relevant to me.

The main financial statements are:

- The Balance Sheet

- The Income & Expenditure Statement

- The Cash Flow Statement

1. The Balance Sheet

This is a report that gives a statement as to the worth of an organisation at any one particular time. Because the Balance Sheet is a presentation of the organisation's value at a single point in time it is often referred to as a "snapshot of the wealth of the organisation."

The Balance Sheet is usually presented at the year-end and for the sake of comparison gives the figures for the previous year. This allows those looking at the balance sheet to see how the "value" of the organisation has changed during the year. It will show any capital that was spent on a new property purchase or capital that was received following the sale of some land. It also allows readers of the accounts to evaluate the extent of outstanding debts and loans.

An important point to understand is that the asset value shown on the balance sheet is not necessarily the open market value. For example, the value of a building shown on the balance sheet may not accurately reflect the value on the open market. The balance sheet is so called because its two sides are in balance.

On one side there is a column identifying how much money is owed by the organisation and on the other side how much the organisation owns plus any money that is owed to it.

A balance sheet is an extremely useful report. Key information that can be determined includes:

- The nature and cost of assets
- The nature and extent of liabilities
- Whether the organisation is solvent
- Whether the organisation is over-trading

A balance sheet of a typical community organisation is shown below:

XYZ Community Business		
Balance Sheet as at 31 December 2013		
	£'000	£'000
Fixed assets		
Land and buildings	75	
Office equipment	20	
Motor vehicles	30	125
Long-term investments		15
Current assets		
Debtors	10	
Cash	4	
Stock	6	
	20	
Less; Current Liabilities		
Creditors	5	
Bank Overdraft	10	
	15	
Net current assets		5
Total net assets employed:		145
Financed by:		
Owner's equity		
Reserves	45	45
Long-term loans		
Bank loan		50
Grant Aid		50
		145

We will now discuss some aspects of this balance sheet. Firstly you will note that it is only for one year. Normally when you look at the accounts for a community business or an organisation you will see two years figures. You will see the opening balance sheet, say at the 1st of January 2013 as well as the closing balance sheet as shown above in the 31st December 2013.

Before we look at figures let us discuss the entries and description of the entries on the left hand side.

Fixed Assets
Fixed assets are those assets that have been purchased or are held ***permanently*** for the purpose of carrying on the work of the organisation. These include buildings, equipment and vehicles. They are called fixed assets because they are not for sale in the normal course of running the organisation. They are often called ***tangible*** fixed assets because they can be seen and touched. It is worth pointing out that there are ***intangible*** fixed assets. They are not found very often in community

organisations. The most common intangible fixed asset is "good will", but there are others such as "royalties", "licence fees" and "rights to music" etc.

The cost of a fixed asset includes what was paid for the asset **plus** the cost of installation and the cost of any improvement. Note that the cost of repairs and maintenance of a fixed asset is not shown on the balance sheet. This is because repairs and maintenance add nothing to the original value of the asset – they merely restore the asset to its original condition.

For the Balance Sheet:

The Cost of a Fixed Asset	**=**	**What was paid for it <u>plus</u>** **Cost of Installation <u>plus</u>** **Cost of Improvements**

Money spent on acquiring fixed assets is called:

Capital Expenditure.

Money spent on maintenance of assets is called:

Revenue Expenditure.

Current Assets
The second group of figures shown on the balance sheet is classed under the term **current assets**. We have seen how capital can be invested in fixed assets to provide a means for the organisation to carry on its normal work. The second use of organisational finance is to provide funds for the everyday operation of the enterprise.

Current assets also represent part of the value of the organisation.

Current assets include:

Stock
Raw materials and components (e.g. paper, coal, boxes)
Work in Progress (e.g. unpainted cars, knives without handles)
Finished goods (e.g. goods ready for sale or shipment)

Debtors
Money owed to the enterprise by customers

Bank and Cash
Any surplus funds (but not long term investment funds)

NOTE: Fixed assets are usually listed in the order of permanence and current assets are listed in order of liquidity.

If an audit is completed before the bill is settled, it would be inaccurate to report the "value" of the enterprise without including the liability to suppliers. The Balance Sheet therefore has a special line for all liabilities to suppliers. **Current liabilities** is sometimes refers to "trade creditors".

The balance sheet, you will recall, is a snapshot of the company's value at any one moment in time. When we look at the **current assets** held at that time it is important to take account of the **current liabilities** and subtract that sum from the current assets to give the **net current assets**.

Current Assets	**-**	**Current Liabilities**	**=**	**Net Current Assets**

Note that current liabilities do not include long term loans. This is because long term loans are not used to fund the normal day to day operations of the organisation. Long term loans are usually in the context of funding fixed asset purchases such as equipment or buildings.

The XZY Community Business Balance Sheet

Let us now turn back to the balance sheet illustrated earlier. The balance sheet shows that there are fixed assets of land, equipment and vehicles. There are also current assets, debtors (money that is owed to the organisation by its customers), some cash and some stock.

A stock take on this organisation at that date would determine that the combined value of the fixed assets and current assets is £160,000. But this figure does not take into account how much money the organisation owes its suppliers nor does it reflect the current bank overdraft as at the 31st December 2013. These two figures show that the organisation has current liabilities of £15,000 and so the **total net assets** employed are valued at **£145,000**

You can see that the XYZ Community Business balance sheet is "**in balance**" because:

• it is funding the business with a bank loan of	£50,000	
• It has received grant aid of	£50,000	and
• over the years it has accumulated surpluses[1] of	£45,000	

….a total of £145,000

Depreciation

So far we have seen how the fixed assets on the balance sheet are created by the investment of capital expenditure on items such as land or buildings. The problem which then occurs is that once purchased the fixed assets will change in value.

Consider these examples:

- The Enterprise's buildings may increase in value in the short term but will eventually deteriorate and require replacement or modernisation

- Machinery may wear out, become obsolete or just too expensive to maintain. In time they have only value as scrap

[1] termed reserves on the accounts shown

- As well as starting to lose value immediately upon purchase, vehicles become uneconomic to run after a time

- Computers become obsolete at a rapid rate

It is not only fixed assets that change in value. Stocks of raw materials may be similarly affected. Most of us are familiar with the following occurrences:

- Materials or parts bought in quantities far in excess of actual usage.

- Large stocks of booklets and literature that are made obsolete by changes in legislation, telephone numbers or addresses.

In many cases the value of stock will diminish. Of course the opposite may also happen. A prime example of this is the petrol station whose stock of petrol can rise in value overnight upon the announcement of a price increase.

Finally, even the **debtor'**s value shown on the balance sheet will not necessarily be an accurate reflection of the money that can be collected over time.

Some customers will go bankrupt and some will dispute the particular debts. Because of this it is not always possible to collect 100% of the debtors.

These changes in value have to be recognised in financial accounts so that the **actual** wealth of the enterprise can be reported.

The changes in values have to be handled in different ways according to the type of asset.

We will now review how these changes are made for each asset type.

In most cases fixed assets reduce in value over time as they gradually wear out. Therefore, unless we make an adjustment to lower the original cost figure shown in the accounts we will be overstating the value of the assets. In order to give a more accurate reflection of the value of the assets the value is adjusted each year. The way in which this reduction in fixed asset value is reflected in accounts is called ***depreciation***.

2: The Income and Expenditure Statement

The income and expenditure statement is a very important report.

Whereas the balance sheet measures an organisation's wealth at a particular moment in time the **income and expenditure statement** (or profit and loss) measures the activity occurring over a period of time. The income and expenditure account normally covers the annual period between successive balance sheet dates and provides information on the major revenue items and cost movements occurring which result in the retention of a surplus or the creation of a deficit. In order to demonstrate this more clearly we will examine the income and expenditure account for the ABC Organisation. The report provides information on the income and expenditure and the net effect of different transactions. In the case of social enterprises surplus or deficit is reported rather than a profit or loss.

Surplus Defined

Surplus (or profit) is the excess of the proceeds from services over their cost and after deducting the expenses incurred in running the organisation (i.e. administration etc.).

A two year income and expenditure account for ABC is shown in the table overleaf.

In the 2013 statement shown there is sales income of £5,256 and grant aid of £115,600. In the example we use, the cost of sales is 60% of sales income giving rise to a gross surplus of £117,702.

The income and expenditure account then shows overheads totally £104,313.

Note that the **cost of sales** is not included in the overheads but is treated as a direct cost and deducted from the revenue income to calculate the gross surplus. This is because the cost of sales is directly proportional to the turnover. For example the cost of paper associated with the publication of a magazine. Other expenditure such as rent is not a function of the success or otherwise of the organisation in selling its magazines.

ABC Community Association		
Income and Expenditure Statement		
	2012	**2013**
	£	**£**
INCOME		
Sales	4,200	5,256
Grants		
DEL	3,800	5,600
Big Lottery	79,000	80,000
Sub-Total	112,800	115,600
TOTAL	**117,000**	**120,856**
Cost of Sales	2,520	3,154
GROSS PROFIT	**114,480**	**117,702**
OVERHEADS		
Wages and Salaries	66,124	72,132
Staff training	3,000	3,000
Publications	240	240
Rent	3,000	3,000
Heat and Light	1,800	1,800
Telephone	2,280	2,280
Administration	1,200	1,200
Insurance	4,000	4,500
Advertising	1,200	1,200
Printing, postage and stationery	804	804
General expenses	600	600
Motor expenses	1,200	1,200
Travel expenses	4,200	5,100
Venue/room hire	2,000	2,500
Equipment hire	600	600
Depreciation	1,215	1,101
Repairs and Maintenance	600	600
Legal and professional fees	1,200	1,200
Bank charges	752	1,256
TOTAL	**96,015**	**104,313**
OPERATING SURPLUS	**18,465**	**13,389**
Other Income	1,231	1,456
Total Surplus/Deficit	**19,696**	**14,845**

Income and Expenditure Account – Points to Note

Other income refers to such things as interest on investments.

Other income is always added to the operating surplus to arrive at a total surplus figure. From this figure interest payments may deducted - that is, all interest payments on borrowed capital (mortgages and overdrafts, etc.).

The last item on the income and expenditure account **“Total Surplus/Deficit**” is often referred to as **“earnings”** or “**net income**”. These all mean the same thing! The amount on the bottom line is what is left when **all** income and expenditure has been taken into account.

Without surpluses an organisation would continually need to raise finance or sell assets to continue to carry on its social enterprise. Readers of accounts will look to see if the organisation has the capacity to generate surpluses each year.

- The income and expenditure statement provides a picture of the organisations performance over the last accounting period (usually once a year).

- The income and expenditure statement records income and expenses for the period even if they have not yet been paid. This is a very important point. Sales and purchases are recorded in the statement at the point of invoice and not at the point of payment.

- The costs of fixed assets e.g. vehicles, are spread over their useful working lives rather than charging the full cost when the asset is purchased the annual depreciation charge is made instead.

- Prepayments and accruals are matched to the period they relate to.

- Transactions that do not directly affect surpluses are not included. For example, the taking out of a new loan of £10,000 would not be included in the income and expenditure report. However interest payments and bank charges would be.

The statement usually follows a relatively easy format:

- Turnover (excluding VAT)
- Cost of sales (these direct costs such as raw materials)
- Gross profit (turnover less cost of sales)
- Overheads, such as rent, rates and salaries (overheads will normally include depreciation on fixed assets)

Operating surplus/deficit:

- Net interest payable (for example on bank loans)
- Net surplus

In the case of organisations that are liable for tax there will be a line in before net profit pointing out the profit before tax and the amount of tax payable.

The income and expenditure statement reflects some elements of judgement. For example:

- What adjustments to make for customers who are unlikely to pay?
- How quickly to depreciate fixed assets?

The choices made will also affect the balance sheet.

The income and expenditure account on normal report will show the income and expenditure arising from different items over a period (usually 12 months).

The report will normally allow readers to see two years accounts. That is they will be able to evaluate how much the sales had changed over the period, how the grant income had altered, how the overheads had changed over the period and also consider extraordinary items such as the amount of excess interest, the amount of capital raised from the sale of the assets during the year and of course be able to compare the capacity of the organisation to generate the surpluses over a two year period.

Summary of the Income and Expenditure Statement
When we consider the balance sheet we saw that it represented the wealth of an organisation or its value. The purpose of the income and expenditure account is to measure and report how much wealth the organisation has generated over a period. The measurement surplus requires that the total revenues generated during a particular period are calculated. Revenue is simply a measure of the inflow of assets (such as cash or amounts owed to a business by debtors) or the reduction in liabilities that arise as a result of trading. Different forms of enterprises will generate different forms of revenue. For example:

- The sale of goods (for example a publisher)
- Fees for services (for example a training organisation)
- Subscriptions (for example of a club)
- Interest received (for example of an investment fund)

The total expenses relating to the period are also calculated. An expense represents the outflow of assets (or increase in liabilities) that has incurred as a result of doing the work that the organisation is undertaking. Again the nature of the business will determine the type of expenses that are incurred. For example:

- The cost of buying goods that are subsequently sold
- Salaries and wages
- Rent and rates
- Vehicle expenses
- Insurance
- Printing and stationery
- Heating and light
- Telephone and postage

The income and revenue account for the period simply shows the total revenue generated during a particular and deducts the total expenses.

Relationship between the Income and Expenditure Statement and the Balance Sheet

The profit and loss account and balance sheet should not be viewed in any way as substitutes for one another. They should be seen as performing different functions. The balance sheet as stated earlier is a statement of the financial position of an organisation at anyone particular time. The income and expenditure account on the other hand is concerned with the flow of wealth over a period of time. The two statements however are closely related.

The profit and loss account can be viewed as linking the balance sheet at the beginning of the period with the balance sheet at the end of the period. Thus at the commencement of business a balance sheet will be produced to reveal the opening financial position. After an appropriate period an income and expenditure account will be prepared to show the wealth generated over that period. A balance sheet will also be prepared to show the new financial position at the end of the period covered by the income and expenditure account. This balance sheet will incorporate the changes in wealth that have occurred since the previous balance sheet was drawn up.

We saw when we considered the reserves of an organisation that the effect of making a surplus on a balance sheet means that the balance sheet equation can be extended as follows:

Assets = Capital +/- Surplus/Loss + Liabilities

The amount of surplus or deficit for the period is shown separately in the balance sheet as an adjustment to the capital. Thus the equation can be extended to:

Assets = Capital + Revenues – Expenses + Liabilities

3: The Cash Flow Statement

All types of financial statements are concerned with money. They illustrate how money is moved in and out of an organisation or enterprise over a period. We have seen how the **Balance Sheet** gives a picture of the “worth” of an enterprise at any one particular point of time and how the **Income & Expenditure Statement** demonstrates whether or not the organisation is using its assets and people to good effect and generating a satisfactory surplus.

We will now move on to the **Cashflow Statement**.

The Cashflow statement does not say anything about the enterprise’s ability to run its affairs.

The cash flow statement examines the cash movements associated with an enterprise, both cash inflows, (or revenues) and cash outflows (or expenses) and their impact on the enterprise's cash position or bank balance.

A cashflow can be an actual record of past transactions or a projected cashflow for a future period.

The key principle associated with a cashflow is that:

- The cash movements both into and out of the business are recorded for each month and the outflows are subtracted from the inflows. This provides a monthly surplus or deficit figure. A monthly surplus or deficit figure is added to the closing bank balance of the previous month providing a new closing bank balance, thus demonstrating the impact of the month's cash movements on the bank balance.

The cash flow statement examines the cash movements associated with a project, both cash inflows or revenues and cash outflows or expenses and their impact on the project's cash position or bank balance. A cashflow can be an actual record for a trading project or a projected cashflow for a proposed project.

The key elements of a cashflow statement are shown below:

Cashflow Element	Information
Cash Inflow Information	A record of cash entering the organisation each month regardless of the source of finance. There are four possible sources: ➡ Sales Revenue, including VAT ➡ Grant Aid ➡ Loans ➡ Proposing Group's own money and fundraising.
Cash Outflow Information	A record of cash leaving the organisation, not in the month of purchase but in the month of payment. Depreciation is not a cash expense and is not shown on the cashflow statement.
Surplus/Deficit	Records the difference between inflows and outflows on a monthly basis or annual basis.
Opening Bank Balance	Represents the cash at bank position at the start of each period.
Closing Bank Balance	Derived from adding the period's surplus/deficit to the opening bank balance and will represent the opening bank balance for the next period. **If the closing bank balance is a negative figure it provides an indication of the project's overdraft requirement.**

A sample cashflow statement is outlined below.

	Jan £	Feb £	Mar £	April £	May £	June £	July £	Aug £	Sept £	Oct £	Nov £	Dec £	Total £
Inc - Sales		3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	33,000
Grant One	35,000	-	-	-	-	-	-	-	-	-	-	-	35,000
Grant Two	10,000	-	-	-	-	-	-	-	-	-	-	-	10,000
Bank Loan	5,000	-	-	-	-	-	-	-	-	-	-	-	5,000
Total In	50,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	83,000
Purchases	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Wages	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Rent/rates	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Electricity	-	-	-	600	-	-	300	-	-	300	-	-	1,200
Telephone	-	-	-	300	-	-	300	-	-	300	-	-	900
Transport	250	250	250	250	250	250	250	250	250	250	250	250	3,000
Repairs	50	50	50	50	50	50	50	50	50	50	50	50	600
Advertising	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Fees	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	1,000
Insurance	1,200	-	-	-	-	-	-	-	-	-	-	1,200	2,400
Bank fees	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	83. 3	1,000
Sundry	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Cap. Expense	32,000	-	-	-	-	-	-	-	-	-	-	-	32,000
Total Out	37,567	4,367	4,367	5,267	4,367	4,367	4,967	4,367	4,367	4,967	4,367	5,567	88,900
Net Flows	12,433	(1,367)	(1,367)	(2,267)	(1,367)	(1,367)	(1,967)	(1,367)	(1,367)	(1,967)	(1,367)	(2,567)	(5,900)
Opening Balance	0	12,433	11,066	9,699	7,432	6,066	4,699	2,732	1,365	(2)	(1,969)	(3,336)	0
Closing Balance	12,433	11,066	9,699	7,432	6,066	4,699	2,732	1,365	(2)	(1,969)	(3,336)	(5,903)	(5,900)

5.5 Planning and Budgeting

A budget is a plan expressed in financial terms. In most cases the budgeting process consist of a series of departmental or functional budgets being brought together to create the overall company or master budget. In some cases this means a projected set of accounts.

Why should you prepare an annual budget?

- It sharpens your understanding of your goals.
- It gives you the real picture. By accurately showing you what you can afford and where the gaps in funding are, your budget allows you to plan beforehand to meet needs, and to decide what you're actually able to do in a given year.
- It encourages effective ways of dealing with money issues. By showing you what you can't afford with known income, a budget can motivate you to be creative -- and successful -- in seeking out other sources of funding.
- It fills the need for required information. The completed budget is a necessary element of funding proposals and reports to funders and the community.
- It facilitates discussion of the financial realities of the organization.
- It helps you avoid surprises and maintain fiscal control.

How to Budget [2]

Your committee or board will need to budget ahead and estimate how much it will cost to carry out the group's planned activities for the forthcoming financial year. This is part of the committee's responsibility for managing and developing the group on behalf of the members.

Having prepared a cash flow forecast, your committee or board should begin drawing up a budget sheet. This will typically show income and expenditure for an agreed 12 month period.

Your budget sheet – whether you do this on paper or on a spreadsheet on the computer - should be divided into two columns:

Income and Expenditure.

You will need to include two types of expenditure:-

- **capital expenditure** - 'one-off' payments for things like equipment or building costs
- **revenue expenditure** - running costs for things like phone bills, heating and lighting (where applicable) postage costs etc.
- Breakdown your Income and Expenditure into logical categories or budget headings. If you have prepared a cash flow forecast you will already have a good idea of these. Ideally, you will be able to base this on experience from previous years. If your group is new, start with the things you already know, adding further items which your group may need to allow for over the coming year:-
  - the people involved in your group – salaries/ wages, advertising and recruiting, training, insurance, travel expenses

[2] http://www.gcvs.org.uk/connect/support/community_toolkit

  - the premises (if you have one) - rent, rates, insurance, electricity, repair and maintenance
  - operational or running costs, that is equipment, stationery, office supplies, vehicles, phone, internet etc.
  - marketing and publicity costs
  - any other business related costs such as interest on loans, VAT
- Make your budget sheet as detailed as possible, with a breakdown of items, number of items, cost per item, under sub headings as necessary. Indicate which items are accurate costings and which are estimates. Always obtain, in writing, more than one quote (fixed cost and binding) or estimate.

Consider adding in amounts to cover inflation, rises in salary and employer costs. Also include an amount in reserve for unforeseen costs.

Add up all your income and expenditure to give you totals and then subtract your expenditure total from your income total:-

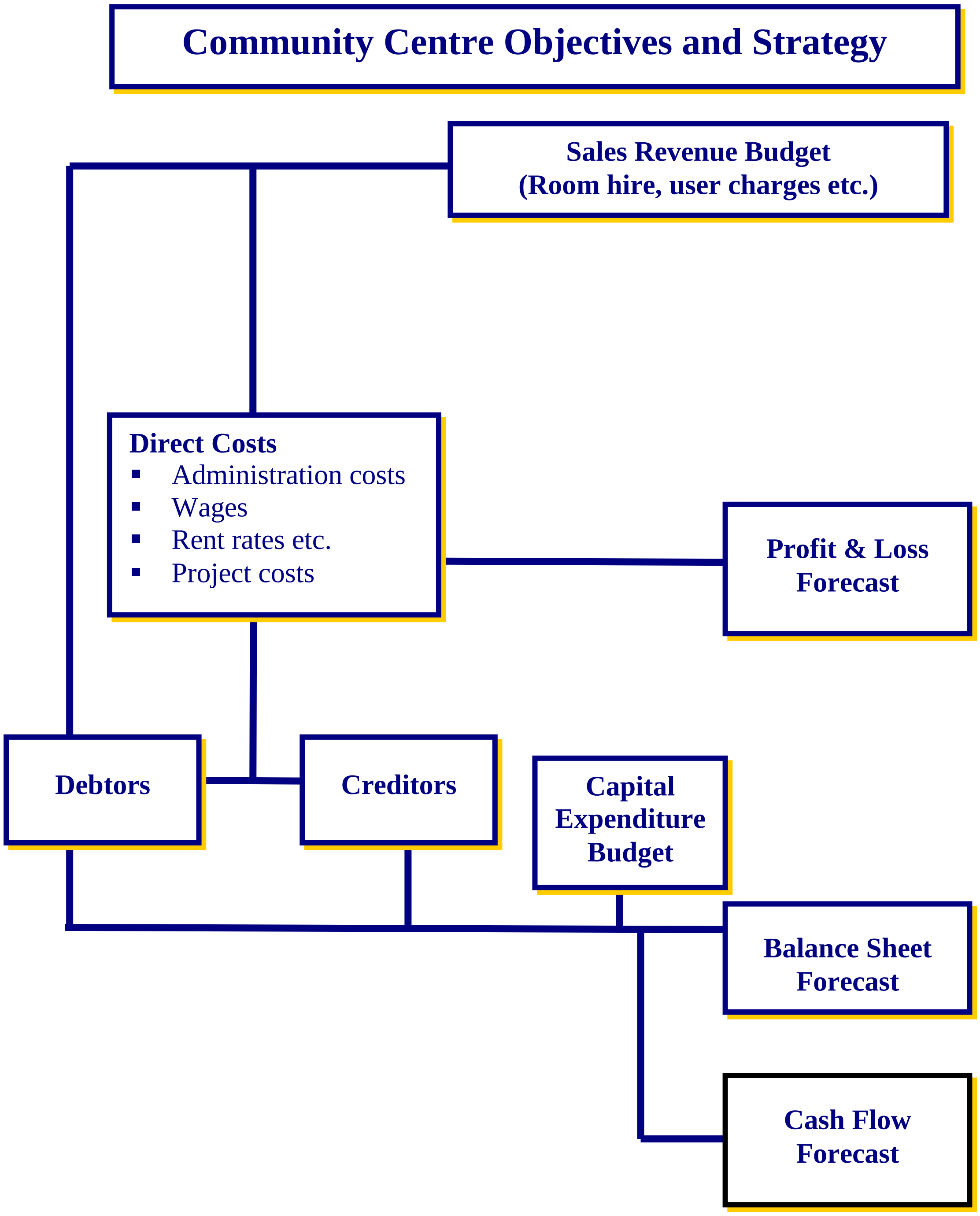
- if your income and expenditure are the same your budget is ‘balanced’ or 'break-even'
- if your expenditure is greater than your income you will end up with a deficit, shortfall or negative variance. You can indicate this as a negative or bracketed figure. In this case your group will need to consider how you plan to meet the shortfall. You may want to consider drawing up a fundraising plan for this purpose
- a surplus or positive variance is where the income exceeds expenditure. This can be indicated simply with the total figure itself or with a plus sign

Monitoring your budget
Your budget sheet will give your committee or board a working tool for monitoring your group’s financial progress.

The task of financial record keeping on a day to day basis will often be delegated to the Treasurer on a committee but it is important that the committee as a whole is kept informed and that they are involved in reviewing the budget on a regular basis (ideally every month).

The committee should be able to compare actual figures with budgeted ones (cash flow statements help you do this). If this reveals that the group is overspending or under spending the committee will need to identify why and if necessary revise the budget and/or the group’s activities. If your committee makes changes to the original budget, they should add a note/comment and the date each time.

The process of budgeting can be explained in the following chart.


Community Centre Objectives and Strategy
Sales Revenue Budget
(Room hire, user charges etc.)
Direct Costs
Administration costs
Wages
Rent rates etc.
Project costs
Profit & Loss Forecast
Debtors
Creditors
Capital Expenditure Budget
Balance Sheet Forecast
Cash Flow Forecast

5.6 Using Financial Information

Certain tools are available to you in accomplishing the function needed in the financial management of your organisation. These tools are as follows:

a) Accounting Records

Account records are the basis of financial management.

b) Financial records and reports

These records and reports are also of great help in financial management. They include the balance sheet and the profit and loss statement. These two financial statements are the basis for all financial analysis and are used by funders in supporting funding and grant aid decisions. They are also used by banks. For this reason, you must understand these two documents and be able to explain each item that may appear in them.

Ratio Analysis

Ratio analysis are indicators that have been developed to help determine the state of health of various financial aspects of an organisation. They provide indications as to weaknesses and strengths in the financial operation as well as clues as to where and how to develop better financial performance. Such ratios also permit you to compare how you are doing over time and against other similar organisations.

However, even with their importance and the considerable insight they provide, there are limitations to the use of ratio analysis. For example:

- The ratios are based on past performance. Therefore, you must balance their indications with what is happening now and what is likely to happen in the business in the future.

Despite these limitations, financial ratios and ratio analyses may be of great help.

Let's look at some of those available

Gross Profit Margin
This is the percentage profitability after direct process costs have been covered

(Income / Gross Profit) %

Net Profit Margin
This is the percentage profitability after all other costs have been met.

(Income / Net Profit) %

Debtors Days Ratio
The average number of days it takes customers to pay

(Debtors / Sales) x 365

Creditors Days Ratio

The average number of days taken to pay suppliers

(Creditors / Purchases) x 365

In the context of community groups these ratios may not seem to be important. The above ratios are appropriate to use ensure that the group has enough cash to manage its affairs and reduces the risk of bad debt.