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## Module 5

### 1. Discuss why financial management is important to NGO’s.

Financial management has a various definition by different author as per the below fore mentioned

In words of Ezra Solomon (1963), “Financial management aims to effectively use the capital funds which also happens to be a significant economic resource.”

While Phillippatus (2012) has given a more amplified meaning of financial management. According to him, Financial Management is concerned with the managerial decisions that results in the acquisition and financing of short and long term credits for the organizations.

While in views of Howard and Upton (1953), Financial management should be considered as an application of general managerial principles to the area of financial decision-making. It’s a province of financial decision making, harmonizing individual motives and enterprise goals.

However, the following are the advantages of financial management to organization

Decision making. Financial management helps NGOs in decision making especially in respect to resource allocation where right amount of funds can be invested in a fruitful project that has positive impact on the community, donors and the organization as well.

Donor accountability. Financial management play an important role in which non- government all organizations stands accountable to their donor both financially and physical impact on beneficiaries. The fact finding that it has provided NGOs with proper accounting systems which can extract expenditures timely and ready for reporting as per the agreed terms by the donor.

Organization future determination. Financial management guides NGOs to have future plans especially on their future ventures through sustainable finance which is measured through financial condition of an organization.

Measures for fraud and theft. Financial management curves un necessary illegal and malpractice deeds such as overuse of resources, fraud and theft have become prevalent among NGOs. Hence with the help of financial management, such deeds can easily be addressed.

Organizations objective achievement. Financial management enables the non-governmental organizations in attaining of its set objectives and goals as each decision taken by the management is driven by the finances of the organization.

Enhancing credibility. Managing finance is a matter of skills and tactics that ideally changes from time to time. With excellent finance management, NGOs enhance their image that enhances its value and making them more credible.

Strengthening fundraising efforts. Most of the NGOs solely survive on its funds. Well organized financial resources help in strengthening fundraising efforts by giving an overall idea about available finance and the amount of finance that needs to be accumulated.

## 2. Discuss the principles of financial management.

According to John. V & John. M (2009) Financial management is defined as act of acquisition, financing, and management of assets with some overall goal in mind. However, the following are the principles of financial management.

Principle of Practicing ethical behaviour. The obligation to the public, their profession, the organization they serve and themselves, to maintain the highest standards of ethical conduct and that include competence, integrity and objectivity by the institute of management accountants acts as the guide for ethical behaviour practice.

Principle of not risking without significant return. Risking profits for poorly designed projects violates a basic principle of financial management. The capital market theory of financial management involves increased return with less risk.

Principle of designing a realistic budget. Realistic budgeting involves a master budget and separate capital and operating budgets. Budgets translate the objectives into detailed plans, according to the International Agricultural Research Centres of the World Bank.

Safeguard principle against loss. Financial management requires instituting safeguards against losses. Safeguards vary with individual projects. While safeguards are not fool proof, a set of safeguards must be in place.

Principle of competitive markets. Projects operate in the middle of the market and face competition from other financial projects. Management must plan for competitive markets in soliciting funding and marketing a product or service.

Principle for locating efficient capital markets. Capital is money placed in an investment. Capital markets involve long-term financing for investments. Location of funds for both short- and long-term investment is required for sound financial management.

Principle of locating quality managers. Financial management requires flexibility in dealing with the unknowns. Quality, competent managers handle "a vast range of unknowns

Principle of monitoring and evaluating financial data changing interest and exchange rates and also equity and commodity prices requires savvy financial management, according to Charles S. Tapiero (2004) in his text "Risk and Financial Management: Mathematical and Computational Methods, stresses the importance of using new math and financial data evaluation techniques in financial management.

Use Cash as a Basis for New Projects Cash is critical to financial management. New projects based on cash may conflict with current operating projects, but the opportunities for earnings override those concerns.

### 3. Which are the building blocks of financial management.

Building blocks are defined as some interdependent relationships, that underpin the effective financial management of an enterprise by Glen Arnold (2012) which includes financing, operations and investments. Hence the following are the building blocks of financial management

Structures and ownership. The political and wider organizational and leadership structures that need to be in place to deliver the change is one of the financial management block since it will involve management of resources as restructuring.

Strategy. An effective, prioritized plan to deliver the change, manage critical dependencies and risks, and ensure staff and stakeholders understand what is required of them and when strategy is set up, it helps the organization with direction and guidance to achieve a common objective.

Project delivery. Setting up the project team and running the project with appropriate governance and oversight is so vital and acts as main financial management building block.

People and resources the right people. With the right skills, knowledge and approach, to drive the reforms supported by adequate resources can contribute to financial building block principles.

Standards and policies. The standards in accordance with which financial statements will be produced, the process for setting them and the policies that will be adopted for financial management that will adhere to the policies set for proper organizational operations and resources management.

Systems and processes. Putting in place the right infrastructure, corporate governance and business processes to enable high quality information so policymakers can make informed decisions and achieve optimal outcomes through operationalization of standard operations procedures.

## 4. Discuss briefly the tools of financial management

According to Michael H. Hugos (2011), the following are the tools of financial management

Control Payables tool. An Accounts Payable (AP) department can affect organization's cash flow and bottom line profitability while serving as a key indicator of how well you marshal cash. AP management efforts include electronic funds management, shifting payment terms or vendor relationship management.

Reporting/Analytics tool. An analytic tool is a tool applied in financial management for tracking and extracting expenditures of an organization or company to determine the future as decision are concerned and can be measure through the primary importance of financial key performance indicators (KPI)

Cash Management tool. Strong cash management capabilities reflect a financial team's understanding of the forces that move cash through an organization and the levers that they can use to match cash needs with business conditions and operating needs. While there are a host of modeling and reporting solutions, several useful tools to help an organization or a company maximize its cash on hand and demonstrate financial knowledge.

Expenses Management tool. The most disciplined organizations or companies can find themselves challenged by expense management, particularly with the complexity of adding multiple locations, expanding its employee base or investing in substantial upfront development or in manufacturing setup costs which can be managed with the help of a bank.

**5. Define financial accounting and management accounting.**

Michael H. Hugos (2011), defines Financial accounting as the aggregation of accounting information into financial statements, while managerial accounting refers to the internal processes used to account for business transactions. Managerial accounting frequently deals with estimates, rather than proven and verifiable facts. There are a number of differences between financial and managerial accounting, which fall into the following categories:

Aggregation. Financial accounting reports on the results of an entire business while managerial accounting almost always reports at a more detailed level, such as profits by product, product line customer, and geographic region.

Efficiency. Financial accounting reports on the profitability (and therefore the efficiency) of a business, whereas managerial accounting reports on specifically what is causing problems and how to fix them.

Proven information. Financial accounting requires that records be kept with considerable precision, which is needed to prove that the financial statements are correct. Managerial accounting frequently deals with estimates, rather than proven and verifiable facts.

Reporting focus. Financial accounting is oriented toward the creation of financial statements, which are distributed both within and outside of a company. Managerial accounting is more concerned with operational reports, which are only distributed within a company.

Standards. Financial accounting must comply with various accounting standards, whereas managerial accounting does not have to comply with any standards when information is compiled for internal consumption.

Systems. Financial accounting pays no attention to the overall system that a company has for generating a profit, only its outcome. Conversely, managerial accounting is interested in the location of bottleneck operations, and the various ways to enhance profits by resolving bottleneck issues.

Time period. Financial accounting is concerned with the financial results that a business has already achieved, so it has a historical orientation while managerial accounting may address budgets and forecast, and so can have a future orientation.

Timing. Financial accounting requires that financial statements be issued following the end of an accounting period while managerial accounting may issue reports much more frequently, since the information it provides is of most relevance if managers can see it right away.

Valuation. Financial accounting addresses the proper valuation of assets and liabilities, and so is involved with impairments, revaluations, and so forth while managerial accounting is not concerned with the value of these items, only their productivity.

## 6. What makes good financial policies.

According to John Tennent (2008) financial policies are the regulation, supervision, and oversight of the financial and payment systems, including markets and institutions, with the view to promoting financial stability, market efficiency, and client asset and consumer protection and the following are the factors that constitutes good financial policy.

Foresight. Foresight must be used in planning the scope of operation in order that the needs for capital may be estimated as accurately as possible. A plan visualized without foresight spells disaster for the company, if it fails to meet the needs for both fixed and working capital.

Optimum use of funds. Financial plan should prevent wasteful use of capital, avoid idle capacity and ensure proper utilization of funds to build up earning capacity of the enterprise hence by applying such, it's a sign of good financial policy.

Simplicity. A sound financial structure should provide simple financial structure which could be managed easily and understandable even to a layman. "Simplicity' is an essential sine qua non which helps the promoters and the management in acquiring the required amount of capital.

Economy. Last but not the least, the financial often be made in such a manner that the cost of capital procurement should be minimum. The capital mobilised should not impose disproportionate burden on the company. The fixed dividend on preference shares, the interest on loans and debentures should be related to the earning capacity whereas the fixed interest payments should not reduce the profits of the company and hamper its sustained growth.

Anticipation of contingencies. The planners should visualise contingencies or emergency situations in designing their financial plan. This may lead to keeping of some surplus capital for meeting the unforeseen events. It would be better if these contingencies are anticipated in advance.

Flexibility. Financial readjustments become necessary often. The financial plan must be easily adaptable to them. There should be a degree of flexibility so that financial plan can be adopted with a minimum of delay to meet changing conditions in the future.

Liquidity. It means that a reasonable percentage of the current assets must be kept in the form of liquid cash. Cash is required to finance purchases, to pay salaries, wages and other incidental expenses to reduce turnover rate.

### 7. Discuss the importance of financial planning

John Tennent (2008) defines Financial Planning as the process of estimating the capital required and determining its competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise. It's a process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be stipulated as below: -

Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.

Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.

Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.

Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.

Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern of the following aforementioned.

- Income. It's possible to manage income more effectively through planning. Managing income helps you understand how much money you'll need for tax payments, other monthly expenditures and savings.

- Cash Flow. Increase cash flows by carefully monitoring your spending patterns and expenses. Tax planning, prudent spending and careful budgeting will help you keep more of your hard earned cash.
- Capital. An increase in cash flow, can lead to an increase in capital. Allowing you to consider investments to improve your overall financial well-being.
- Family Security. Providing for your family's financial security is an important part of the financial planning process. Having the proper insurance coverage and policies in place can provide peace of mind for you and your loved ones.
- Investment. A proper financial plan considers your personal circumstances, objectives and risk tolerance. It acts as a guide in helping choose the right types of investments to fit your needs, personality, and goals.
- Standard of Living. The savings created from good planning can prove beneficial in difficult times. For example, you can make sure there is enough insurance coverage to replace any lost income should a family bread winner become unable to work.
- Creates financial understanding. Better financial understanding can be achieved when measurable financial goals are set, the effects of decisions understood, and results reviewed.
- Assets acquisition. A nice 'cushion' in the form of assets is desirable. But many assets come with liabilities attached. So, it becomes important to determine the real value of an asset. The knowledge of settling or cancelling the liabilities, comes with the understanding of your finances.
- Creates Saving. It used to be called saving for a rainy day. But sudden financial changes can still throw you off track. It is good to have some investments with high liquidity.
- Ongoing Advice. Establishing a relationship with a financial advisor you can trust is critical to achieving your goals. Your financial advisor will meet with you to assess your current financial circumstances and develop a comprehensive plan customized for you.

**8. Discuss the tips that are involved in preparing a cash flow forecast.**

John Tennent (2008) in his financial management book, defines Cash flow forecast as an estimate of the amount of money you think you could bring into your business and how much you're expecting to spend. It also includes all your itemized projected income and expenses. Usually, a forecast looks ahead 12 months, but it can also cover shorter periods like a month or a week.

There are two important components that make a good cash flow forecast: your projected income and your estimated expenses. However, the process has been broken down into several steps for easy and accurate cash flows as follows.

Estimation of income. When doing forecast, one should be able to estimate how much money he or she thinks you'll earn in a specific period of time (weekly or monthly) through looking at the sales over the period of past time. For example, the timing of marketing campaigns, holiday seasons, trade shows, new product launches and other events.

Know when you will get paid. This is important in cash flow forecasting because it lets you know if you will have enough money in a week or a month to pay your expenses. So it's important to take in to consideration your payment terms so that you can accurately forecast your income and set it against your outgoings.

Predict your expenses. Do your best to estimate what bills you'll have to pay and list your day today running costs such as rentals, salaries, internet, electricity, security, software, loan repayments and many more.

Gathering all data. Now that you have estimated your cash inflows and outflows, it's time to put the numbers together and create your cash flow forecast by writing down the opening bank balance. Add all estimated cash inflows and then subtract all predicted cash outflows for the particular time period you're looking to forecast. The final amount is what one expects to have in the bank by the end of the period.

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