Assignment questions

1. Define Budgeting. Give five functions of a budget.

    b. Highlight with examples the key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa

2. Define accounting standards and explain their purpose in the modern accounting practice.

3. Discuss the importance of cash management (cash flow forecasts)

4. Why is financial committee essential in Grant Management?

5. What are the contents of Balance Sheet? Differentiate between a Balance sheet and Trial Balance.

ASSIGNMENT MODULE TWO | 2019

Assignment for module two presented to Africa Institute for Project Management Studies (AIPMS) in partial fulfilment of the requirement for the award of a Post Graduate Diploma in Grants Management.

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Assignment Module Two:

1. Define Budgeting, give five functions of a budget

Budgeting is the process of creating a plan to spend your money over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. This spending plan is called a budget. Creating this spending plan allows you to determine in advance whether you will have enough money to do the things you need to do or would like to do. Budgeting is simply balancing your expenses with your income

Five functions of a budget

1. Budget assists managers in forecasting and decision making process in an organization**.**
2. It helps to avoid surprises and maintain fiscal control. Budgeting helps to minimize misappropriation and embezzlement that would have characterize the organization if a system of authorization does not exist. Through authorization, managers are made more accountable for their spending. A manager that has been authorized to spend $5,000 dollars in a way will be looking for trouble if he or she spends $5,001 without further authorization. In fact, budgeting helps to prevent fraud
3. It sharpens your understanding of your goals and 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 are actually able to do in a given time
4. It encourages effective ways of dealing with financial realities of the organization - 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
5. It fills the need for required information - the completed budget is a necessary element of funding proposals and reports to funders and the community

b. Highlight with examples the key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa

A budget whether it is for a public institution or for a NGO, is a basic and powerful tool in management and serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals. The process of budget preparation and implementation is a great challenge to many organizations yet those who embrace it reap from its tremendous benefit. Despite this importance of budgetary programmes, its preparation and the implementation there-of faced a lot of challenges among NGOs in Africa.

- There exists a lack of proper training to employees on the functionality and implementation of the budgetary programmes/policies. As a result of a lack of adequate training, there is no positive feeling on the budget among the staff. There are competency issues among budget holders/controllers. Most NGOs in Africa employs incompetent staff in budget management positions, thereby affecting preparation and implementation of budgetary programmes/policies. For example, it’s not very rare among NGOs in Africa to find a social scientist being employed as accountants/finance officers. Because of unskilled Manpower, majority of NGOs today are manned by personnel who do not possess the requisite competencies and skills to deliver. The principle of education qualifications is not being followed and as such, made the NGOs the dumping ground for illiterates

- Non-compliance to budgetary principles and procedures. overruns are sometimes caused by non-compliance of budget managers with the spending limits defined in the budget. Since cash allocated to spending units for appropriated expenditure is generally controlled, these overruns turn into over expenditures. Overruns are often as a result of off budget spending mechanisms. For example; there are operational budgets being spent on management cost or vise-versa.
- Quality and quantity of expected outcomes is very low. Most NGO's budget prioritizes saving money over quality and customer service**.** Customers come first. If a decision you make saves thousands of dollars but costs you hundreds of customers, you'll put your entire organization in jeopardy. For example, too much money is spent but there is no tangible result or impact to show.
- Mismatch between identification and ranking of priorities at sectoral level. This is partly explained by the fact that negotiation for sectoral resource bidding are limited to decision makers and senior level managers, and hence amount allocated to specific sectors depends on how sensitive these officials are to the sector issues. Different players are involved and often the views of implementers do not factor into budget deliberations. Centrally controlled budget processes normally exclude line agencies from deliberations.
- Lack of monitoring of expenditures in the budget system. Many NGOs in Africa allocate funds but the funds will not reach the intended beneficiaries. There is too much money spent on management and administration related costs than on operation of the activities.
- The need of upholding stringent transparency and accountability has affected utilization of budgets. For example, monthly budgeting can be extremely time-consuming and line managers can get tied up in an ongoing budgeting cycle when they should be focused on running the project activities.
- A lack of effective communication to all staff on the progress of the budgetary implementation. There is lack of clear hierarchy in the administration of budgets
- A lack of clear performance indicators to base the actual results. Decisions are made based on misinformation**.** If the budget created originally are filled with guesstimates, you'll be guided by falsehoods from the start. You should be able to pull up accurate information on how much you spent in previous years and put together a budget that paints a realistic picture of how much you'll spend in the upcoming year.
- Another key challenges facing NGOs in preparing and implementing budgetary programmes/policies in Africa is inflation trend since an increase in the same leads to increase in costs and unexpected difficulties.

2. Define accounting standards and explain their purpose in the modern accounting practice.

An accounting standard is a common set of principles, standards and procedures that define the basis of financial accounting policies and practices. Accounting standards improve the transparency of financial reporting.

Purpose of Accounting Standards

Accounting Standards are the framework of rules and regulations in the world of accounting. It makes sure that the information provided to potential donors or investors is not misleading in any way.

Attains Uniformity in Accounting: Accounting Standards provides rules for standard treatment and recording of transactions. They even have a standard format for financial statements. These are steps in achieving uniformity in accounting methods.

Improves Reliability of Financial Statements: There are many stakeholders of a company and they rely on the financial statements for their information. Many of these stakeholders base their decisions on the data provided by these financial statements. Then there are also potential investors who make their investment decisions based on such financial statements. It is essential that these statements present a true and fair picture of the financial situation of the company. The Accounting Standards ensure this. They make sure the statements are reliable and trustworthy.

Prevents Frauds and Accounting Manipulations: Accounting Standards lay down the accounting principles and methodologies that all entities must follow. One outcome of this is that the management of an entity cannot manipulate with financial data. Following these standards is not optional, it is compulsory. So these standards make it difficult for the management to misrepresent any financial information. It even makes it harder for them to commit any frauds.

Assists Auditors: Now that the accounting standards lay down all the accounting policies, rules, regulations, etc in a written format, these policies have to be followed. So if an auditor checks that the policies have been correctly followed he can be assured that the financial statements are true and fair.

Comparability: This is another major objective of accounting standards. Since all entities of the organization follow the same set of standards their financial accounts become comparable to some extent. The users of the financial statements can analyze and compare the financial performances of various projects before taking any decisions. Also, two statements of the same organization from different years can be compared. This will show the growth curve of the organization to the users.

3. Discuss the importance of cash management (cash flow forecasts)

The cash flow forecast can be simply defined as the estimate of the time and amounts of cash inflows and outflows over a specific period (usually monthly or yearly). It is a plan that shows how much money an organization expects to receive in, and pay out, over a given period of time.

A cash flow forecast helps an organization manage all liquid or cash resources – including the timing and availability of funding options to manage the immediate operational and capital requirements. This process is also known as the cash flow budgeting. Cash management is important in the following ways;

1. **Identify potential shortfalls in cash balances in advance** – the cash flow forecast can be taken as an "early warning system". This is, by far, the most important reason for a cash flow forecast. It is an important tool in terms of ensuring the longevity of operations. A warning sign before the hazard helps in being prepared for the worst and gives a sufficient amount of time to think for alternatives. Similarly, the cash flow forecast makes sure everything goes as planned without issues.
2. **Make sure that the organization can afford to pay suppliers and employees**. Suppliers who don't get paid will soon stop supplying the organization; it is even worse if employees are not paid on time. When employees are not paid on time or if the supplier is not handed over the money by the due date, it becomes a chaotic mess that needs to be sorted out efficiently. The forecast also ensures you have enough cash to pay suppliers and employees.
3. **Spot problems with customer payments** – preparing the forecast encourages the organization to look at how quickly customers are paying their debts. Note – this is not really a problem for organizations (like retailers) that take most of their sales in cash/credit cards at the point of sale. Every work, if done in a disciplined fashion creates a comfortable environment for the workers as well as the consumers. The cash flow forecast adds to this by enabling a synchronized management system, which in return helps in forming a cash flow budgeting body.
4. **External stakeholders such as banks may require a regular forecast.** Certainly if the organization has a bank loan, the bank will want to look at cash flow forecasts at regular intervals.
5. **As an important discipline of financial planning** – the cash flow forecast is an important management process, similar to preparing organization budgets. Investors, shareholders, donors or finance partners can see precisely how the organization will perform over the coming months or quarters – increasing confidence.

In addition to the above-mentioned reasons, the cash flow mechanism helps in identifying the timing and magnitude of tax payments and so plan them accordingly. For example, if you are considering pension/gratuity contributions before the organization or tax year-end.

Precaution is better than cure. This phrase pretty much sums up the whole idea of forecasting the cash flow mechanism in the organization world. A beforehand planning leads to ensuring quality work being produced at the end of the day without any wastage of time or resources. This may also assist in identifying areas of weakness, which need to be dealt with immediately by taking remedial actions

4. Why is financial committee essential in Grant Management?

Provision of financial oversight: The role of the finance committee in Grant Management is primarily to provide financial oversight for the organization. To help a board fulfill its fiduciary responsibility. A Finance Committee gives the board control over the finances of the organization, and is the tool by which it exercises fiscal responsibility.

To protect the organization from legal challenges and liability. Because the board has a legal duty to exercise control over the financial dealings of the organization, the presence of a Finance Committee is generally considered evidence of reasonable care, as long as the committee does its job.

To guard the organization against illegal, unethical, or incompetent activities by fiscal managers. An alert and informed committee should be able to catch both intentional and unintentional mismanagement of funds. Examples of the former might include misappropriation of funds, embezzlement, outright stealing, taking a kickback from a contract, or paying people for work not done. Unintentional mismanagement could involve, for example, major accounting or bookkeeping errors, misunderstanding of the terms of a grant or contract, or failure to address potential budget cuts.

To protect the organization from actual or apparent conflict of interest. A Finance Committee can make sure that any potential conflict is avoided by the board or staff member in question withdrawing from the decision-making process on any issue in which he/she has a personal stake, or by simply avoiding the issue in the first place.

To act as the board's eyes and ears in the financial operation, relieving the whole board of having to struggle with the complexities of the organization's finances. The committee can translate the finances into ordinary language and simple numbers, so that board members who are not financially sophisticated can still understand clearly the organization's financial challenges and situation, and make informed decisions.

To act as an advisory panel to the financial operation. Especially if it's made up of people with expertise, the committee can provide advice on fiscal issues in general, correcting inefficiencies and misguided accounting practices, dealing with anticipated shortfalls or surpluses, investing, etc.

To evaluate both the financial operation and the people in charge of it from a position of knowledge. A committee that works closely with the financial operation is in a much better position to monitor and evaluate performance than is a board that doesn't have that connection. It makes the financial operation accountable, and can - and should - let the board know when someone's doing a particularly good job, as well as when someone isn't working up to standard.

To help in the hiring of fiscal staff or a new director. Having intimate knowledge of the financial operation gives committee members a much better perspective on the skills and temperament needed to do the jobs well.

To make the audit easier, both by assisting the fiscal operation in gathering material and cleaning up records, and by working with the auditors beforehand to make sure that they have everything they need to complete the audit efficiently and effectively.

To interpret the audit for the rest of the board. Audits often point out important financial questions, or raise warnings about the future. They can highlight both the good and bad points of an organization, if you know how to read them. A knowledgeable committee can help the rest of the board understand exactly what the audit has to say, and what that means for the financial future or the direction of the organization.

To help recommend the hiring, retention, or firing of potential or current auditors. A committee that understands audits, knows what questions to ask potential auditors, and can observe an audit, will have valuable information to pass on to the board. It can also help the organization avoid the kind of conflict of interest by auditors

Typical task areas for small and midsized groups include budgeting and financial planning, financial reporting, and the creation and monitoring of internal controls and accountability policies. An outline of responsibilities appears below.

Budgeting and Financial Planning

1. Develop an annual operating budget with staff.
2. Approve the budget within the finance committee.
3. Monitor adherence to the budget.
4. Set long-range financial goals along with funding strategies to achieve them.
5. Develop multi-year operating budgets that integrate strategic plan objectives and initiatives.
6. Present all financial goals and proposals to the board of directors for approval.

In addition to developing an annual budget, the committee should also set long-term financial goals. These goals might include, for example, the creation of a working capital or cash reserve fund and the creation of a fund for maintaining or replacing equipment. If the organization has a strategic plan, the finance committee will work with the staff to determine the financial implications of the plan and will plot them into a multi-year organizational budget that will financially support the implementation of the strategies.

Reporting

1. Develop useful and readable report formats with staff.
2. Work with staff to develop a list of desired reports noting the level of detail, frequency, deadlines, and recipients of these reports.
3. Work with staff to understand the implications of the reports.
4. Present the financial reports to the full board.

Effective finance committees require staff to provide highly contextual reports clearly communicating the organization's financial and cash position, its adherence to the budget, its allocation of resources toward the accomplishment of its mission, and its support of any donor-imposed restrictions on contributions. Having a predetermined list of reporting expectations permits staff to allocate enough time to produce accurate, high quality reports and not be caught off guard by ad hoc requests. In addition, these reports should help to focus the board's discussion about expected outcomes and potential strategies for overcoming setbacks or changes in the financial environment.

Internal Controls and Accountability Policies

1. Create, approve, and update (as necessary) policies that help ensure the assets of the organization are protected.
2. Ensure policies and procedures for financial transactions are documented in a manual, and the manual is reviewed annually, and updated as necessary.
3. Ensure approved financial policies and procedures are being followed.

Although the entire board carries fiduciary responsibility for the organization, the finance committee serves a leadership role in this area, making sure appropriate internal control procedures for all financial transactions are documented in a manual and followed by staff. The committee should also play a role in determining and updating bank account signatories as well as overseeing all legal and governmental filing deadlines are met.

Finance committees are also often charged with ensuring compliance and/or developing other policies that further serve to protect the organization and manage its exposure to risk. These include establishing policies surrounding: Personnel policies, Long-term contracts or leases, Loans or lines of credit, Internet use and computer security, Insurance requirements and reviews etc

Covering Audits and Investments

Depending on many factors including – the size of the board, the size of the budget, the magnitude and complexity of existing financial assets – the finance committee may be called upon to perform the roles of two other committees that are usually separate in larger organizations: the audit committee and the investment committee. The basic audit and investment committee's responsibilities include:

Audit Committee

1. Recruit and select the auditor.
2. Review the draft audit report
3. Present the audit report to the full board of directors (if the auditor does not do this).
4. Review the management recommendation letter from the auditor and ensure follow up on any issues mentioned.

5. What are the contents of Balance Sheet? Differentiate between a Balance sheet and Trial Balance.

A **balance sheet** is a statement of the financial position that lists the assets, liabilities and owner's equity at a particular point in time. The income statement, which shows net income for a specific period of time, such as a month, quarter, or year. It is a statement of assets and equity & liabilities prepared after the preparation of Trading and Profit & Loss Account

Trial Balance is a statement of debit and credit balances taken from general ledger. it is part of the accounting process prepared after posting into ledger

Differences between Balance sheet and Trial Balance

Balance Sheet

1. It is a statement that shows a detailed listing of assets, liabilities, and capital demonstrating the financial condition of a company on a given date.
2. The purpose of preparing a balance sheet is to show the financial position of an organization.
3. A balance sheet is mandatory to be prepared by law and to complete the accounting cycle.
4. Closing stock is shown on the balance sheet as an asset.
5. A balance sheet is mainly divided into two heads: Assets and Liabilities**.**
6. It accommodates only personal and real accounts; nominal accounts are not included**.**
7. A balance sheet can only be made when all accrual entries (prepaid and outstanding) have been adjusted.

Trial Balance

1. It is a statement of debit and credit balances that are extracted from ledger accounts on a specific date.
2. The purpose of preparing a trial balance is to ascertain the accuracy of the books of accounts.
3. A trial balance is not mandatory to be prepared according to the law.
4. Closing stock is not usually shown in the trial balance.
5. A trial balance is divided into two column heads: Debit and Credit**.**
6. It accommodates all accounts: real, personal and nominal.
7. A trial balance can be prepared without making any adjustments.

The above-mentioned differences between Balance Sheet and Trial Balance are related to their purpose, format, content, stage in accounting, exceptions, etc.