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**AFRICAN INSTITUTE FOR PROJECT MANAGEMENT STUDIES**

**Course: Post Graduate Course in Grants Management**

**Course Module: Module 2**

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**Module Two:**

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

**Definition of budgeting.**

Omolehinwa (1998) defined a budget as a plan of dominant individuals in an organization expressed in monetary terms and subject to the constraints imposed by the participants and the environments, indicating how the available resources may be utilized, to achieve whatever the dominant individuals agreed to be the organization’s priorities. Therefore, the process of preparing and agreeing on a budget is budgeting.

Functions of a budget.

**Budgets Compel Planning:**

Activities require some planning to ensure efficient and maximum use of scarce resources, a budget incorporates expected value of performance and present managerial planned targets.

**Budgets Improve Coordination:**

Coordination is a managerial function under which all factors of production and all departmental activities are balanced and integrated to achieve the objectives of the organization. The budgeting process provides the basis for individuals in all parts of the organization to exchange ideas on how best to achieve these objectives. There is a need for coordination between the production and sales departments.

A production manager should ensure adequate production to meet the anticipated demand of the sales department. In turn, the finance manager has to ensure adequate cash to meet greater output requirements. Purchasing and personnel managers must know the factory’s material and la­bour requirements. Budgeting forces the managers of these diverse functions to communicate their plans and coordinate their activities.

**Budgets help management to coordinate in the following ways:**

1. The existence of a well-laid plan is the major step towards achieving coordination. Executives are forced to think of the relationships among individual operations, and the company as a whole.

2. Budgets help to restrain the empire building efforts of executives. Budgets broaden individual thinking by helping to remove unconscious biases on the part of engineers, sales and production officers.

3. Budgets help to search out weaknesses in the organizational structure. The formulation and administration of budgets isolate problems of communication, of fixed responsibility, and of working relationships.

Budgeting ensures coordination in the absence of which different departments in an organization may act in a manner which is beneficial only to their individual departments, but not to the firm objectives as a whole. A sales department may sell more than the production department can produce or vice versa.

The sales department may think only in terms of price, the production manager may be concerned only with quality, the purchasing manager may aim to buy in large quantities to avail of the advantage of discount, the finance manager has to take care of maturing obligations and make arrangements for funds to meet increasing business requirements. The budgeting process helps in removing inconsistencies among the goals and actions of each department and reconciles their dif­ferences so that each department contributes towards the overall objectives of the organization.

**Budgets Improve Communication:**

It is necessary in an efficient organization that all people be informed about the objectives, policies, programmes and performances. They should have a clear understanding of the aims and objectives and the part that they are to play in goal attainment. This is made possible through their participation in the budgeting process. Budgets inform each manager of what others have agreed to do. They also inform managers of the resources available to achieve objectives and targets.

**Budgets Provide a Basis of Control and Performance Evaluation:**

**Budgeting enters into control at three points:**

(1) When a budget is being formulated, departments analyse their plans for the future and submit estimates as per their requirements, justifying each of their demands by demonstrating a need.

(2) After budgets of different departments have been reviewed and approved they become targets that set desirable limits on spending.

(3) At the end of the budget period, a comparison of actual expenditures with budget expenditure is made as a means of judging performances and fixing responsibility for deviations.

Budgets are the basis of performance evaluation in an organization as they reflect realistic estimates of acceptable and expected performance. Most managers are interested to know what is expected of them so that they may monitor their own performance. It is more accurate, reliable and reasonable to measure current performance against a budget rather than against a vague expectation or against results of previous year when conditions might have changed.

The sales department should be evaluated against what was reasonable to expect rather than against what was achieved in the previous year. As a basis for judging actual results, budgeted performance is generally considered a better criterion than past performance.

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

**Lack of participation in the preparation of budget.**

Lack of Participation of employees in the process of budget preparation de -motivates them to achieve budget goals. According to (Ramsey, 1985) he observed that budgets should be used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation. According to Cook, (1968), in his study found that bonus and promotion or new assignments are positively correlated with budget performance. Shields and Young (1993) found that participative budgeting is used more frequently when lower level management and senior management within an organization are linked to budget preparation and implementation.

**Centralized budgeting processes.**

Decentralized budgeting is thought to reduce variations between budgeted and actual expenditure (i.e. increase budget accuracy), by placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements. Research has consistently found that accuracy is one of the most important objective companies have for their budgeting and planning process yet it poses a lot of challenges to meet. Budget accuracy is important to a company’s financial and operational performance, both in the short run and over the long term. At the very least, there must be appropriate financial controls in place to be profitable and ensure there is adequate cash to meet obligations. Firms should allocate the right resources to the activities that will produce the highest returns (Jones, 2006).

**Challenges in budget implementation.**

**Delay in approval process**

The approval of projects and procurement plans have always been done on time. However, the approval of budgets and its subsequent accountability have been a big challenge that delays implementation of projects.

**Weak internal control system.**

According to a report of the Association of Certified Fraud Examiners (ACFE) in 2004, U.S. firms lose on average an estimated 6% of their annual revenues to fraud when there is material weaknesses or significant deficiencies in internal control over financial reporting. Most factors that contribute to fraud can be neutralized with a strong internal control environment that contains clear guidelines where authorizations are tracked and enforced, a management culture that shows ethical tone at the top (leading by example) and segregation of conflicting duties (ACFE, 2004).

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

Accounting is the art of recording transactions in the best manner possible, so as to enable the reader to arrive at judgments/come to conclusions, and in this regard it is utmost necessary that there are set guidelines. These guidelines are generally called accounting policies.

Accounting Standards are the statements of code of practice of the regulatory accounting bodies that are to be observed in the preparation and presentation of financial statements. In layman terms, accounting standards are the written documents issued by the expert institutes or other regulatory bodies covering various aspects of measurement, treatment, presentation and disclosure of accounting transactions.

Accounting Standards Issued by the Institute of Chartered Accountants of India are as below: Disclosure of accounting policies, Valuation of Inventories, Cash Flow Statements

Contingencies and events Occurring after the Balance Sheet Date, Net Profit or loss for the period, Prior period items and Changes in accounting Policies. Depreciation, accounting, Construction Contracts, Revenue Recognition, Accounting for Fixed Assets, The Effect of Changes in Foreign Exchange Rates, Accounting for Government Grants, Accounting for Investments, Accounting For Amalgamation, Employee Benefits, Borrowing Cost, Segment Reporting, Related Party Disclosures, Accounting For Leases, Earning Per Share, Consolidated Financial Statement ,Accounting For Taxes on Income, Accounting for Investment in associates in Consolidated Financial Statement, Discontinuing Operation, Interim Financial Reporting, Intangible assets, Financial Reporting on Interest in joint Ventures, Impairment of assets, Provisions, Contingent, Liabilities and Contingent assets.

**Purpose of accounting standards.**

Operating a line of work is not simply to make profits, deposit money in the money box, paying employees, and lure more customers and clients. It is whether the commercial enterprise is booming or if the owner is simply investing in something that will not win them all.

Accounting standards in the United States appear in the conformation of the generally accepted accounting principles, a set of measures, guidelines and operations that are used when accounting for the affairs of most governmental and non- governmental bodies. The reading of numbers and the wherewithal to put them in the proper context are at the essence of accountability. Measures exist to assure that accounting decisions are reached in a unified and reasonable manner.

**Comparison**

Paramount to the purpose of accounting standards is the universality that it brings to financial record keeping. Governmental organizations must to accounting procedures that are the same as their counterparts, and non-governmental organizations must execute the same.The answer is that it is easy to compare the fiscal standing of similar entities. All comparisons within groups are a matter of comparing "apples to apples." This helps both external and internal observers weigh the state of an entity in the context of other comparable entities. For example, the financial standing of a town can be appraised against a neighboring town with the presumption that the pertinent numbers have been achieved in a standardized style.

**Transparency**

Accounting standards are planned to implement transparency in governing bodies. The rules, procedures and standards that form up the generally accepted accounting principles were selected with the intention of assuring that organizations lean in the focal point of openness when deciding how to provide data to observers. This sort of transparency is particularly significant in the event of public entities, such as governments or publicly traded companies. Standards limit the freedom and flexibility of entities to use clever accounting to move points around or even to obscure them. **Relevance**

Standards exercise to help entities provide the most relevant information in the most sensible manner possible. In this way, an organization run by accounting standards will get the kind of financial information that observers are most concerned in studying. Entities ultimately should provide information in a manner that more fairly and clearly represents the current financial standing of the surgical procedure. The standards make it more hard for organizations to misdirect observers and to fool them with information that does not have sufficient relevancy.

**Hearings**

Finally, the importance of accounting standards lies in the value that it brings to financial documents for the various audiences that view and make vital decisions based on it. An absence of accounting standards would cause the work of investors, regulators, taxpayers, reporters and others more difficult and more speculative. For example, without banners, an investor who has examined the financial statements of a large publicly traded company would not know whether to trust the findings on those instructions. Standards mean that taxpayers can understand how their tax dollars are being dropped, and regulators can see to it that laws are observed.

**Protecting Investors**

Using the accounting standards, the interests of investors are ensured that the documents they examine are certainly accurate and sincere. As investors, they are interested to know that their money will eventually pull ahead and come back to them. Accounting standards increase the confidence of investors in the company.

**Regulatory Compliance**

Government regulators set of accounting standards that must be met by all companies. This is both beneficial for the investor or business proprietor as well as for customers or clients, because it protects against fraud in companies. It also promotes transparency between business transactions that will eventually lead to improved market efficiency. Accounting standards issued by the FASB and the IASB will help prevent a company or business expenses relating to legal proceedings instituted against him by the government.

1. **Discuss the importance of cash management (cash flow forecasts).**

Cash management refers to a broad area of finance involving the collection, handling, and usage of cash. Understanding the basic concepts of cash flow will help to plan for the unforeseen eventualities that nearly every business faces. Below, are the importance of cash management for business;

In some ways, managing cash flow is the most important job of business managers. If at any time a company fails to pay an obligation when it is due because of the lack of cash, the company is insolvent. Insolvency is the primary reason firms go bankrupt. Obviously, the prospect of such a dire consequence should compel companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy. It improves the profitability and reduces the risk to which the firm is exposed.  
  
Cash management is particularly important for new and growing businesses. Cash flow helps the business to offers a product superior to that offered by its competitors to attract more customers for profit maximization, and enjoys a sterling reputation in its industry. Companies suffering from cash flow problems have no margin of safety in case of unanticipated expenses. They also may experience trouble in finding the funds for innovation or expansion. It is easier to borrow money when you have money. Poor cash flow makes it difficult to hire and retain good employees, and reverse for good cash flow helps in retaining committed and competent employees,

A good cash flow allows businesses to be solvent enough to keep the company in business even during slow activity or economic downturns, if a business cannot meet its monthly obligations for operations and liabilities you are not solvent. This means that a downturn in the economy or any loss of sales could be devastating.

Businesses that have poor cash management can fall behind in debt and monthly operational expenses, making it extremely hard to recoup stability. Sometimes when things are very rough   lack of cash flow can prevent the processing of payroll. Employees will not work if they do not get paid. If your cash flow issues get to that point the business has little chance to recover.

* ***Cash management benefits:***

1. Allows adequate cash for purchases and other purposes.

2. Ability to meet cash flow.

3. Allows planning for capital expenditure.

4. Allows for financing at better terms.

5. Enables you to make special purchases and take advantage of business opportunities.

6. Facilitates invest.

* ***Practicing good cash flow management***

One of the first steps in cash flow management is measuring liquidity, this means having the amount of cash on hand to meet current financial obligations. Then, you need to develop a cash flow projection. This allows you to manage cash on a daily basis as well as long term. And utilize cash management planning for short and long term goals. Using historical cash flow statements helps keep track of how money was used.

Keeping track of how cash was used in the past and knowing your current liquidity, will allow you to make long strides in managing cash flow. Knowing where your cash comes from and goes to is vital to being able to manage your available cash.

* ***Controlling cash***

This is essential in managing cash flow both in the short and long term. Ensuring that outstanding debts are managed cuts down on cash shortages. Making wise investment decisions allows cash to be available when it is needed. If you tie up cash in long term stock it is not available to invest in something short term with a good ROI. Also, ensuring that you pay your payables on time keeps cash flow of suppliers moving, and prevents them from increasing your prices of necessary items. By managing your cash flow properly, you help to ensure that the economy runs smoother for everyone.

* ***Goals of good cash management for your business***

The largest goal of good cash management systems is to reduce or eliminate any surprises when meeting cash requirements. Good cash management influences the efficiency of operations and reduces overall cost of doing business.

1. **Why is financial committee essential in Grant Management?**

**Role of the Committee**

The role of the finance committee is primarily to provide financial oversight for the organization. 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.

Effective finance committees fully engage in an annualized budgeting process in cooperation with the staff administrative leader and senior staff. Unless an organization’s bylaws expressly forbid it, it may be advantageous to include non-board members with financial expertise on the committee.

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
* Executive compensation packages (in the absence of a separate human resources committee)
* Long-term contracts or leases
* Loans or lines of credit
* Internet use and computer security
* Capital purchases
* Disposition of donated stock
* Insurance requirements and reviews
* Record retention
* Gift acceptance

**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 committees responsibilities include:

**Audit Committee**

1. Recruit and select the auditor.
2. Review the draft audit and 990 as presented by the auditor.
3. Present the audit report to the full board of directors (if the auditor does not do this).
4. Review the management recommendation letter (SAS112) from the auditor and ensure follow up on any issues mentioned.

**Investment Committee**

1. Draft an investment policy detailing the objectives of the investment portfolio, guidelines on the asset allocation of the portfolio based on a predetermined level of risk tolerance, authorizations for executing transactions, disposition of earned income, etc.
2. Ensure provisions of the policy are followed.
3. Review the policy at least annually and update if necessary.
4. Hire and evaluate the investment managers/advisors.

Even if an organization does not have enough cash to support a full blown investment portfolio, it should manage its cash to optimize earned revenue. If an organization has excess operating cash, the finance committee, with the staff administrative leader’s input, may consider drafting guidelines for putting the excess cash in low–risk, short-term vehicles. These should be designed to maximize earned revenue from existing cash without interfering with operating cash flow needs, i.e., purchasing short-term CDs with staggered maturity dates, or establishing a sweep account arrangement wherein excess cash is swept into a higher-yield vehicle each night.

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

**Contents of a Balance Sheet.**

A balance sheet is a financial report that provides a summary of a business's position at a given point in time, including its assets (economic resources), its liabilities (financial debts or obligations), and its total or net worth.

**Contents of the balance sheet**

Most of the contents of a business's balance sheet are classified under one of three categories: assets, liabilities, and owner equity. Some balance sheets, though, also include a "notes" section wherein relevant information that does not fit under any of the above accounting categories is included. Information that might be included in the notes section would include mentions of pending lawsuits that might impact future liabilities or changes in the business's accounting practices.

**ASSETS**

Assets are items owned by the business, whether fully paid for or not. These items can range from cash—the most liquid of all assets—to inventories, equipment, patents, and deposits held by other businesses. Assets are further categorized into the following classifications: current assets, fixed assets, and miscellaneous or other assets. As David H. Bangs Jr. related in *Finance: Mastering Your Small Business,*"the list of assets starts with cash and ends with the least liquid fixed assets, those that are the hardest to turn into cash. For instance, if you have an item labeled 'good will' on your balance sheet, you'll have to sell the business itself to turn that particular asset into cash."

Current assets include cash, government securities, marketable securities, notes receivable, accounts receivable, inventories, prepaid expenses, and any other item that could be converted to cash in the normal course of business within one year. Fixed assets, meanwhile, include real estate, physical plant, leasehold improvements, equipment (from office equipment to heavy operating machinery), vehicles, fixtures, and other assets that can reasonably be assumed to have a life expectancy of several years. It is recognized, however, that most fixed assets—although not land—will lose value over time. This is known as depreciation. When determining a company's fixed assets, then, a business owner needs to make certain that depreciation is figured into the final value of his or her fixed assets. The net fixed asset value of a company's holdings is calculated as the net of cost minus accumulated depreciation. Finally, businesses often have assets that are less tangible than securities, inventory, or high-speed printers. These are classified as "other assets" and include such intangible assets as patents, trademarks, and copyrights, notes receivable from officers or employees, and contracts that call for them to serve as exclusive providers of goods or services to a client. Writing in *Finance for Non-Financial Managers and Small Business Owners,*Lawrence W. Tuller defined intangible assets as "any expenditure that adds value to the company but cannot be touched or held."

**LIABILITIES**

Liabilities, on the other hand, are the business's obligations to other entities as a result of past transactions or events. These entities range from employees (who have provided work in exchange for salary) to investors (who have provided loans in exchange for the value of that loan plus interest) to other companies (who have supplied goods or services in exchange for agreed-upon compensation). Liabilities are typically divided into two categories: short-term or current liabilities and long-term liabilities.

Liabilities that qualify for inclusion under the short-term or current designation include all those that are due and payable within one year. These include obligations in the areas of accounts payable, taxes payable, notes payable, accrued expenses (such as wages, salaries, withholding taxes, and FICA taxes) and other expenses that are supposed to be paid off over the next year. Such obligations include the portion of long-term debt that is scheduled to be paid off during the course of the coming year. Long-term liabilities are those debts to lenders, mortgage holders, and other creditors that will take more than one year to pay off.

**OWNERS' EQUITY**

Once a business has determined its assets and liabilities, it can then determine owners' equity, the book value of the business's assets once all liabilities have been deducted. Owners' equity, which is also sometimes called stockholders' equity, is in essence the net worth of the company.

Reference;

[***http://www.investopedia.com/terms/c/cash-management.asp***](http://www.investopedia.com/terms/c/cash-management.asp)

Read more: <https://www.referenceforbusiness.com/small/A-Bo/Balance-Sheet.html#ixzz63LJJLlCE>

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