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**QN 1 Discuses why financial management is important to non-governmental organization (NGOs)?**

Financial management is the process of using funds effectively, efficiently and transparently. It is accomplished through a combination of procedures, methods, rules of conduct and standards. Effective and efficient financial management systems have key characteristics in common. HUD expects grantee and sub-recipient financial management systems to include the following key components: Budgeting, internal controls, Federal cost principles, accounting and record keeping, procurement, reporting and audits. Sound financial management requires that all of these components work properly and in connection to one another

As a NGO you might be thinking your primary task is to work towards social service and not financial management. But unless your finances and funds are sorted, you cannot achieve your objectives. The primary significance of financial planning and management in NGOs lies in achieving its overall goals and objectives. Here are some points indicating the importance of financial management for an NGO

Accountability to the donors is the most important aspect of financial management. Most NGOs rely completely on funding and therefore having proper accounting systems in place becomes all the more important. As a NGO you need to be accountable to the donor agencies and individuals who support your cause. With proper systems in place you can keep track of your expenditures and submit timely reports to them. This would lead to enhanced trust between you and the donor, thereby increasing the chances of your NGO getting a continuous support from them. With limited Furthermore, it is important for an NGO to manage all the fillids in a careful manner.

Furthermore, proper finance systems will also help the NGO maintain financial reports and showcase their entire spending to the regulatory bodies as per the agreed terms.

The present financial condition of any organization determines its future. In a similar manner, NGOs should also opt for sustainable use of finance. This simply means that NGOs should spend in their present ventures, keeping in mind the future. After all, it is quite important to have future plans and become well secured as well as future-ready.

Financial management is important because it eliminate fraud and theft practices with the organization. Malpractices and illegal deeds such as overuse of resources, fraud and theft have become prevalent among NGOs. Firm checks are mandatory, for minimizing such illicitness and preventing abuse of resources. With complete financial planning, coordination and control, these issues can be easily addressed.

With sound financial management, NGOs can make more productive decisions concerning resource allocation, fund raising, fund mobilizing and other undertakings. Good decision making skill enables right amount of funds to be invested at the right place. Funds are therefore efficiently and optimally utilized.

Every NGO is guided by certain policies and procedures to achieve its overall objectives. Each decision that is undertaken by the authority is driven towards successful achievement of its set goals and objectives. Without organizing finance, it will be difficult for the organization and its employees to reach its aim and fulfill purpose of its existence.

With excellent finance management, NGOs enhance their image that enhances its value and making them more credible. By framing well defined financial plans and policies NGOs also earn good reputation within its community. They can also improve their current position and look forward to gain trust, faith and reliability.

Financial Management strengthen fundraising efforts of an NGOs since all organizations are surviving 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. Thus, employees get a fair idea regarding the expected amount and plan their fundraising ventures accordingly.

**QN 2 Discuss the principles of financial management.**

Organizing your finances to create wealth. You should track all your financial sources and activities which include bank accounts. Credit cards, loans. Mortgages, brokerage and retirement accounts. Budgeting software can provide complete solutions to track all such accounts, make on time payments and more. Jeff Morris, a certified public accountant in Bethesda, Maryland, points out: "Once you enter your accounts and balances into budgeting software, you will be able to spend less time getting organized and more time making sense of your situation.

Spend less than you earn is one of the principle of financial management. Personal financial software provides powerful tools to help you track your expenditure and budget. You can take a steps to achieve your long-term goals. If you learn to track your finances and know where you spend the most, you will be able to control your money. "The best way to ensure that you either overcome debt or avoid it in the first place is to never spend more than you make. Morris says.

Invest your money in work in order to generate more. The early you invest your money in business, the more investment return you earn in a given period of time. Take advantage of the time value of money. Morris gives the following example: "A 21-year-old who invests $17.50 a day until retiring at the age of 65 at a 5 percent average annual investment return can be a millionaire. At age 30, the required daily savings amount almost doubles. At age 40 the amount quadruples." So save early and often, even if the amount is small

Limit Debt to Income-Producing Assets with credit cards and car loans, every penny you spend to repay that debt is money flushed down the drain. All but a few models of cars depreciate to zero and require more in repairs and finance charges than can be reasonably expected to be returned to the owner upon being sold. Morris explains, "With their ultra-high interest rates, credit cards utilized to buy household goods and clothes that quickly wear out are bad bargains. If you have to be in debt, stick to financing items that retain their value over time, like real estate and education

Continuously educate yourself about the principle of financial management. Budgeting software often links to hordes of research that puts the collective knowledge of Wall Street at your fingertips. "Read every financial periodical, book and blog you can find from well-regarded financial authors," Morris recommends. "Understand why you are investing so that you will stick to your plan. Periodically gather research so you do not miss excellent investment opportunities

Understand Risk: The key to understanding return on investments is that the more you risk, the better the return should be. This is called a risk-return trade-off. Investments like stock and bonds that have a higher rate of return often have a higher risk of losing the principal that you invested. Investments like certificates of deposit and money market accounts with a lower rate of return have a lower risk of losing principal. Since no one knows the future, you cannot be 100 percent sure any investment will do well. Morris explains, "If you diversify your investments, one can go sour without severe impact to your overall portfolio".

Diversification Is Not Just for Investments: Find creative ways to diversify your income. Everyone has a talent or special skill. "Turn your talents into a money-making opportunity. Investigate ways to make money from home and launch a home-based business," Morris says. The extra income can supplement your full-time income or even result in an exciting career change. Good financial management software can show you how even a slight improvement in income can positively change your financial profile

Maximize Your Employment Benefits: Employment benefits like a 401 (k) plan, flexible spending accounts and medical and dental insurance yield some of the highest rates of return that you have access to. "Make sure you are taking advantage of all the ways benefits can save you money by reducing taxes or out-of-pocket expenses," says Morris.

Pay Attention to Taxes: Financial planning software helps you manage your tax information. For example, quicken quickly analyzes taxable investments and provides powerful organizing tools that make year-end tax filings go much smoother. Morris emphasizes, "We all know that any money you make is going to be taxed. That is why it is important to consider the related tax implications for every investment.

Plan for the Unexpected: Despite of your best efforts, you'll face unforeseen emergencies. Morris urges, "Save enough money and stock up on insurance to be able to weather extended unemployment, accidents, catastrophic medical care, large car or house repairs and natural disasters." Increasing the amount of money, you save when times are good can help you manage the cost impact of hedging against bumps in the road, making sure unexpected financial exposure does not derail your long-term goals and your family's financial security

**QN 3 Which are the Building Blocks of financial management?**

The cash to accruals accounting toolkit provides a framework to deliver a successful change management program.

Structures and ownership: the political and wider organizational and leadership structures that need to be in place to deliver the change

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

Project delivery: setting up the project team and running the project with appropriate governance and oversight

People and resources: the right people, with the right skills, knowledge and approach, to drive the reforms supported by adequate resources

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

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

**QN 4 Discuss briefly the tools of financial management.**

Accounting Software quick book has long been the gold standard for small business accounting.

but online accounting solutions such as zero are recently gaining traction. Whatever program you choose for your accounting, make it work for you by choosing a tool that's both as robust and as flexible as business new daily 2015 guides recommend you look for these features: basic accounting tasks such as invoicing. expense tracking. and client/vendor contact management; automation of billing and recurring payments, quote and estimate creation, tax preparation. multiple-user access. payroll processing, mobile access, and integration with programs such as point-of-sale software. credit card processing, and Google Apps

Budgeting Tools: Creating a realistic budget and sticking to it is crucial to your small business's financial success. Depending on your accounting software, you may be able to create budgets for your business right there without needing a separate tool. If you do need a separate. stand-alone budgeting tool, you should definitely check out plan guru.

Payroll management system is time-consuming and prone to mistakes. Single Grain CEO Eric Siu recommends payroll/HR systems Zen Payroll to help you streamline the payroll process and eliminate costly inefficiencies. These are just two of many payroll management tools; frequently these systems easily integrate with other accounting or storefront tools you're already using. Sure

Payroll can even calculate and automatically pay local, state, and federal payroll taxes

Financial dashboard: Implement a dashboard such as Live Plan or Indi Nero to see a snapshot of your small business's financial health. These programs will allow you to track key performance indicators (KPI•s) to measure whether your business is "thriving and not just surviving," according to Sabrina Parsons.

Cash flow analysis Whether you use your accounting software's cash flow statement capability, a cash flow-specific tracking tool such as float, or a simple spreadsheet, accurately measuring your cash flow on a regular basis is crucial to keeping your business prepared for any financial eventuality. Cash flow analysis helps you to weather ups and downs in your cash balance by using past patterns in data to forecast your financial future.

Inventory management: Efficiently track your inventory all the way from your purchase of resale items to a customer's order fulfillment with cloud-based solutions like SOS Inventory or Scout's top Shelf. In addition to tracking your goods, these tools can generate sales reports, set up automatic low inventory alerts. and manage order packing and shipping

Expense tracking: Little business expenses such as gas, meals, and cabs add up quickly and are hard to track. With an expense report tool such as expansive or expenditure. employees can scan receipts or add cash expenses from their mobile devices and upload them; then you can easily import the information for approval, rebilling, expense accounting, and reimbursement.

Business credit card: Anita Campbell recommends opening a business credit card in order to improve your business credit history, gain access to higher credit limits for business borrowing, and receive business-specific rewards and discounts.

These effective tools will save more time and take away all your worries about your business finance and debt accumulation and you can concentrate now more on training and overseeing your employees. (By Kelly Wilson is an experienced business consultant and financial advisor).

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

Financial accounting is the process of preparing financial statements that companies' use to show their financial performance and position to people outside the company, Including investors, creditors, suppliers, and customers

Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time. These transactions are summarized in the preparation of financial statements, including the balance sheet, income statement and cash flow statement that record the company's operating performance

Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development.

Financial accounting is the recording and presentation of information for the benefit of the various stakeholders of an organization. Management accounting, on the other hand, is the presentation of financial data and business activities for the internal management of the organization. In this article, we will learn what is management accounting and its functions.

Managerial accounting is the practice of identifying, measuring, analyzing, interpreting, and communicating financial information to managers for the pursuit of an organization's goals. It varies from financial accounting because the intended purpose of managerial accounting is to assist users internal to the company in making well-informed business decisions.

**QN 6 What makes good financial policies?**

All financial decisions, activities and plans are done in accordance to a set of procedures that form the basis of the financial policy. Once the financial objectives are confirmed, the next move is to frame policies to guide its further proceedings. Financial management policy of an NGO is a manual that covers all the accounting policies, procedures and systems of the organization. Primarily, there are two purposes for framing a financial policy.

To look into proper governing of the financial transactions taking place in the concern so that the staff can abide by the set procedures and to fulfill requirements of local statutory bodies and establish strong management practices, as adopted by the NGO.

While developing a financial policy it is a good practice to incorporate the following seven principles suggested by experts. These principles lay the foundation of an effective financial policy which would ultimately result into a healthy organization.

Consistency: The financial policy should be consistent, which simply means that it should not allow manipulation of processes and systems. All the staff members should consistently adhere to the financial policy and there should not offer much flexibility. A consistent policy will ensure better accountability, transparency, better information dissemination and timely reporting.

Accountability: The financial systems should be such that it makes the organization more accountable to its stakeholders. As an NGO all you should account for all the resources and its expenses. For this the policy should clearly indicate the procedures for reporting and publication of financial data.

Transparency: An organization should disclose all its operation and provide necessary information to stakeholders. This means that the NGO should provide accurate and timely information to donors, beneficiaries and all relevant stakeholders.

Viability: For an NGO to be viable in the long run, the policy should set in place a mechanism that would maintain a balance between its expenditure and income. For any organization to be viable it is important that team leaders are able to generate sufficient funds to continue the functioning of the NGO.

Integrity: All team members should follow all rules set by the financial policy. As a founding member you should set precedence in following and adhering to all rules.

Oversight: The policy should also provide oversight into the future and should accordingly suggest measures to cope with future challenges. This would include risk assessment; strategic planning to mentioned but are few.

Accounting standards: The policy should be such that it incorporates valid national standards and protocols. The accounting systems should meet national and international standards of financial accounting and recordkeeping this would facilitate easy transactions between diverse funding strategies.

**QN 7 Discuss the importance of financial planning**.

Financial Planning is the process of estimating the capital required and determining it's competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

Financial Planning is the process of determining ways to earn, save and spend money and the amount you need to earn, invest and spend. By planning your finances, you manage your money such that you reach your life goals.

Therefore, the importance of financial planning can be noted on the following points:-

It provides direction to your goals or dreams. Financial planning helps you understand your goals better in terms of why you need to achieve these goals and how they impact other aspects of your life and finances.

Financial planning encourages you to manage inflation because you are aware of the prices of various things and activities in the market thus helps you to plan your budget in a better manner.

Financial planning makes you disciplined towards money. You do not spend unnecessarily hence you keep a check on your savings and spending.

By planning your finances, you can plan for your future which enable you to gain visibility into your finances in the future and it helps you to have a fair idea of how much money would you have, say ten years down the line as a result, you would be aware of the returns your investments should earn to achieve your goals.

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

An increase in cash flow, can lead to an increase in capital which allow you to consider investments to improve your overall financial well-being. In other hand, finance planning helps you to manage taxes.

Financial planning helps in providing you with family financial security which is an important part of the managing finance. Having the proper insurance coverage and policies in place can provide peace of mind for you and our loved ones.

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.

With financial planning the standard of living will be at better level. 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.

Financial Understanding: Better financial understanding can be achieved when measurable financial goals are set. the effects of decisions understood, and results reviewed. Giving you a whole new approach to your budget and improving control over your financial lifestyle.

You record your income and expenses in the financial plan. Therefore, you know your savings.

Financial planning gives you an idea of how much money you need to achieve your objectives. You make a budget and therefore can assess whether you are within budget or overspending. This will help you understand your savings rate and how much you need to save to reach your goal.

A financial plan will help to choose the right investments as per your income capacity, risk profile and goals. The financial plan will have the investment portfolio and asset allocation details. This can help you to have a balanced portfolio at all times.

Thinking about taxes in the last week of March is not a prudent idea. With a financial plan, you can assess your tax outgo at the beginning of the financial year. You can plan your finances such that you pay the least amount of tax in a legal manner.

We all want a carefree, relaxed retirement. It is possible only if you plan your finances such that your lifestyle is taken care of. You should have cash reserves to take care of medical expenses and other emergencies. A proper financial plan will have the retirement goals listed and the income, expenses and investment details. This will help you determine steps to achieve your goals.

Estate planning refers to the provisions made regarding your wealth and its distribution smoothly after your death. The amount of wealth is not important here but the details regarding how assets and liabilities are to be taken care of is important. The financial plan will have a broad outline of what is to be done so that those taking care of your finances know what steps are required to be taken to manage your estate.

There are many changes in our life. You get married, you can lose your job, you win a lottery or a loved one becomes critically ill. You make some money decisions which affect your standard of living. Such changes can lead to positive or negative changes in your financial status.

Financial planning anticipates financial requirements in different conditions and ensures smooth financial flow at all times.

When you have a financial plan, you manage your income better. You are aware of how much you earn from salary, interest earned, dividends etc. This will help you to understand how much you are earning and if it is enough to earn to achieve your objectives. (If you have a choice or if you don't have a choice at all),

We spend money on basic needs, wants and splurge on luxuries. If we plan our finances, we will keep an eye on our expenses. Even if we go overboard in one month, we will know how much to cut back in the following months to stay within budget. Spending changes with changes in lifestyle and stage of life. This will help us determine income requirements and we can make changes in our earning capability accordingly.

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

A cash flow forecast is an estimate of the amount of money you think you could bring into your business and how much you will 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

A cash flow forecast acts as your "warning system" it warns you if there will be shortages so you can immediately get a backup plan ready and it lets you know if you will be earning more money than you thought. With access to more cash, you can then decide if you can afford to hire new staff, start introducing new products, rent more space for your operations, or invest in new technology to improve your productivity.

The first step in any cash flow forecast is to estimate how many sales you think you will be bringing in either weekly or monthly. A great way to come up with these estimates is to reference your previous sales history. Look at the past couple of years and try to get a good idea of, considering the past year's performance at that time, what kind of weekly or monthly sales you expect to see. Obviously your sales won't always be consistent, so take into consideration patterns that are the same each year (seasons and holidays, for example) and factors that could change each year, such as trade shows or promotions, when making your projections.

It's crucial when doing a cash flow forecast to estimate when you expect payment from your sales. You might be a retail shop who gets all money at the point of sale, but for those that operate on traditional trade credit or simply just bill your customers, you need to evaluate what your average is and consider this in your projections. This way, you not only know how much you expect to make, but when you can expect to receive it.

When making your cash flow forecast, it's absolutely crucial to estimate how much your company spends. Of course, these costs are going to be both fixed and variable, but you need to do the best you can. Your fixed costs are such things as rent and how much you are paying employees, where variable costs are, most of the time, associated with the sale of the product or service you are providing. Therefore, reference back to your forecasted sales to help estimate some of these variable costs.

Do your best to estimate what bills you will have and when they will need to be paid. Be sure to go through your expenses last year, as well, to make sure there aren't any annual fees that you forget about as they only come once a year. Once estimated, be sure to add these costs to your cash flow forecast.

If you have followed the steps above, then you have been able to properly estimate your expected income and expenses. Now, it's about bringing those numbers together so you can really put them to good use.

To begin, add in an opening bank balance, then you simply add in whatever your revenue is (minus expenses) for whatever time periods you're looking to forecast (weekly, monthly, and so on). Remember, the accuracy and effectiveness of these forecasts are going to depend on how often you forecast and how detailed you are in making projections.

When you first create a cash flow forecast, be sure to revisit and update it based on how your business has actually been performing. Staying on top of your cash flow forecast will help insure accuracy when moving forward.

Although cash flow forecasts do take some time, and you might question its effect on your bottom line, the most important thing for business is cash flow. Cash is what makes your business run, and if you do not keep a proper eye on what cash is coming into your business and what cash is leaving it, you might find yourself in trouble. Make a habit of continually preparing cash flow forecasts, ensuring the sustainability of your business' financial health.

One thing to remember - the effectiveness of your cash flow forecast relies on how detailed your cash inflows and outflows estimates are. It's vital that you always update it against the actual performance of your business to guarantee that it's accurate.

Cash flow forecasting is one of the most important business-critical tasks you should be doing. It's not just about keeping an eye on the amount of money that's coming in and going out, it's essential for helping you future-proof your business.

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