**Module Two:**

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

Budgets are financial blueprints that quantify a firm’s plans for a future period. A budget is a detailed plan outlining the acquisition and use of financial and other resources over some given time period. Budget is a standard against which the actual performance can be compared and measured; it stipulates which activities and programmes should be actively pursued. Management whether in private or public sector is required to specify expected revenues and expenditure. Budgets in an organization acts as a mechanism for effective planning and controlling (Flamholtz, 1983).The main purpose of a budget in any organization is for planning and controlling in order to achieve organizational goals and objectives (Schick, 1999).

**FIVE FUNCTIONS OF A BUDGET**

**FORECASTING**: this entails making at calculated attempt into knowing what the future holds. Forecasting may not be perfect as evidence has shown but it is better to have a forecast to work with than not having any as this will help you get prepared. There are many statistical tools developed over the years to help managers and [accountants](https://www.accountantnextdoor.com/qualified-accountant-who-is-a-qualified-accountant/) make better forecast.

Forecasting is a complex exercise that requires you to consider many variables in the light of; the action of competitors, government actions, economic outlook, relationship between price and demands, etc.

**PLANNING**: generally speaking, planning depends on forecast that has been made in the past to make decision about the future. The estimated data generated by forecasting are used to make plans. Government agencies, for example health authorities use forecast from estimated population to plan on the number of health centers to open in a community and the number of beds and other health equipment that will be put in that hospital.

Business also use forecast figure to estimate the use of materials and make plans to ensure that they are provided as and when due. The list can go on and on.

Financial models on computers makes the mixture of variables on an ‘what if’ scenario possible so that the best possible mix of variables are achieved. Spreadsheet is one of the most popular financial models to use for planning and forecasting.

**COMMUNICATION**: budgeting in an organization acts as a communication tool in the following ways:

1. ***1.       Gathering information:***information about a company and the activities of its competitors are gathered during the process of making all kinds of budget. It is quite impossible for a single individual to gather all these information that are needed to make a functional budget. Managers and other non managerial staff will need to be consulted and information obtained from them. This information will then be analyzed, challenged and criticised in order to come up with filtered information.
2. ***2.       Disseminating information:***budgets when not acted upon are useless, so, the budgetary system has an inbuilt information dissemination ability that ensures that responsible managers actually got the budget which they will work with.

Budgeting committee is usually formed to act as a forum where representatives from different parts of the business will assemble to iron out issues that relates to resource planning of the business.

**MOTIVATION:**motivation is the driving force that makes people to run towards their goals rather than trudge towards it. Motivation is a relative and subjective term, we are not here to discuss motivation but, to see how budgeting affects the**motivation of staff**.

Two factors needs to be considered here: **how to make people follow a budget**, and **setting the difficulty level of budgeting**. There are two main approaches that companies can employ to make their staff heed towards a budget, each having its advantages and disadvantages. They are

**Authoritarian method** and **participatory method**, these two approaches represent two extremes. The ideal method that is actually used in practice is the one that strive to achieve a balance between the two extremes.

Again, budgets can either be made so difficult or so easy. For a budget to motivate staff, its level of difficulty must be somewhere around the middle of difficulty and easiness.

**EVALUATION:**evaluation means to judge something with a sort of standard. The budget represents that target performance which will then be compared with actual performance. And this will then lead to corrective action being taken. Evaluation in real life is not as easy as I have presented it here.

If not handled with, evaluation can encourage actions that will harm the organization in the long run. Again, there are some nonquantifiable aspects of a business that is hard to measure. Examples are; customer services, staff morale, innovation, environmental friendliness, etc. (Article by Hybrid Accountant)

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

Funding is a very major challenge in NGO management. NGOs require funds to carry out programs and maintain the organization. Unavailability of funds for an NGO could mean a total ‘standstill’. NGOs could most time depend on government for funding. However, NGOs that depend largely on public finance run the risk of becoming mere government subsidiaries by implementing activities formerly carried out by their own governments or multilateral institutions (Senillosa, 1998). Government policy may differ from the NGOs’ objectives and/or the beneficiaries’ interests, which may lead to a conflict of interest. The availability of substantial government grants may tempt NGOs or the program beneficiaries to become involved in programs inconsistent with their own objectives and capacities. The sheer size of government grants and certain government grant restrictions (specific countries, certain social groups, special forms of assistance) may lead to an imbalance in the NGOs’ programs. Some NGOs have, more or less, become contractors to governments, particularly if they do not have other programs or funding sources. NGOs may become unwilling to criticize government publicly thus softening their advocacy work and/or human rights campaigns.

Also, as government funding may be comparatively easy to obtain, there is the risk of the NGO ignoring or downgrading their traditional sources of private funding and traditional relationships with their constituencies. In addition, as non-governmental providers of development services, NGOs (and their programs) became subject to the availability of government funds (with associated uncertainty about magnitudes and timing), to some degree of governmental control and supervision, and to the rules and procedures that went with the receipt and use of public funds. This tended to impose heavy and sometimes excessive requirements on NGO administrative and audit capacities (Van Der Heijden, 1987).

* **Leadership**

Leadership in NGOs is a matter of concern considering the highly personalized nature of leadership in the sector. The sector is full of anecdotal stories about the detrimental impact of paternalistic founder leaders, “charismatic autocrats,” or “the guru syndrome” (Hailey, 1999). On one hand such leaders demonstrate a drive and commitment, and a remarkable ability to mobilize people and resources. While on the other hand they are criticized for dominating organizations, being unaccountable, and failing to adapt to changing circumstances. Chambers (1997) points out that such NGO leaders can achieve many things through their “guts, vision and commitment,” but the way they use power is a “disability” that jeopardizes organizational effectiveness. He argues such charismatic leaders are “vulnerable to acquiescence, deference, flattery and placation” (Chambers, 1997). They are not easily contradicted or corrected. As a result they actively suffocate promising initiatives that may threaten their power base, relationships, or position of patronage.

The concept of leadership in NGO could also at times be antithetical to the participatory culture espoused by many NGOs. In a sector that believes itself to be more value driven, participatory, and less managerialist than the for-profit business sector, there is an unwillingness to concede the important influence of any one individual leader. Managers in this new era thus have to be conscious of the greater credence given to ideas of equality and participatory democracy in this sector if they are to succeed (Hailey & James 2004).Effective NGO leadership also requires the ability to balance a range of competing pressures from different stakeholders in ways that do not compromise the leader’s individual identity and values (Hailey & James 2004). The leadership of development NGOs face extraordinary challenges as they work with very limited resources in uncertain and volatile political and economic circumstances to help the most marginalized and disadvantaged members of their communities. Civicus referred to the growing deficit in leadership abilities in NGOs. In particular they pointed to rapid turnover of NGO staff in leadership positions into business and government and the difficulty NGOs have in replacing them (Civicus, 2002). All too often this failure of leadership results in programmatic dysfunctionality and even organizational collapse.

* **Monitoring and Evaluation Performance**

NGOs are making significant efforts to show how they are performing, a trend impelled by three factors: stricter requirements attached to official aid; doubts about NGO claims to be more effective than governments; post-Cold War shifts in the role of NGOs, which increase their own needs to know what is being achieved, in order to manage the processes of organisational reorientation and transformation. However, almost without exception, NGOs are finding it very difficult to come up with sound, cost effective methods to show the results of their development activities, or even to demonstrate their effectiveness as organisations (Fowler, 1996). Rick Davies attributed the problems of monitoring and evaluating the performance of NGOs to ambitious expectations, complexity caused by scale (hierarchical differences in goals and expectations at various actors’ levels), diversity of NGO activities, vague objectives, ‘fault-able’ measuring tools, and absence of baseline information & adequate monitoring systems (Davies, 2000).

Unlike commercial companies development NGOs do not have the ‘bottom lines’ of market feedback, profitability, and returns on financial investment, nor do they receive the judgement of citizens through social unrest or the periodic vote. In other words, consumers and voters are the source of performance standards for business and government- but not for NGOs (Fowler, 1996).

Furthermore, the measures of development are very complex, containing both tangible or physical elements and intangible factors of human and organisational processes and capacities. Also, the possibility of attributing the cause of change to an NGO’s work is very restricted.

* **Accountability**

Who are NGOs accountable to, for what, and how? Concerns about the role and accountability of NGOs have been voiced from different quarters in recent years. As the World Bank (2005) noted, with growth in the influence of NGOs so also are they attracting greater public scrutiny, prompting calls for greater accountability. Some donors, governments, corporations, and international agencies raise important questions about the effectiveness of NGO work and the legitimacy of their advocacy. Some NGOs have also recognized the need to ensure good practice in the wider voluntary sector.

The question of accountability is seen as a bureaucratic hurdle at best, and at worst as a threat to achieving an NGO’s aims. Some fear that any toughening of accountability may lead to an overbearing influence from funders and governments, which could then lead to cooptation and a deflection of original purpose (Najam, 2000), or lead to the stymieing of innovation and reducing the diversity of NGOs (Cnaan, 1996).

The problem of to whom accountability should be towards also arises many times. Accountability is usually upwards to donors and not to the poor who are the most immediately concerned. NGOs just want to show that money is not being misappropriated and that the approved activities are completed rather than that desirable change was achieved, let alone sustainable. Bendell (2006) however argued that democracy and human rights should firmly be at the centre of the debate about NGO accountability. By democratic accountability he meant that NGOs should be more accountable to those with less power who are affected by the organization’s actions or decisions – “the poor”.

* **Scaling Up**

Much has been said about the need for NGOs to increase the impact they are having rather than applying small piecemeal efforts to large scale problems of poverty. Edwards and Hulme (1992) described strategies for scaling up to meet this demand for more impacts. Some NGOs are contented to focus on a single small community within which they work taking a ‘small is beautiful’ approach to their work (Lewis 2001). Edwards and Hulme (1992) noted three kinds of scaling up for NGOs as; additive (increase size and coverage of programs), multiplicative (gain more leverage by influencing other development actors, thereby reaching more people), and diffusive (transferring its approaches beyond the organization’s immediate sphere of influence). Bangladesh Grameen Bank was able to effectively manage the challenge of the scaling up process. The bank impacted a lot of poor people in the immediate community, but rather than growing any larger as an implementing organization, it encouraged the adaptation of its original microcredit delivery model around the world (Lewis 2001).

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

Accounting Standards (AS) are basic policy documents. Their main aim is to ensure transparency, reliability, consistency, and comparability of the financial statements. They do so by standardizing accounting policies and principles of a nation/economy. So the transactions of all companies will be recorded in a similar manner if they follow these accounting standards.

These Accounting Standards (AS) are issued by an accounting body or a regulatory board or sometimes by the government directly. In India, the Indian Accounting Standards are issued by the Institute of Chartered Accountants of India (ICAI).

Accounting Standards mainly deal with four major issues of accounting, namely

i. Recognition of financial events

ii. Measurement of financial transactions

iii. Presentation of financial statements in a fair manner

iv. Disclosure requirement of companies to ensure stakeholders are not misinformed.

**Benefits of Accounting Standards**

Accounting Standards are the ruling authority in the world of accounting. It makes sure that the information provided to potential investors is not misleading in any way. Let us take a look at the benefits of AS.

1**] 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.

**2] 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.

So it is essential these statements present a true and fair picture of the financial situation of the company. The Accounting Standards (AS) ensure this. They make sure the statements are reliable and trustworthy.

**3] Prevents Frauds and Accounting Manipulations**

Accounting Standards (AS) 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.

**4] Assists Auditors**

Now 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.

**5] Comparability**

This is another major objective of accounting standards. Since all entities of the country 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 companies before taking any decisions.

Also, two statements of the same company from different years can be compared. This will show the growth curve of the company to the users.

**6] Determining Managerial Accountability**

The accounting standards help measure the performance of the management of an entity. It can help measure the management’s ability to increase profitability, maintain the solvency of the firm, and other such important financial duties of the management.

Management also must wisely choose their accounting policies. Constant changes in the accounting policies lead to confusion for the user of these financial statements. Also, the principle of consistency and comparability are lost. (Principles and Practice of Accounting > Accounting Standards)

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

**What a cash flow forecast can do for your clients. Cashflow forecasting is an essential tool for business planning. It can be done in various ways, with the spreadsheet method being the most traditional.**

**But what are the main advantages of a cash flow forecast for your clients?**

* Understand the impact of future plans and possible outcomes

For many small businesses, one late payment can lead to cash in the bank taking a nosedive very quickly. But modelling alternate scenarios can help business owners to understand how various situations will impact their cash flow, which is a crucial part of business planning. Using scenarios to test different possible future situations can provide the peace of mind a business owner needs to confidently put plans in place.

* Keep track of overdue payments

Keeping on top of consistent late payers is often the bane of a business owner’s life. Having insight into late payers and the impact they have on the bottom line can alert clients to the need for more effective credit control.

To address this, you could look into direct debit software like GoCardless, and debtor chasing software like Chaser.

* Plan for upcoming cash gaps

Seeing cash gaps before they hit, allows your clients to put plans in place to avoid them. Anything from reducing payment terms, to looking for loans and alternative finance can be vital steps towards closing that cash gap.

* Manage surplus cash

For most businesses, it’s rare to see excess cash in the bank. But using additional cash for reinvestment in new markets, or for the repayment of loans, can be essential to keeping afloat.

Knowing when they’ll have surplus cash in the bank, and being able to see where and when the surplus will occur, means that business owners are better able to plan for what to do with the surplus.

Providing additional advice on what to do with a cash surplus is essential to your position as a trusted advisor.

* Track whether spending is on target

Every business has revenue goals and targets that are time sensitive. But cash flow forecasting can help a business owner to understand exactly when and if they will reach those goals.

Forecasting allows you to see the breakdown and impact of your budgeting. Whether over or under budget, seeing the movement of cash into and out of the business can help to increase the accuracy of future budgeting.

* Invest time in good governance

Investors aren’t usually involved with the daily operational tasks of a business. This means that they’ll think of the business at a higher level, and they’ll expect their clients to do the same.

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 committee 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. (Financial Management (June 8, 2019) By Elizabeth Hamelton Foley. EHF.

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

**Contents of a balance sheet includes:**

1. fixed assets - long-term possessions
2. current assets - short-term possessions
3. current liabilities - what the business owes and must repay in the short term
4. long-term liabilities - including owner's or shareholders' capital

The balance sheet is so-called because there is a debit entry and a credit entry for everything (but one entry may be to the profit and loss account), so the total value of the assets is always the same value as the total of the liabilities.

1. Fixed assets include:

tangible assets – e.g. buildings, land, machinery, computers, fixtures and fittings - shown at their depreciated or resale value where appropriate intangible assets – e.g. goodwill, intellectual property rights (such as patents, trade marks and website domain names) and long-term investments

2. Current assets are short-term assets whose value can fluctuate from day to day and can include:

* stock
* work in progress
* money owed by customers
* cash in hand or at the bank
* short-term investments
* pre-payments – e.g. advance rents

3. Current liabilities are amounts owing and due within one year. These include:

* money owed to suppliers
* short-term loans, overdrafts or other finance
* taxes due within the year - VAT, PAYE (Pay As You Earn) and National Insurance

4. Long-term liabilities include:

* Creditors due after one year - the amounts due to be repaid in loans or financing after one year, e.g bank or directors' loans, finance agreements
* Capital and reserves - share capital and retained profits, after dividends (if your business is a limited company), or proprietors capital invested in business (if you are an unincorporated business) (by nibusinessinfo.co.uk)

**Definition of Trial Balance**

Trial Balance is a statement which lists all the balances of the Real, Personal and Nominal Account irrespective of Capital or Revenue account. It contains two columns debit and credit. If the transactions are recorded properly by giving dual sided effect and then posted systematically, then the total of both the columns would be identical.

But if the total of both the columns is distinct then the chances of errors in the recording and posting are there. However, some errors are not revealed through trial balance they are compensating errors, error of omission, error of commission, error of principle and others.

**Definition of Balance Sheet**

A Balance Sheet is a statement which represents the assets, liabilities and shareholder’s equity of the company is known as Balance Sheet. This statement contains two major heads in which it is classified: One is assets, which is divided into Current and Non – Current Assets. Current Assets are those assets which are readily converted into cash while the Non – Current Assets are those assets with the help of which the company runs the business.

Another part is Equity and Liabilities, where Equity contains the amount invested by the Equity Shareholders and Reserves & Surplus. Liabilities are divided into two sections Current and Non – Current Liabilities. Current Liabilities are the debt, which is to be paid off within one year while the Non – Current Liabilities means the debt, the repayment of which can be done after a certain time.

**Key Differences Between Trial Balance and Balance Sheet**

1.Statement of debit and credit balances were taken from general ledger is known as Trial Balance. Statement of assets and equity & liabilities is known as Balance Sheet.

2.Trial Balance does not include closing stock while the Balance Sheet does not include opening stock.

3.Trial Balance checks the arithmetical accuracy in the recording and posting while balance sheet is prepared to determine the financial position of the company on a specific date

4.Trial Balance is prepared after posting into ledger whereas Balance Sheet is prepared after the preparation of Trading and Profit & Loss Account.

5.The Balance Sheet is the part of the Financial Statement while Trial Balance is not a part of the Financial Statement.

6.Balances of all personal, real and nominal account are shown in the trial balance. On the contrary, Balance sheet shows the balances of personal and real account only.

7.The trial balance is prepared at the end of each month, quarter, half year or the financial year. Conversely, the balance sheet is prepared at the end of each month.

8.The trial balance is prepared for internal use only, however, the balance sheet is prepared for both internal and external use, i.e. to inform outside parties about the financial condition of the entity. (July 26, 2018 by Surbhi S)