

Financial Management for Business Associations

**Presented by
Dr Masood Butt
DBA, MBA, MA, MCIM, MIMC**

Learning Objectives

- To increase knowledge of financial management requirements in business associations.
- To gain a clear understanding of improved financial systems.
- To increase knowledge of budgetary controls and cash flows.
- To develop strategies for revenue generation and effective revenue generation.

CONTENTS

1. Difference between non profit and for - profit accounting

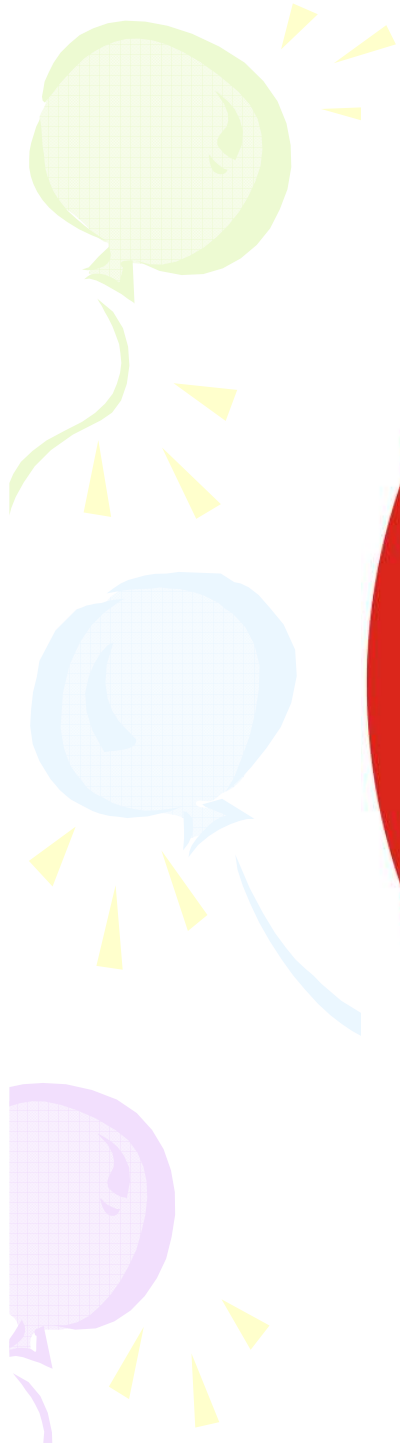
2. Financial Management Requirements in Business Association

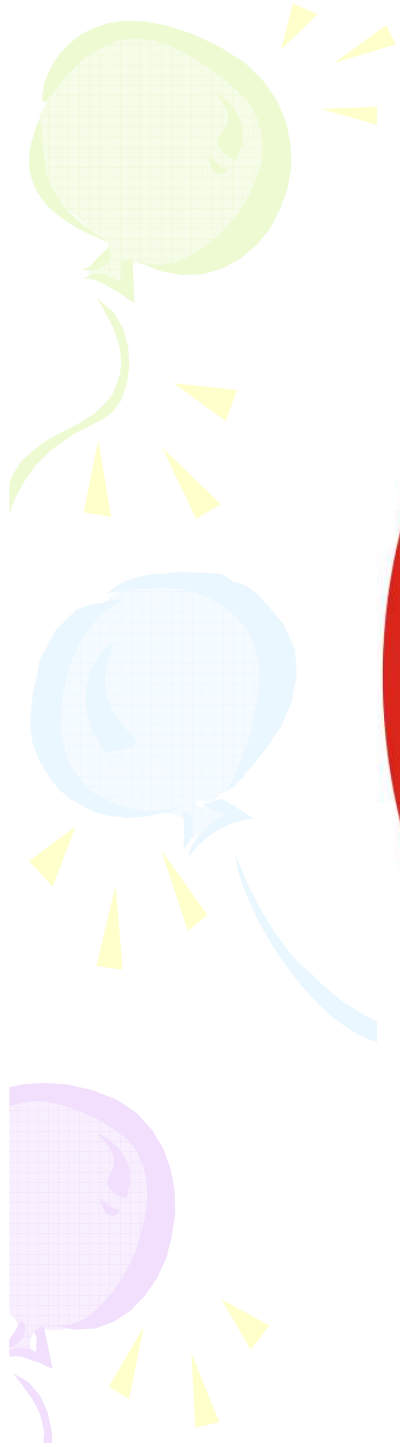
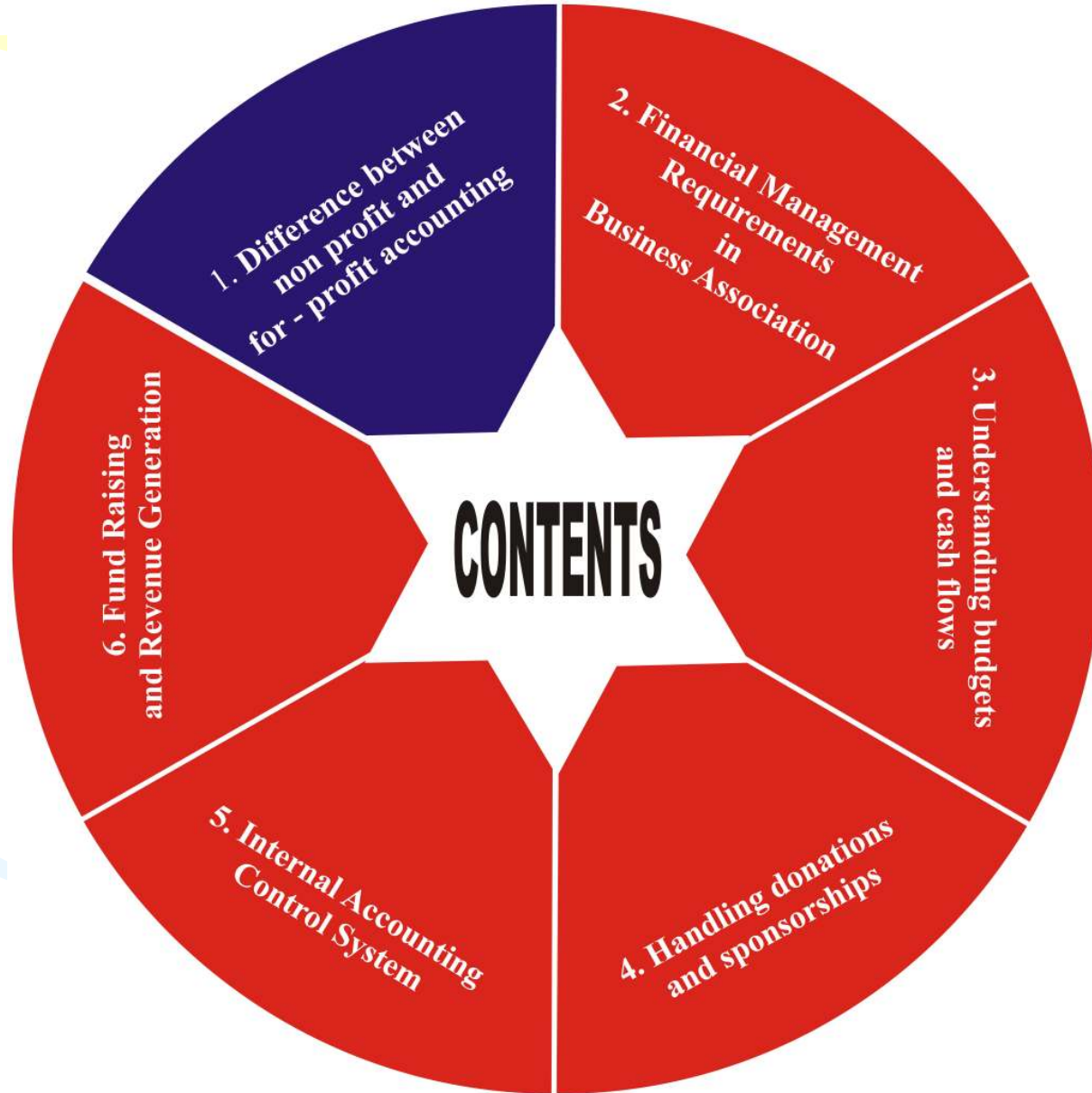
3. Understanding budgets and cash flows

4. Handling donations and sponsorships

5. Internal Accounting Control System

6. Fund Raising and Revenue Generation



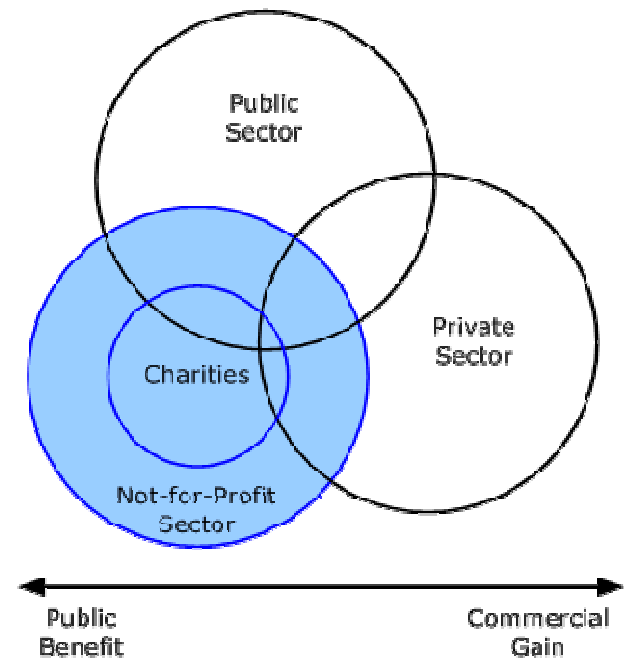


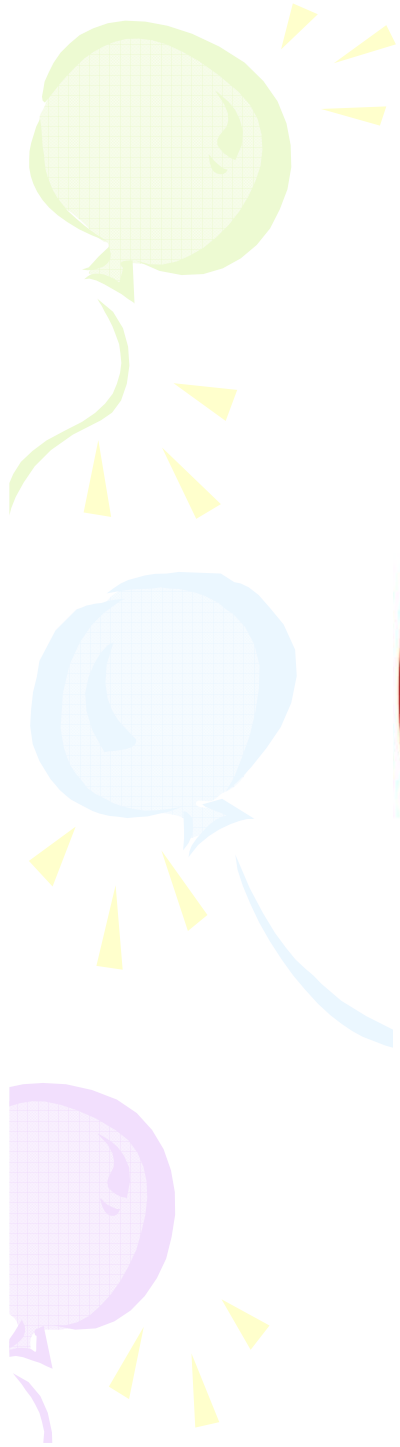
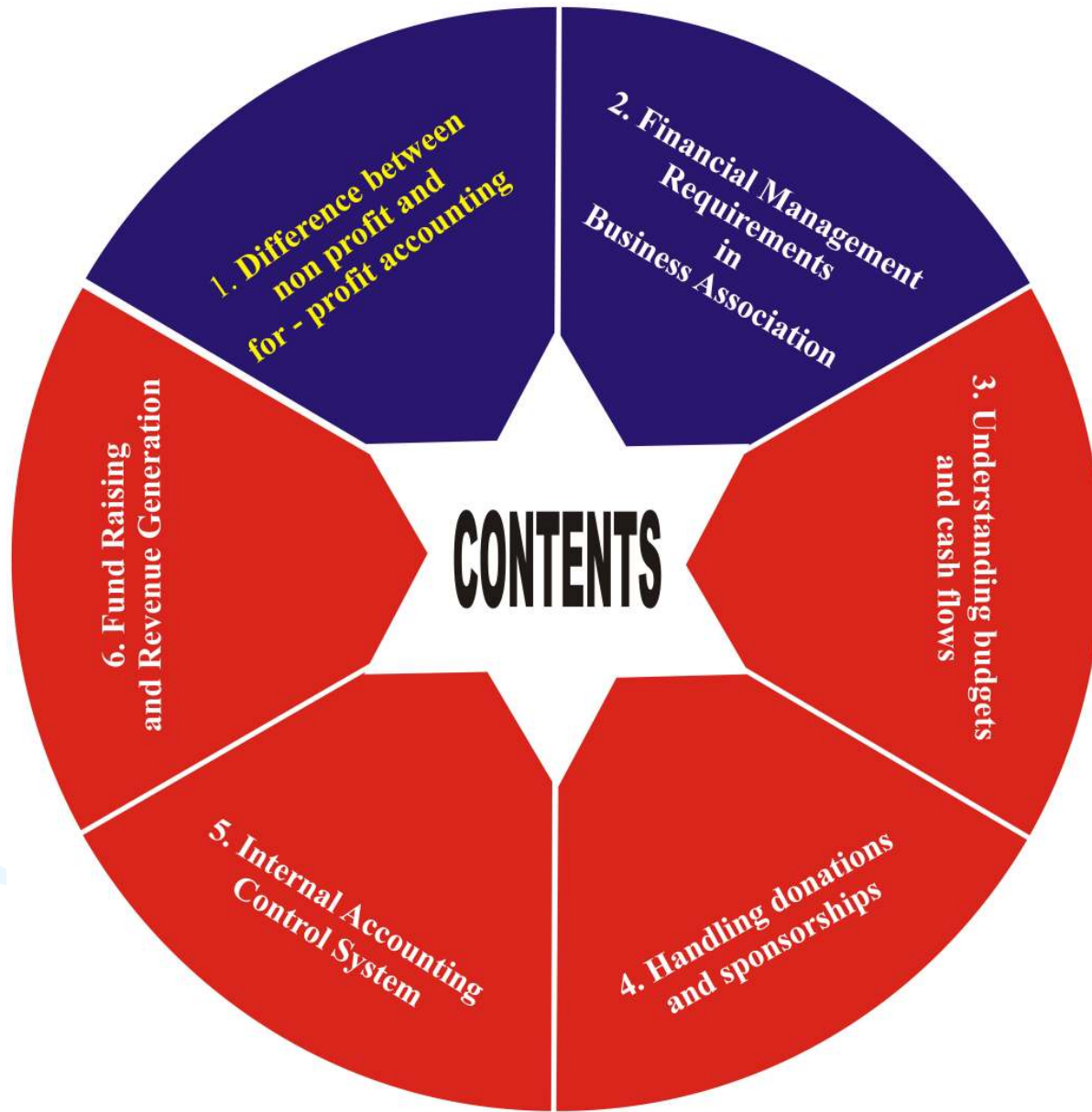
Difference Between Non Profit & For-profit Accounting

- Business associations are voluntary organisations, either local (to a particular area), national or international.
- They have formulated specific objective(s) to the benefits of the general body, or membership.
- Their objectives are not profit oriented, unlike that of business entities.
- Profit may be generated in business organisations/COCs, but since there are no ownership interest, it is not distributed to those providing the resources.
- They solicit and receive financial support of the organisation's objective(s) or purpose, either from individuals (or group of individuals) in society, corporate entities, governmental entities, international organisations or agencies of sovereign states.
- Financial dispositions are made for the purpose of promoting the objective(s) of the organisation.

Characteristics of Not-for-Profit Business Association

- Primary purpose is related to members objectives/interests
- Nonprofit tax status
- An appointed board
- Oversight of their operations by a governmental agency.

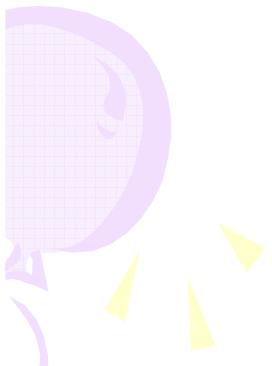






Financial information

- 
- Why and who needs financial information?



Financial information

Members	<ul style="list-style-type: none">•Are the funds utilised in conformity with given guidelines?•In the business association run according to given rules (by-law or similar)?•What is the underlying statute or regulation and are such regulations being met with?
Resources providers	<ul style="list-style-type: none">•Is the business organisation qualified to achieve agreed beneficiary objectives?•Does the business organisation sound stewardship?•Is the business organisation run efficiently and effectively?•Is the business organisation accountable-should support be extended or continued?•All the funds utilised as agreed and within the identified mandate of the business organisation?•Does the business organisation adheres to agreed restriction/requirements•Does the business organisation have the structure and/or the capacity to implement the projects as agreed?

Financial information

Beneficiaries	<ul style="list-style-type: none">• Does the business organisation provide support/services according to given guidelines?• Does the business organisation possess the ability to provide future support/services?• Do the system work as expected?
Suppliers/ creditors	<ul style="list-style-type: none">• Is the business organisation credible?• Is it to settle its debts by due dates?
Employees	<ul style="list-style-type: none">• Is the business organisation a safe, secure working place?• Is the business organisation able to pay timely salary and other agreed benefits?• Is the business organisation financially able to carry out its objectives and provide the service as has been indicated?

Financial information

Authorities	<ul style="list-style-type: none">•Do the business organisations comply with applicable statutory and legal requirements?•Should business organisation activities be made subject too further regulations?•Is there transparency in its activities and in the utilisation of resources?
Partners	<ul style="list-style-type: none">•Are available funds utilised as agreed, in conformity with applicable objectives/guidelines?

Qualitative characteristics of Financial Statements

- Understandability
- Relevance
- Materiality
- Reliability
- Completeness
- Prudence
- Neutrality
- Faithful Representation
- Substance Over Form
- Comparability



Elements of Financial Statement

- Statement of Financial activities
- Balance Sheet
- Cash Flow statement
- Accounting policies and explanatory notes.

Statement of Financial activities

- The statement of financial activities is a single statement with the objective of presenting all incoming resources and resources expended by the organisation during the year in respect of all of its funds.
- Minimum requirement of this statement must distinguish between restricted and unrestricted income and between;
 - General administration expenses
 - Direct project expenses
 - Expenses incurred on the generation of funds

Statement of Financial activities

Income and expenses:

Income and expenses of a business association have characteristics that are similar to those of business entities.

- **Income**

Income comprises the increases in economic benefits during an accounting period in the form of inflows or enhancement in the value of assets or in a decrease in liabilities that result in an increase in the accumulated fund, other than those relating to contribution from donors or contributions to restricted funds that are at the end of the period.

- **Expenses**

Expenses comprise the decrease in economic benefits during the accounting period in the form of outflows or depletion in the value of assets or incurrence of liabilities that result in a decrease in the accumulated fund.

Statement of Financial activities

- Information to be presented on the face of the statement of Financial Activities.
 - Incoming resources (funds received)
 - Project expenditure revenue
 - General costs
 - Finance costs
 - Share of the income from associates being the dividend received or the share of profit, or loss of associates accounted for using the equity method
 - Tax expense
 - A net single amount comprising the total of tax surplus and post-tax gain or loss
 - The net surplus or deficit for the period

Balance sheet

- **General**

The objective of the balance sheet is to show the resources available to the business organisation, whether these are freely available or whether they have to be used for specific purpose because of legal restrictions on their use. It may also show which of these resources, if any, the governing body has designed for specific future use.

Balance sheet

The balance sheet should reflect

- **Assets and liabilities**

- **Assets**

An asset is a resource controlled by the business organisation as a result of past event, and from which future economic benefit are expected to flow the business organisation

- » **Current and Non current Assets**

- **Liabilities**

A liability is a present obligation of business organisation arising from past events, the settlement of which is expected to result in an outflow from the business organisation of resources embodying economic benefits.

- » **Current and Non current Liabilities**

Balance sheet

- Information to be presented on the face of the balance sheet.
 - Property, plant and equipment;
 - Investment property;
 - Intangible assets;
 - Financial assets;
 - Investments accounted for using the equity method;
 - Biological assets;
 - Inventories;
 - Trade and other receivables;
 - Cash and cash equivalents;

Cash Flow Statement

- Definitions

- **Cash comprises** cash on hand and demand deposits.
- **Cash Equivalents** are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.
- **Cash Flow** are inflows and outflows of cash and cash equivalents.
- **Operating activities** are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included cash equivalents.
- **Financing activities** are activities that result in changes in the size and composition of accumulated fund and borrowings of the enterprise.

Cash Flow Statement

- Presentation of cash Flow statement
 - The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.
 - An enterprise presents its cash flows from operating, investing and financing activities in a manner, which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationship among those activities.

Cash Flow Statement

ISEI
Pvt. Ltd.

- Cash Flow of a Business organisations are primarily derived from the principal donors of the enterprise. Other examples of cash flows are:
 - Direct cash payment to, on behalf of or for benefit of beneficiaries.
 - Cash receipts from the sale of goods and the rendering of services.
 - Cash receipts from interest, dividends, fees, commissions and other revenue.
 - Cash payments to suppliers for goods and services.
 - Cash payments to and on behalf of employees.
 - Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities.

CONTENTS

1. Difference between non profit and for - profit accounting

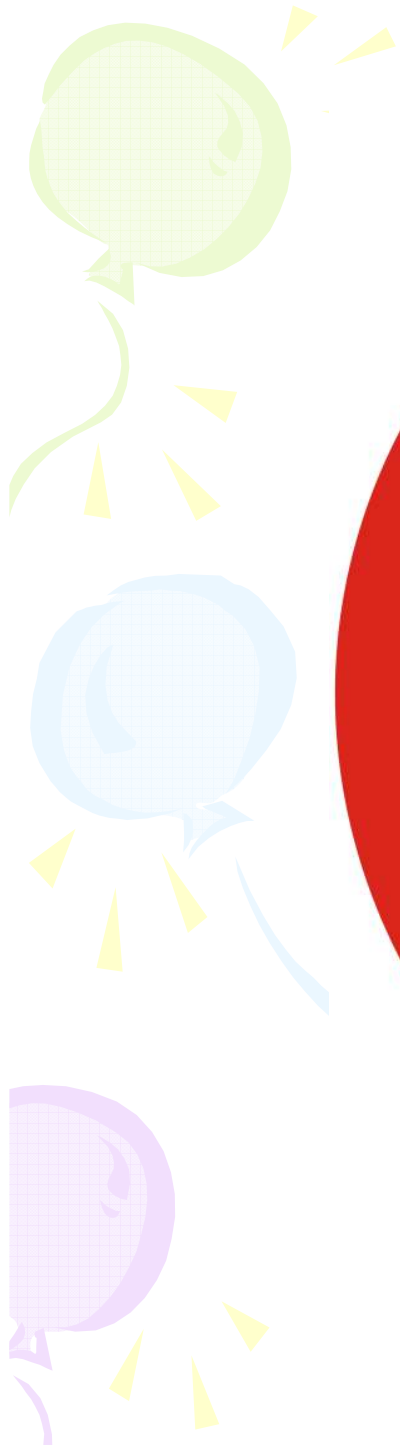
2. Financial Management Requirements in Business Association

3. Understanding budgets and cash flows

4. Handling donations and sponsorships

5. Internal Accounting Control System

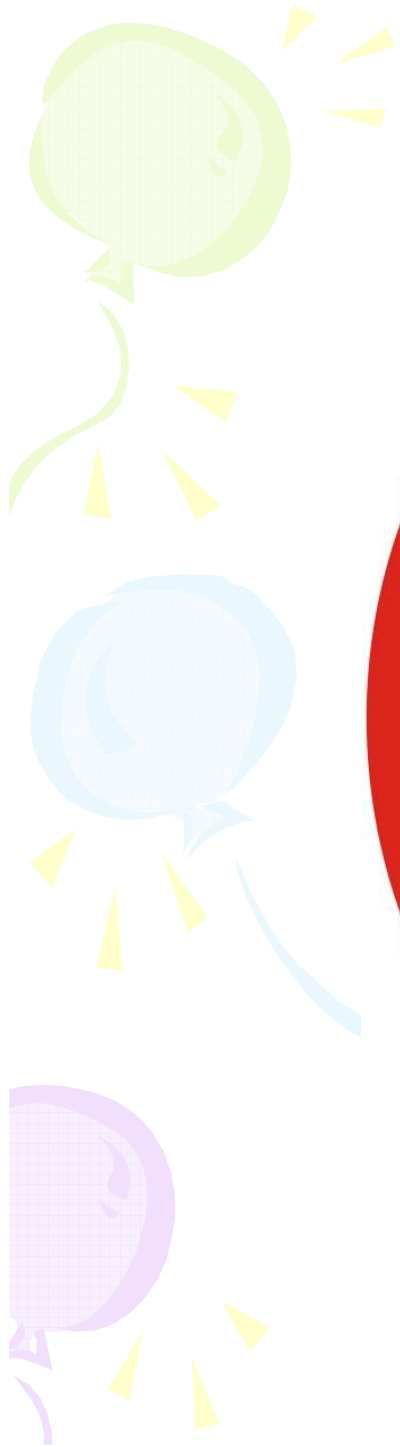
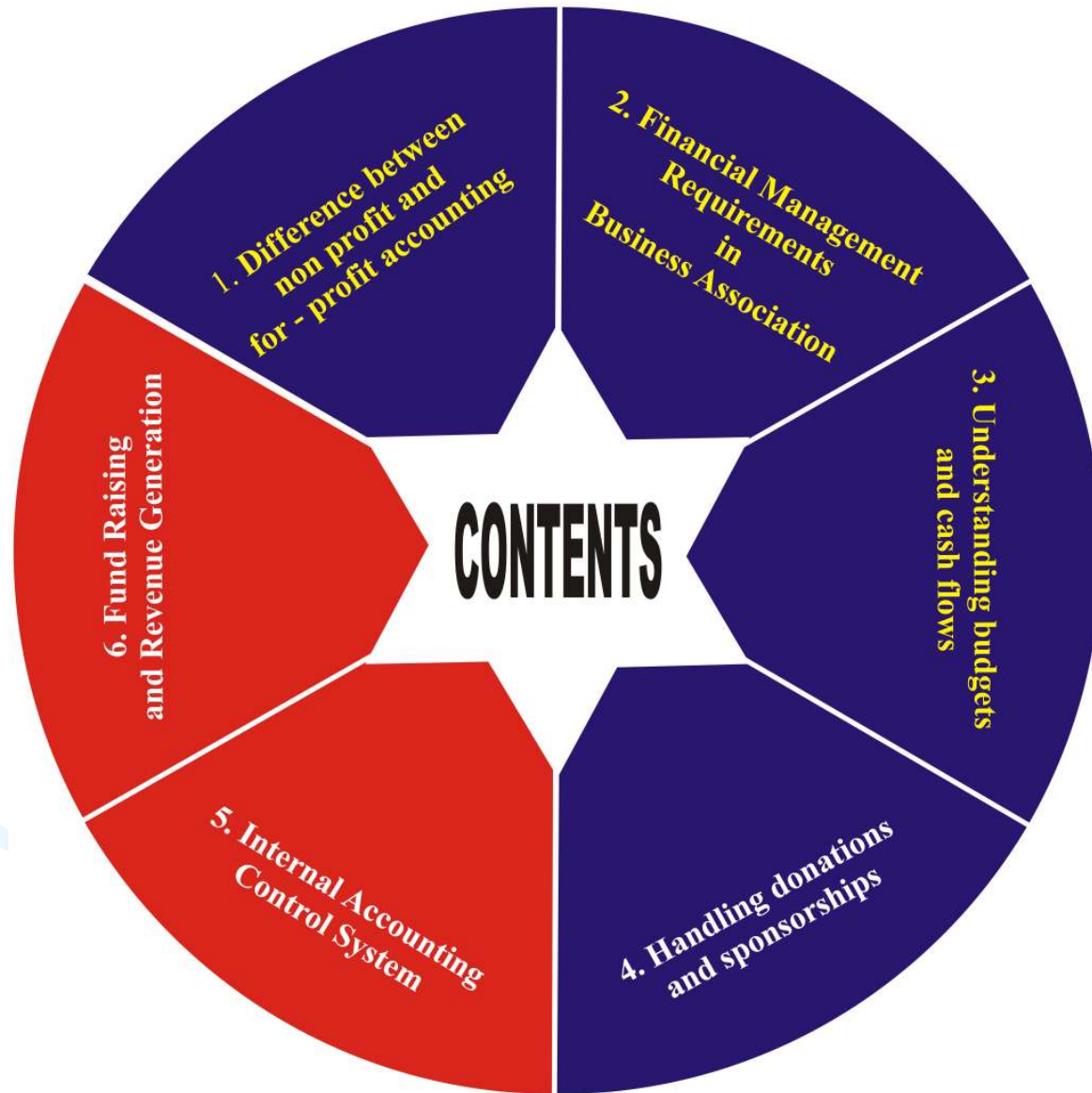
6. Fund Raising and Revenue Generation



Understanding Budgets

Budget (from French *bougette*) generally refers to a list of all planned expenses and revenues. A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods.





Handling Sponsorships and Donations

1. Regulatory Requirements

- All staff should be familiar with sponsors and donations provisions and guidelines.
- Individuals are aware of specific matching requirements and are spending donations proportionately to match funds.



Handling Sponsorships and Donations

- Necessary and reasonable for proper and efficient performance and administration of the program
- Be accorded consistent treatment. (i.e., direct versus indirect costs)
- Be determined and reported in accordance with generally accepted accounting principles



Handling Sponsorships and Donations

- Not to be included as a cost or used to meet cost sharing or matching requirements of any other Donations in either the current or a prior period, except as specifically provided by State law or regulation
- Be adequately documented



Handling Sponsorships and Donations

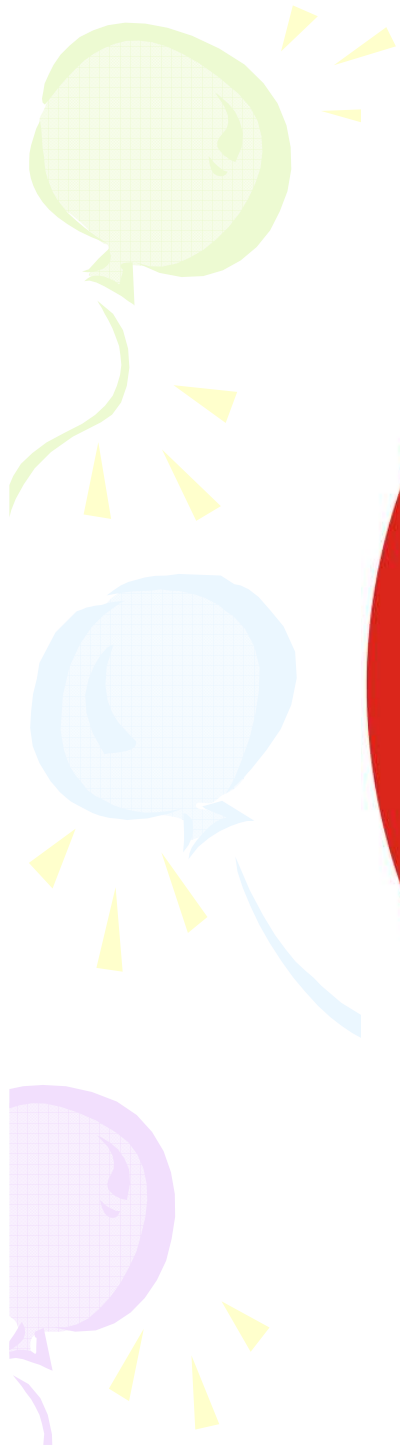
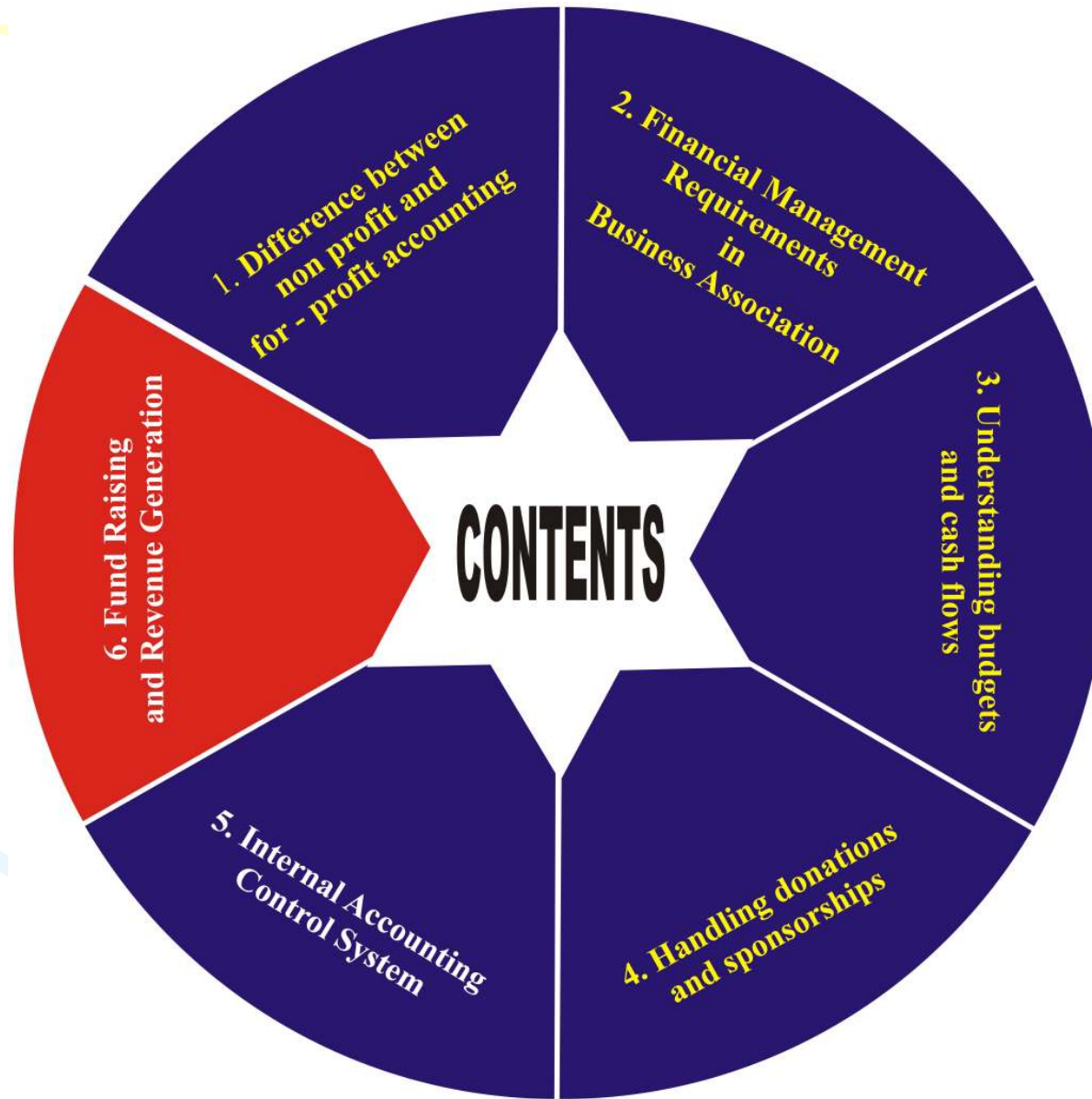
2. Written Policies and Procedures

- Organisation operates within a written set of policies and procedures
- All Staff are familiar with policies and procedures
- Organisational policies and procedures are up-to-date
- Policies and procedures incorporate donations provisions

Handling Sponsorships and Donations

3. Documentation of Expenses

- All staff are familiar with documentation requirements for donations.
- All expenses have supporting documentation that directly relates to expense to donations.
- Organisation has proper record retention policy
- Documentation supports expenditure requirements: reasonableness, necessity, allocability, allow ability, and adherence to donations guidelines



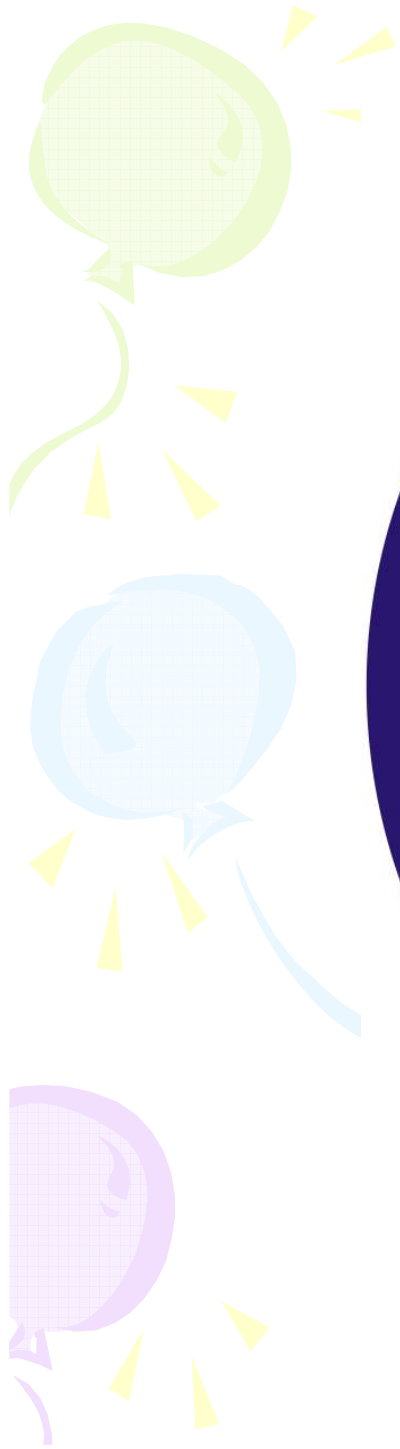
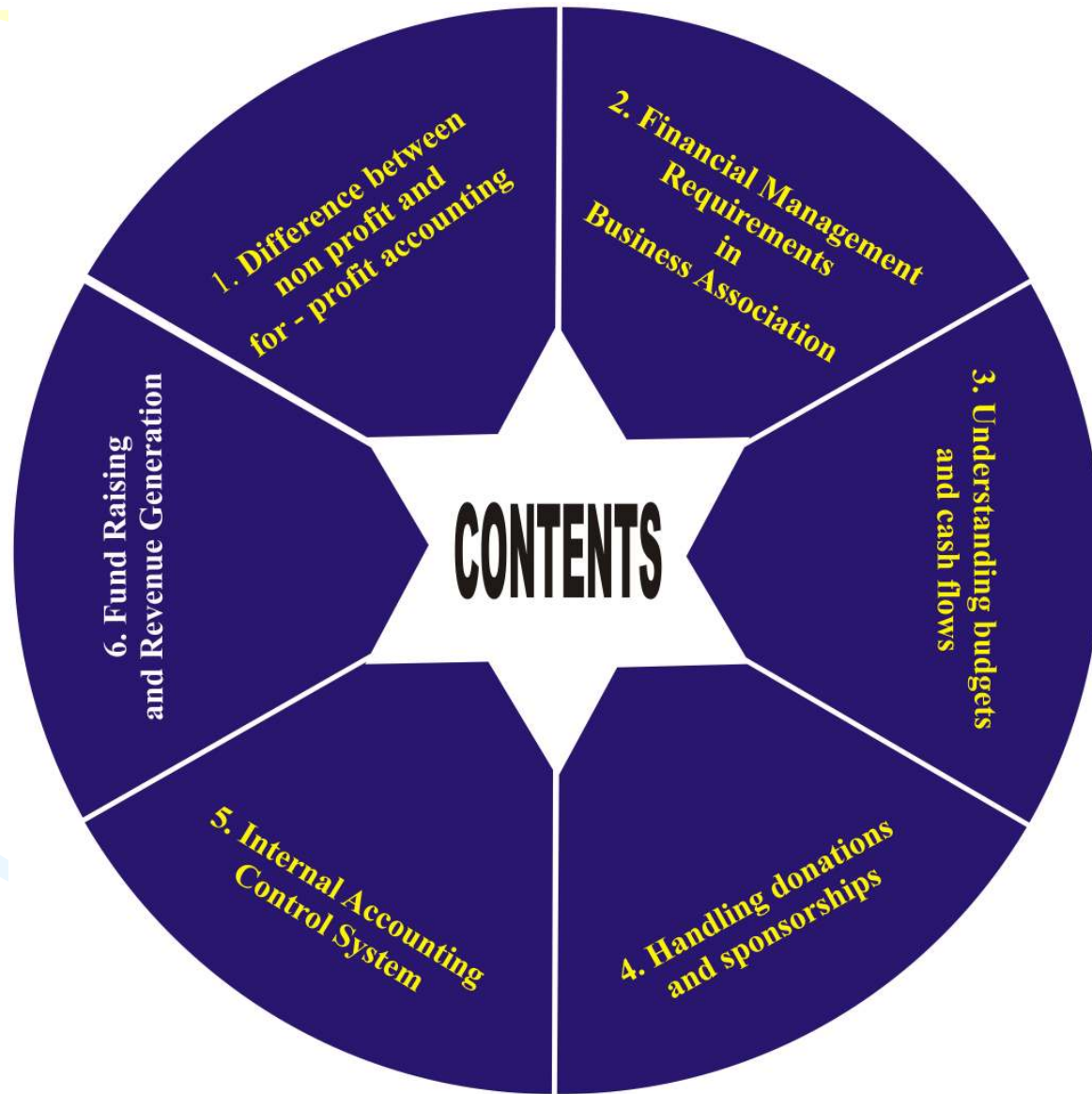
Internal Control system

Internal controls are systems of policies and procedures that protect the assets of an organisation, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.



Implementation of Internal Controls

- Supplier Invoices
- Supplier Statements
- Cheque Payments
- Cash & Cheque Receipts
- Public Collections
- Fund Raising Events
- Investments
- Bank Reconciliation Statements
- Board Responsibility



Fund Raising Plans

- Veteran fundraiser and organiser **Gary Delgado** says that there are four steps to successful fundraising:

- plan
- plan
- plan and
- work

Five Steps to Develop a Grassroots Fundraising Plan

- Develop a budget.
- Determine the total amount of money to be raised from individual donors.
- Set income goals for different groups of individual givers.
- Decide how many donors you need to meet your goals, and select the best strategies.
- Put the plan onto a timeline and fill out the tasks.



Links

Revenue Generation

- Any other sources
 - Universities
 - Government and local authorities
- Joint ventures
 - Other chamber of commerce
- International Funding
 - US Aid
 - European commission
 - World Bank



