

The background of the slide is a photograph of a vast field of green, leafy plants, possibly a crop field, under a cloudy sky. The plants are dense and fill most of the frame. In the distance, there's a line of trees and some structures. The sky is overcast with soft, grey clouds.

Budgetary & Financial control

By CPA Zachary Muthui

Introduction

Business success often relies on how well a farm owner or manager applies sound business management practices.

Introduction Cont'd

- A Few questions to ask yourself
 - 1.Are you adding key personnel and family members to your business?
 - 2.Do they need bookkeeping training?
 - 3.Do they need business training?
 - 4.Could they use assistance in technology and computers?

Introduction Cont'd

5. Is financial management a challenge?
6. Do you need assistance with record keeping?
7. Do you know your cost of production?
8. Is your lender asking for more information than you can deliver?
9. Do you need technology support?

Defination

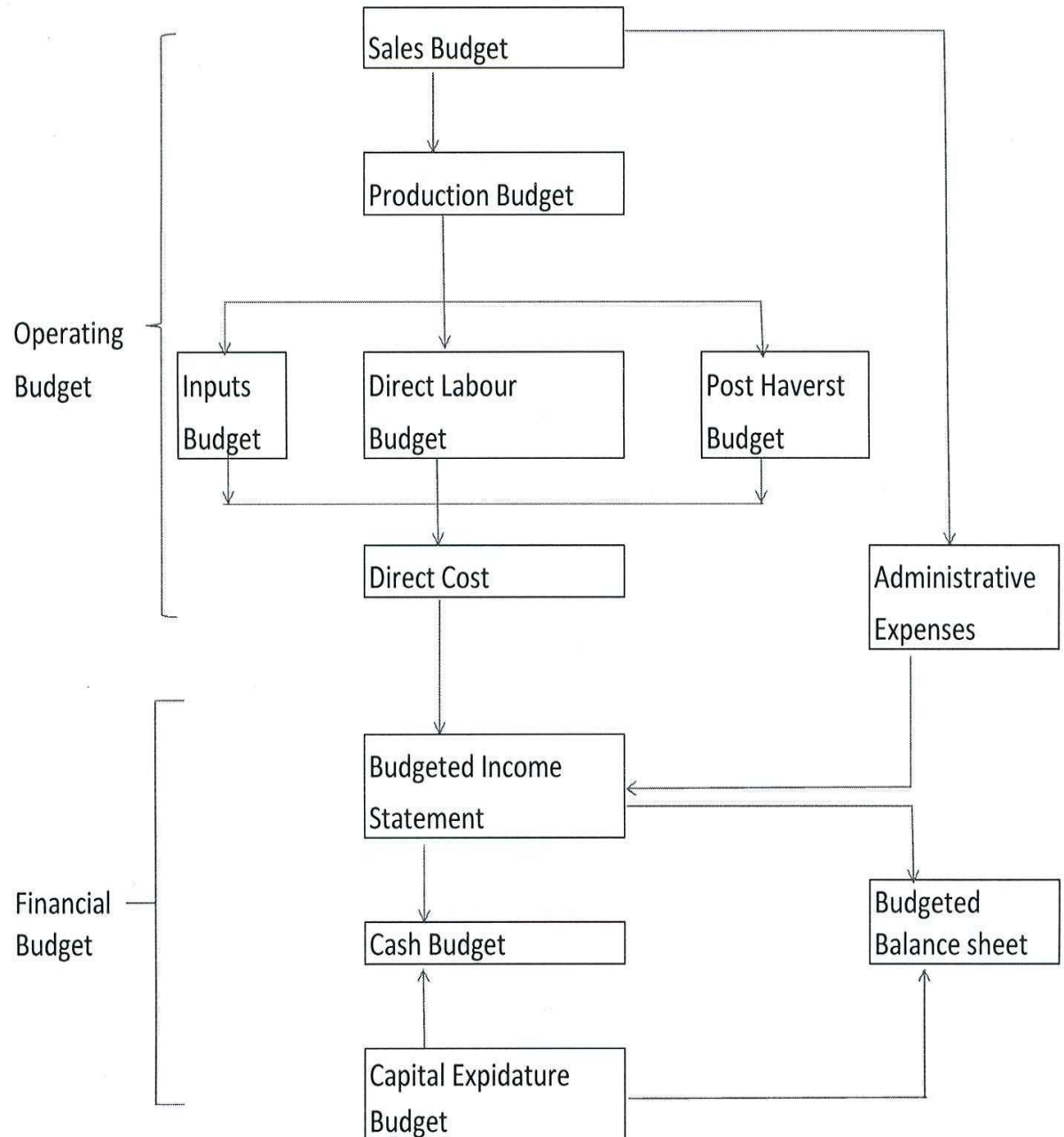
A budget is defined as a managements' quantitative expression of plans for a forthcoming period. Budgets are prepared at various levels of an organization.

- A Master budget is defined as the overall financial plan for the period, which reflects the organization goals and objectives. The master budget includes operating and financial Budgets.

Defination Cont'd

Operating Budgets show the company's planned sales and operating expenses. Financial Budget reflects financial plans such as borrowing, leasing and cash management.

Preparation of a Master Budget for a Agricultural Organization



Why Budget?

- Budgets are used to
 - Communicate information
 - Coordinate activities and resource usage
 - Motivate employees
 - Evaluate performance
 - Manage and account for cash
 - Establish minimum levels of cash receipts and expenditures

Why Budget? (cont'd)

- Plans of action based on forecasted transactions, activities, and events
- Are synonymous with managing an organization
 - Essential to accomplishing goals in the strategic plan

Key steps in budget preparation

1. Identify the elements of a master budget in the Agricultural sector and the guidelines for preparing budgets.
2. Prepare the operating budgets that support the financial budgets

Key steps in budget preparation

3. Prepare a budgeted income statement, a cash budget, and a budgeted balance sheet.
4. Describe management's role in budget implementation.

Basis of Budgeting

1. Long term goals (Strategic planning)
 - Process by which management establishes an organization's long-term goals
 - This also defines the strategic direction an organization will take over a five- to ten-year period.
2. Short-term goals are the basis of an organization's operating budgets for the year

The Budget Process

This involves 4 processes

- Planning
- Executing
- Reporting
- Reviewing

Budgeting and the Management Cycle

- Planning
 - Budgeting
 - Originates in this stage
 - Helps managers to
 - Relate the organization's long-term goals to its short-term activities
 - Distribute resources and workloads
 - Communicate responsibilities
 - Select performance measures
 - Set goals for bonuses and rewards

Budgeting and the Management Cycle

- Executing
 - Budgeting helps managers to
 - Communicate expectations
 - Measure performance and motivate employees
 - Coordinate activities and allot resources

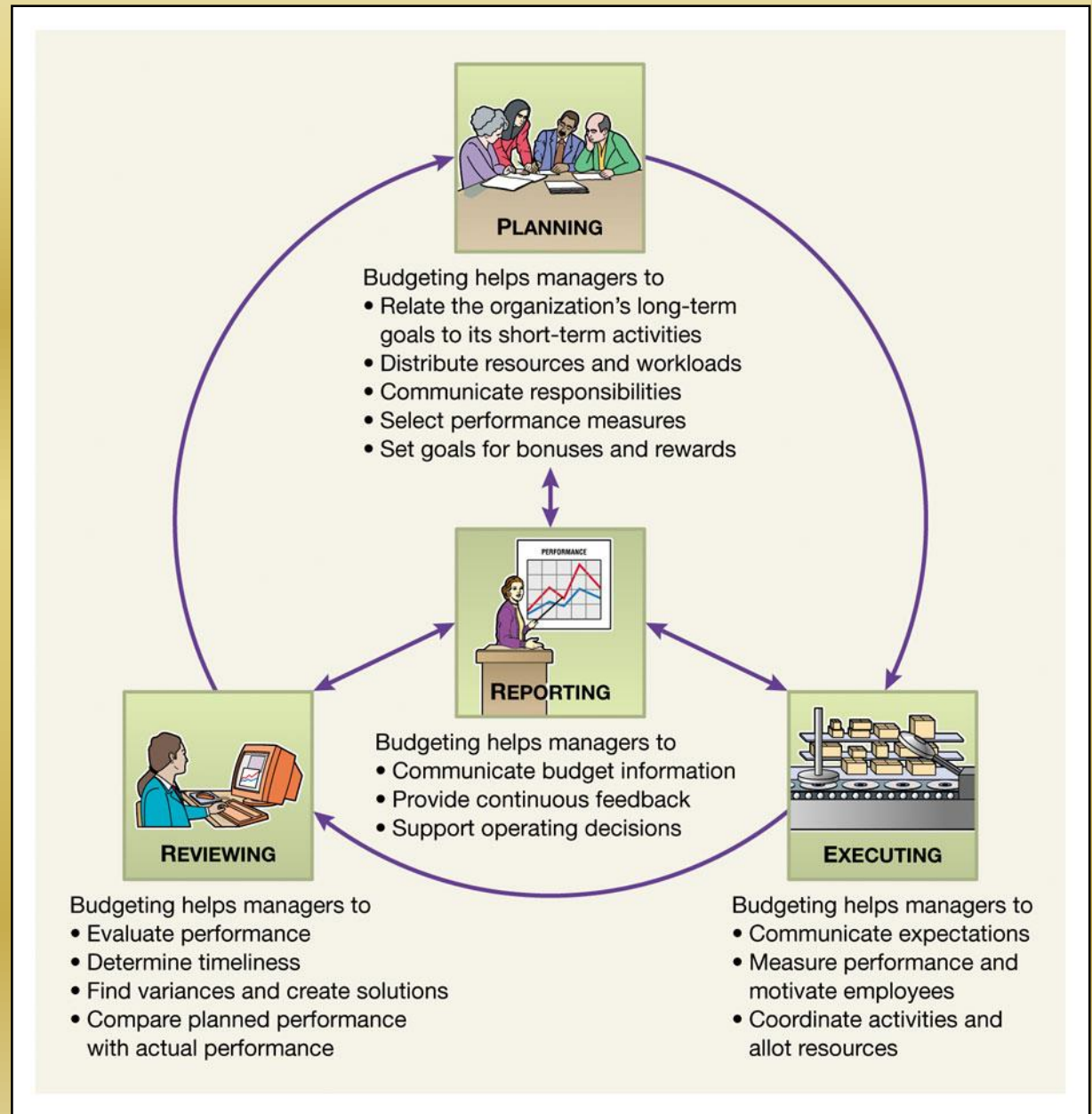
Budgeting and the Management Cycle

- Reporting
 - Budgeting helps managers to
 - Communicate budget information
 - Provide continuous feedback
 - Support operating decisions

Budgeting and the Management Cycle

- Reviewing
 - Budgeting helps managers to
 - Evaluate performance
 - Determine timeliness
 - Find variances and create solutions
 - Compare planned performance with actual performance

Budgeting and the Management Cycle



Effective Budgeting

Because of the complexity of business and business problems and movement towards decentralization in large enterprises, increased attention is being given to better planning and control techniques. Corporate restructuring has resulted in a trend toward placing responsibility for budgeting at higher levels of the organization.

Effective budgeting

This has risen to the formation of budget committee composed of representative from most operating areas.

Responsibility in budget preparation is also now a key factor.

Companies have designed budget reports based on all levels of supervision to control their operations and their costs.

Phases of Budgeting

1. Preparation of operating programs
2. Preparation of financial programs
3. Translation of budgets
4. Consolidation
5. Management Review
6. Adjustments
7. Approval and Publication

		XYZ LIMITED Master Budget				
		For the year 2012				
		Jan-12	Feb-12	Mar-12	Apr-12	2012 BUDGET
Produce						-
Market A		9,600	7,000	6,000	5,000	27,600
Market D		3,000	3,000	3,500	3,500	13,000
Total Stems		12,600	10,000	9,500	8,500	40,600
PRICE PER STEM						
FLOWERS SALES						
	Expected Average price per m	0.20	0.25	0.20	0.15	0.20
	Gross sales in Euros	€1,920.00	€1,750.00	€1,200.00	€750.00	€5,620.00
LESS FREIGHT, COMMS & FLW HANDLING In Euros						
	AIR FREIGHT in Euros cost pe	€700.00	€700.00	€750.00	€320.00	€2,470.00
	Commission & Handling exp. l	€300.00	€300.00	€350.00	€100.00	€1,050.00
		€1,000.00	€1,000.00	€1,100.00	€420.00	€3,520.00
	Total Net Sales in Euros	€920.00	€750.00	€100.00	€330.00	€2,100.00
	Total Net Sales in KShs	101,200.00	82,500.00	11,000.00	36,300.00	231,000.00
OTHER INCOME		2,000.00	2,000.00	2,000.00	2,000.00	8,000.00
Total Income		103,200.00	84,500.00	13,000.00	38,300.00	239,000.00
Expense						
Direct Costs						
	CHEMICALS	5,000.00	5,000.00	5,000.00	5,000.00	20,000.00
	FERTILISERS	3,000.00	3,000.00	3,000.00	3,000.00	12,000.00
	ELECTRICITY & WATER	1,000.00	1,000.00	1,000.00	1,000.00	4,000.00
	Labour costs	6,000.00	6,000.00	6,000.00	6,000.00	24,000.00
	PACKAGING MATERIALS	1,260.00	1,000.00	950.00	850.00	4,060.00
Total Direct Costs		16,260.00	16,000.00	15,950.00	15,850.00	64,060.00
Administration & Establishment						
	Admin & Management Salaries/r	2,000.00	2,000.00	2,000.00	2,000.00	8,000.00
	OFFICE & GENERAL/EXH EXP	500.00	500.00	500.00	500.00	2,000.00
	INSURANCE	300.00	300.00	300.00	300.00	1,200.00
	SUBSCRIPTION & DONATION	250.00	250.00	250.00	250.00	1,000.00
	TELEPHONE, POSTAGE & E-M	400.00	400.00	400.00	400.00	1,600.00
	TRAVELLING & ACCOMODATK	300.00	300.00	300.00	300.00	1,200.00
Total Administration & Establishr		3,750.00	3,750.00	3,750.00	3,750.00	15,000.00

FINANCIAL CHARGES							
	INTEREST O.D.		150.00	150.00	150.00	150.00	600.00
	INTEREST ON Loan		150.00	150.00	150.00	150.00	600.00
Total FINANCIAL CHARGES			300.00	300.00	300.00	300.00	1,200.00
DEPRECIATION & AMORTISATION							
	DEPRECIATION		0.00	0.00	700.00	0.00	700.00
	Amortisation Of Land		0.00	0.00	50.00	0.00	50.00
	Provison for Obsolete stocks		0.00	0.00	0.00	0.00	0.00
	(Gain) / Loss in Value of flws		0.00	0.00	1,000.00	0.00	1,000.00
			0.00	0.00	1,750.00	0.00	1,750.00
Total Expense			20,310.00	20,050.00	21,750.00	19,900.00	82,010.00
Net Income			82,890.00	64,450.00	-8,750.00	18,400.00	156,990.00
ADD BACK DEPRECIATION & Loss/gain in value of Biological assets							1,750
ADDITIONS TO FIXED ASSETS							-
	BUILDINGS AND FARM WORKS		2,000				2,000
	GREEN HOUSE	2,000					2,000
	IRRIGATION				7,000	1,500	8,500
	MACHINERY AND EQUIPMENT	100					100
	VEHICLES		2,000	10,000			12,000
	TROUGHS AND STANDS(Replanting costs)					8,000	8,000
	FURNITURE AND COMPUTERS		50				50
TOTAL ADDITIONS TO FIXED ASSETS			2,100	4,050	17,000	9,500	32,650
REPAYMENT OF LOANS			750	750	750	750	3,000
INCREASE/ (DECREASE) IN WOF			80,040	59,650	(26,500)	8,150	123,090
TOTAL PROFIT PER Unit			6.58	6.45	(0.92)	2.16	3.87

Budgetary Slack

1. Performance objectives set during budgeting process could lead to conflicts between personal and organisation goals
2. Managers tend to formulate budgets that can be achieved readily to meet top management's expectations
3. Fixed expenses are at times cut back quickly if business conditions change.

Budgetary Slack

4. Slack within companies tend to grow in good years

Cash flow

A *cash flow statement* is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a *cash flow budget*. You can think of a cash flow budget as a projection of the future deposits and withdrawals to your checking account.

Cash flow Cont'd

A cash flow is not only concerned with the amount of the cash flows but also the timing of the flows. Many cash flows are constructed with multiple time periods. For example, it may list monthly cash inflows and outflows over a year's time. It not only projects the cash balance remaining at the end of the year but also the cash balance for each month

Reasons for Creating Cashflow Budget

- Think of cash as the ingredient that makes the business operate smoothly just as grease is the ingredient that makes a machine function smoothly. Without adequate cash a business cannot function because many of the transactions require cash to complete them.

Reasons for Creating Cashflow Budget

Cont'd

- By creating a cash flow budget you can project your sources and applications of funds for the upcoming time periods. You will identify any cash deficit periods in advance so you can take corrective actions now to alleviate the deficit. This may involve shifting the timing of certain transactions. It may also determine when money will be borrowed. If borrowing is involved, it will also determine the amount of cash that needs to be borrowed.

Reasons for Creating Cashflow Budget

Cont'd

- Periods of excess cash can also be identified. This information can be used to direct excess cash into interest bearing assets where additional revenue can be generated or to scheduled loan payments.

Reasons for Creating Cashflow Budget Cont'd

- By analysing a cashflow budget, you will create a variety of ratios that can be used to assess the financial health of a business. These ratios, created from the cash-flow budget, can be compared with industry benchmarks.

A cashflow is not profitability

People often mistakenly believe that a cash flow statement will show the profitability of a business or project. Although closely related, cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows *liquidity* while an income statement shows *profitability*.

Question & Answers

The end...

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