

Basic Financial Planning and Management

Key Concepts

ALWAYS Spend < Earn (unless you are building something that will bring you greater earnings in the future, and you have credit)
Put money aside to invest in maintenance, upgrades & training.
Identify your organization's priorities and make sure to pay them well, and on time.

There are 5 main financial documents

Budgets are forward looking and make reasonable assumptions of future revenues and expenses. When you put one together, it's good to present a few scenarios - a base or normal budget, upside and downside scenarios - along with your assumptions for each scenario and basic ideas on how you might manage if things go better or worse than planned. The Senior Management and Board will review and approve the budget and assumption each year; it will be good to review the budget-to-actual comparison every quarter (Program Managers should review monthly, or, in some cases, more frequently). The budget-to-actual helps you make sure you're staying on track with monthly expenditures and revenues, and the budget scenarios will have prepared the Board and/or Senior management for discussing and changing management practices, if you're not. Of course, if you're not staying on track with the budget, you need to dig into and explain the reasons in your Board report.

The other financial documents take different snapshots of what has already happened. The "analyzing the past" reports include the **income statement** (revenues and expenses, like the budget), **statement of cash flow** (operating, financing and investing cash flows), **balance sheet** (your assets and liabilities), and **owner's equity** (essentially, analysis of profit).

Creating a Budget

Identify your major cost & revenue categories.

Make a budget each year using those categories, some possible ones are listed below.

Remember, budget is forward looking; a researched estimate, and the line items mirror how you accomplish your company or organization's goals.

Below is a simple example of some financial categories you might manage; personalize it to your company, by adding and subtracting categories. This can be "pure" forecast (with reasonable assumptions, listed below your spreadsheet), or can state last year's performance, this year's and next year's expected performance. Your accountant will put together something conceptually similar, and tailored to your company and industry.

Major Cost Categories might include the following

- Salaries (Executive + workers)
- Professional Fees & Contracts (accountant, lawyer, consultants, & trainers)
- Cost of Goods Sold
- Supplies
- Utilities
- Telecommunications
- Postage & Shipping
- Occupancy
- Outside Printing
- Local Transportation
- Conferences, Meetings & Travel
- Staff Literature & Library
- Equipment Maintenance & Rental
- Membership Dues
- maintenance & extraordinary exp
- Lease holds
- Interest expense
- Miscellaneous
- Other line items particular to your business

Major Revenue Sources could include the following

- Product line A direct sales
- Product line A sales through distributor
- Product line B direct sales
- Product line B sales through distributor
- Licensing fees earned
- Government grants ¹
- Interest and Dividends
- Miscellaneous
- Others particular to your business model
- Foundation grants ¹
- Other donations ¹

If you are putting together a business plan, you will need to provide a forecast of your projected costs, sales and profits. This is a simple example of what you might include if you are starting a Turkish coffee importing business.

FINANCIAL FORECAST (Profit & Loss Statement)	Y1	Y2	Y3
Total Revenues			
through distributors			
through online			
through direct sales			
Cost of Goods Sold			
Coffee & Cardamom			
Packaging material			
other production expense			
Gross Profit (Loss)			
Revenues - COGS			
Selling General and Admin Expenses			
Depreciation & Amortization			
Other Operating Expenses			
Total Operating Expenses			
Operating Income			
Interest expense			
Interest & Investment Income			
Income (loss) on Equity Investments			
Currency exchange Gains (loss)			
Earnings before taxes			
Income tax expense			
Net Income			

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¹ If you are running a non-profit organization, you will have revenue from grants and donations; and no owner's equity, because all "profit" goes back into providing your services. Check out our Glocal Brief™ on Financial Management for Non Profits.