



Incubation Hub

CENTRE FOR CIVIC ENGAGEMENT

Financial Management 101

Definition

Financial management is the strategic practice of establishing, controlling, and monitoring all financial resources to achieve an organisations goals.



Significance of financial management

Effective nonprofit financial management ensures the going concern/sustainability of the organisation which means that the organisation can:

- ❖ achieves its financial goals
- ❖ make informed and timely decisions
- ❖ maintain transparency and accountability
- ❖ manage risk
- ❖ be compliant with applicable laws, regulations and financial reporting requirements

thereby continue its operations in the foreseeable future.

Significance of financial management

Consider developing a Financial management plan which clearly sets out the procedures, techniques, tools and timeframes that will be used by the organisation.

Elements of a sound financial plan include:

❖ **Forecasting**

Predicting future financial outcomes by using current trends, historical data and assumptions to identify potential challenges or opportunities. A nonprofit organisation can forecast revenue and expenditure.

❖ **Cashflow statement**

This is a financial statement that shows a summary of cash inflows (*funds received*) and outflows (*expenditure*) over a monthly, quarterly or annual period.

Significance of financial management

Cashflow statement

	Period Beginning	1/1/24	2/1/24	3/1/24	4/1/24	5/1/24	6/1/24	7/1/24	8/1/24	9/1/24	10/1/24	11/1/24	12/1/24
	Period Ending	1/31/24	2/29/24	3/31/24	4/30/24	5/31/24	6/30/24	7/31/24	8/31/24	9/30/24	10/31/24	11/30/24	12/31/24
Cash at Beginning of Period	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash at End of Period	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operations													
Cash receipts from Support													
Grants Secured	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants Anticipated	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Individual Giving	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash paid for													
Inventory purchases	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General operating and admin expenses	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Cash Flow from Operations	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investing Activities													
Cash receipts from													
Sale of property and equipment	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash paid for													
Purchase of property and equipment	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Cash Flow from Investing Activities	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Financing Activities													
Cash receipts from													
Borrowing	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash paid for													
Repayment of loans	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Cash Flow from Financing Activities	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Significance of financial management

❖ Statement of Comprehensive Income

This is a financial statement that shows the profit or losses of an organisation at the end of an accounting period and includes taxes and interests.

Income	2024	2023
Grant Income	\$ -	\$ -
Service Income	\$ -	\$ -
Interest revenue	\$ -	\$ -
Other Income	\$ -	\$ -
Net Revenue	\$ -	\$ -
Expenses		
Rent	\$ -	\$ -
Utilities	\$ -	\$ -
Salaries and Wages	\$ -	\$ -
Other	\$ -	\$ -
Total Expenses	\$ -	\$ -
Net Income Before Taxes	\$ -	\$ -
Income tax expense	\$ -	\$ -
Income from Continuing Operations	\$ -	\$ -
Other comprehensive income		
Income from discontinued operations	\$ -	\$ -
Effect of accounting changes	\$ -	\$ -
Extraordinary items	\$ -	\$ -
Net Income	\$ -	\$ -

Significance of financial management

❖ Statement of Financial Position

This is a financial statement that shows a summary of an organisation's assets, liabilities and equity at the end of an accounting period.

Assets		2024	2023
<i>Current Assets</i>			
Cash and cash equivalents	\$	-	\$ -
Accounts receivables	\$	-	\$ -
Inventory	\$	-	\$ -
Prepaid expenses	\$	-	\$ -
<i>Total current assets</i>	\$	-	\$ -
<i>Fixed Assets</i>			
Property, plant, and equipment	\$	-	\$ -
Intangible assets	\$	-	\$ -
<i>Total fixed assets</i>	\$	-	\$ -
Total Assets	\$	-	\$ -
Liabilities and Owner's Equity			
<i>Current Liabilities</i>			
Accounts payable	\$	-	\$ -
Short-term loans (within 12months)	\$	-	\$ -
Income taxes payable	\$	-	\$ -
<i>Total current liabilities</i>	\$	-	\$ -
<i>Long-Term Liabilities</i>			
Long-term debt (over 12 months)	\$	-	\$ -
<i>Total long-term liabilities</i>	\$	-	\$ -
<i>Owner's Equity</i>			
Owner's investment	\$	-	\$ -
<i>Total owner's equity</i>	\$	-	\$ -
Total Liabilities and Owner's Equity	\$	-	\$ -

Significance of financial management

Financial ratios that interpret your financial information

Ratios are created from values taken from the financial statements to gain meaningful information about a company. For example, a debt-to-equity (D/E) or (Total liabilities/Total assets) ratio is used to show how much debt an organisation has compared to its assets.

Debt ratio

Total Liabilities

Total Assets

A debt ratio greater than 1.00 means the company has more debts than assets therefore is risky to lend funds to.

Financial management best practices

“Best practices” are procedures or methods that have been tried and tested and proven to be ideal in achieving results.

❖ Fundraising and donor management

- Diversifying funding/multiple revenue streams
- Build donor relations and trust through transparency and accountability, donor recognition and participation
- Set up bank accounts in the organisation name to account for donor funds

❖ Accounting

- Preparation of monthly financial reports and analysis. This is collecting, presenting and interpreting financial information in an accounting period to help management and stakeholders in decision-making. Financial reports will include a statement of comprehensive income, a statement of financial position and a cash flow statement

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Financial management best practices

❖ Compliance

- complying with all legal, regulatory and financial reporting requirements
- complying with any obligations made to stakeholders and other organisations
- setting up key policies for guidance such as a financial policy and a conflict-of-interest policy

❖ Key roles and responsibilities

- develop an organogram to show clearly clear roles for staff and board
- segregation of duties
- approval levels