

Topic 3 - Financial Reports

Introduction

This topic looks at financial reports and will involve having a close look at:

- how financial reports are set out - the structure of the report; and
- how amounts are calculated (worked out).

The topic will then look at the process of monitoring and reviewing budgets. Sometimes it is necessary to adjust a budget, particularly when an amount provided in the budget is too small.

No two programs will have financial reports that are exactly the same. As stated in the last topic, the items that a retail store will receive and pay money for are different to the items needed for a training program or a tree planting program. In addition to this, some programs, such as the training program and the tree planting program, may not receive any income apart from the grant funds.

It is important to understand what information is required by the funding agency and to ensure that this information is supplied.

Information included in financial reports

A program must supply all of the information required by the funding agency. This information will be outlined in the funding agencies funding guidelines.

Income and expenditure statement

Normally a funding agency would require an Income and Expenditure Statement showing:

- income from Grant Funds, surplus/unexpected funds brought forward and project-generated income;
- expenses, split into: recurrent salaries and other expenses;
- a schedule of assets purchased during the year;
- a detailed list of debtors and creditors;
- a copy of the most recent bank statement; and
- a reconciliation statement showing the cash position for the programme.

An Income and Expenditure Statement for a simple service program might look like the example below.

The statement is in US Dollars.

ABC Community Health Program

July 2008 to June 2009

Income and Expenditure Statement

for the period ended 31st December 2008

Income	Approved Budget	This Qtr¹	Year to Date²
	\$	\$	\$
Grants 50 000	5 000	40 000	
Project-generated	10 000	3 000	4 700
Interest	300	175	291
Total Income	60 300	8 175	44 991
Expenditure	Approved Budget	This Qtr	Year to Date
Less Expenses			
Wages	17 200	4 301	8 653
Insurance	1 100	0	1 100
Office Expenses	5 600	1 005	2 205
Travel costs	6 400	1 658	2 956
Total Expenses	30 300	6 964	14 914
Less Assets Purchased	30 000	0	30 000
Total Expenditure	60 300	6 964	44 914
Surplus / (Deficit)	0	1 211	77

¹ The amount received during this quarter

² The amount received during all the quarters, so far this financial year.

When looking at the statement, carefully notice:

- The period that the statement covers.
- The 3 columns of numbers, which are:
 - the approved budget
 - this quarter
 - the year to date
- That the income section shows all the income that the program receives
- That the expenditure section is divided into the Expenses and the Assets Purchased
 - the expenses section identifies all the day to day running costs of the program
 - the assets section identifies all the assets that have been purchased by the program in the current financial year.

Surplus/(Deficit) is calculated using the following equation:

$$\text{Surplus/(Deficit)} = \text{Total Income} - \text{Total Expenditure}$$

If Total Income is more than Total Expenditure there is a **surplus**.

If Total Expenditure is more than Total Income there is a **deficit**.



Self testing activity 3.1

If your total income is 33 440 Thai Baht and your total expenditure is 33 880 Thai Baht, would you have a surplus or deficit?

The columns in a financial report

The 3 columns in the report are:

- The **Approved Budget** column which shows the figures for the budget for the whole year - this is what the organisation is expecting to receive and spend
- The **This Qtr** column which shows the actual amount of money received for income and the actual amount of money spent on expenses and assets for the current quarter (i.e. the quarter just finished).
- The **Year to Date** column which shows the amount of money received for income and the amount of money spent on expenses and assets for the year so far.

Have a look at the figures in the 3 columns. They are quite different.

E.g.: The figures for Grants are \$50,000, \$5,000 and \$40,000.

Why are they so different? Because the figures in the approved budget column relate to the whole year. In other words, the \$50,000 is the amount of grant money that the program will get for the whole year. This amount is made up of \$30,000 to buy assets and \$5,000 per quarter for recurrent expenses.

In this example, the money set aside to buy assets is received at the beginning of the program. This will enable the program to purchase all the required assets straight away. Assets, such as computers and cars, are usually needed at the beginning of a program, not half way through.

The money for recurrent expenses is generally received once a quarter. **A quarter is a period of three months.** A year is 12 months; a quarter of a year is three months.

The \$50,000, in the example, has been granted for asset purchases (\$30,000) and recurrent expenses (\$20,000).

In the example, the recurrent expenses grant is divided by 4 and paid at the beginning of each quarter. That means that the program receives \$5,000 each quarter.

Now we can see why the figures of \$50,000, \$5,000 and \$40,000 are in those columns.

The \$5,000 in the This Qtr column is the grant money for recurrent expenses for the quarter.

The \$40,000 in the Year to Date column is the total grant money received from 1st July to 31st December. It is made up of \$30,000 to buy assets and \$10,000 for recurrent expenses.



Self testing activity 3.2

- a) Explain what period the column titled 'This Qtr' refers to.
- b) Explain what period the column titled 'Year to Date' refers to.



Self testing activity 3.3

A program is provided a grant of 520 000 Thai Baht to cover recurrent expenses for the whole year. If the grant will be paid in 4 equal amounts at the beginning of each quarter:

- a. How much will the program receive each quarter?
- b. How much, in total, will the program have received by the end of the second quarter?
- c. How much will the program have received by the end of the 3rd quarter?

Now look at the wages figures.

	Approved Budget	This Qtr	Year to Date
Wages	17,200	4,301	8,653

The figure in the Year to Date column is about half the figure in the Approved Budget column. Why? This is because the \$17,200 is the expected wages bill for the whole year. The program has only been running for half a year, so only half the wages have been paid.



Self testing activity 3.4

Look at the income and expenditure statement below and then try to answer the questions a) to d) that follow

ABC Community Health Program July 2008 – June 2009
Income and Expenditure Statement
for the period ended 31st December, 2008

	Approved Budget	This Qtr	Year to Date
	\$	\$	\$
Income			
Grants	50 000	5 000	40 000
Project-generated	10 000	3 000	4 700
Interest	300	175	291
Total Income	60 300	8 175	44 991
Expenditure			
less Expenses			
Wages	17 200	4 301	8 653
Insurance	1 100	0	1 100
Office Expenses	5 600	1 005	2 205
Motor vehicle Expenses	6 400	1 658	2 956
Total Expenses	30 300	6 964	14 914
less Assets Purchased	30 000	0	30 000
Total Expenditure	60 300	6 964	44 914
Surplus/(Deficit)	0	1 211	77

- a) Look at the line for wages. Explain why the figure of \$4 301 in the This Qtr column is about half the figure in the Year to Date column.
- b) Explain why the figure for insurance in the This Qtr column is 0.
- c) Do you think that the spending in the Office Expenses category is too high? Explain your answer.
- d) Explain whether or not the total spending on expenses is within budget and why.

Major line headings

The major line headings in financial documents include:

- Income
- Expenses
- Asset Purchases

Income

The largest source of income for a community program will usually be the grant money that is allocated to the program by the funding body.

However, programs may also have some project-generated income. For example; you might receive income from sales, service charges, and fund-raising activities.

Expenses

These are the day to day running costs of the program. They include salaries and wages, electricity, phone, insurance and so on.

Asset purchases

Program managers must make sure that they record all the assets that the program will need to purchase and that they know what rules apply to getting quotes or calling tenders.

When do we report?

The time that reporting actually takes place, will depend on who the program manager is reporting to.

External reporting

External reporting occurs when the program manager reports to anyone outside the program. Program managers generally report to funding agencies that require regular reports - monthly or quarterly or any other

period agreed to by the program manager and the funding agency.

The funding agency is responsible for the money which has been granted or provided. Therefore, they must ensure that the money is well spent and in the manner which was agreed to in the funding application. The funding agency is able to monitor the program's financial situation using the reports you provide.



Self testing activity 3.5

Explain why funding agencies would require program managers to report on a regular basis.

Internal reporting

Internal reporting occurs when program managers report to the community representatives or advisory board who have responsibility for the program. Internal reporting should occur regularly, at least as often as the reports to the funding agency. In fact, there should be a meeting of these representatives at least once a month to review the financial position of the program.

Internal reports are provided for the same reason as external reports. It is part of the financial monitoring process. By providing internal reports everyone involved in the program is kept up to date with the financial situation. As a result, if problems occur they can be identified and dealt with before they seriously affect the program.

Looking at the financial position of a program is called **financial monitoring**.



Self testing activity 3.6

Look at the following third quarter figures for the ABC Community Health Program (Self-testing activity 3.4) and prepare an Income and Expenditure Statement.

Income:	\$
Grants	6 000
Project generated	2 000
Interest	100
Expenses:	
Wages	5 200
Insurance	0
Office expenses	2 725
Motor Vehicle expenses	1 525

Monitoring and reviewing budgets

When managers monitor the progress of a program they need something to compare with. Generally, the YTD (Year to Date) figures are compared with the budget and the This Qtr figures are compared with the budget. This is not always straight forward because budgets are not always developed on a monthly basis. Often there is only an annual budget - it is not split into months or quarters.

Here is a simple procedure for monitoring the budget.

Quarterly figures

1. Examine the quarterly figures. The quarterly income and expenses should be about 25 % of the budget.

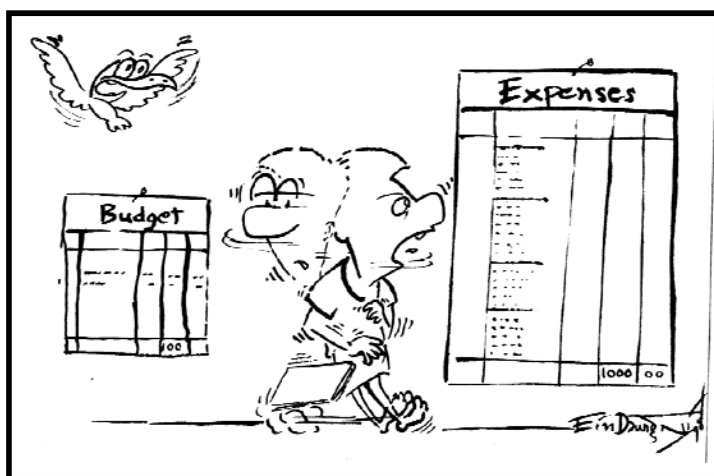
Here is an example of how to calculate the percentage.

In the example used in self-testing 3.4 and 3.5 the statement shows that the amount approved for office expenses is \$5,600. The amount for the quarter should be no more than 25% of this amount.

$$\$5,600 \div 4 (25\%) = 1,400.$$

The accounts shows that \$1,005 has been spent meaning that the program is well within budget **for this quarter**, in regards to office expenses.

2. If the quarterly figures are over or under budget you must find out the reasons why.
3. There are a number of strategies for keeping the budget on track, such as:
 - constantly reviewing the figures;
 - carefully planning income and expenditure so that you can adjust the budget accordingly; and
 - planning a spread of expenses throughout the year so that they do not all occur in one quarter.



Year to date figures

The Year to Date figures can also be used to monitor the budget.

E.g.: If you are in the second quarter for the year, the year to date figures should be approximately 50% of the approved budget figures.

Here is an example of how to calculate the figures. You can see from the example on the following page that travel expenses for the year should be

\$6,400. We are half way through the financial year so approximately 50% of that amount should have been spent.

$$\text{\$ } 6,400 \div 2 \text{ (50\%)} = \text{\$ } 3,200$$

Actually, \$2,956 has been spent, so the program is well within budget so far in regards to travel expenses.

Have a look at this initial service program statement as an example.

ABC Community Service Program
Income and Expenditure Statement
July 2008 – June 2009
for the period ended 31st December, 2008

	Approved	This	Year to
Income	Budget	Qtr	Date
Grants	50 000	5 000	40 000
Project-generated	10 000	3 000	4 700
Interest	300	175	291
Total Income	60 300	8 175	44 991
Expenditure			
Less Expenses			
Wages	17 200	4 301	8 653
Insurance	1 100	0	1 100
Office Expenses	5 600	1 005	2 205
Travel Expenses	6 400	1 658	2 956
Total Expenses	30 300	6 964	14 914
Less Assets Purchased	30 000	0	30 000
Total Expenditure	60 300	6 964	44 914
Surplus/(Deficit)	0	1 211	77

Look at the project-generated income figures.

The YTD figure is \$4,700. This is less than half of the budget figure. Is this a problem?

To find out, look at the This Qtr figure. It is \$3,000. This means that most of the income has been received since 1st October. Most businesses take a while to get going, so probably people expected sales to be a bit slow to start with. More sales were made in this quarter than in the first quarter so it might be expected that sales will keep improving or at least stay the same as this quarter.

What about the insurance figures? Why was all the money spent in the 1st quarter? It was spent because all the assets were purchased at the beginning of the program. The assets need to be insured straight away. If the program is not going to buy any more assets, there will be no need for any more insurance. So, this looks okay too.

A case study - financial management for a small business

Now let's look at when things go wrong. Things go wrong in a big way if a program can't pay its bills on time. This usually occurs as a result of two things:

1. **The income that the program actually receives is less than the amount predicted in the budget.** The program manager knows how much the program will receive from grants before the program starts. Therefore, this problem is most likely to occur if the program does not get the income from sales that it expects. Another reason might be that a program budgeted for money from fund-raising activities and the money raised from these activities is less than expected in the budget.
2. **Expenditure is over-budget.** This is most likely to happen because spending on recurrent items is too high. For instance the phone bill might be \$5,700 (budget figure \$3,500). This might occur if more long-distance phone calls were made than expected.



Self testing activity 3.7

Expenditure is made up of money spent on assets and money spent on recurrent expenses. Explain why the money used to buy assets is less likely to be over-spent than recurrent expenses.

If the financial position of the program is properly monitored, the manager shouldn't have to worry about not being able to pay the bills. However, it is likely that adjustments will have to be made to the budget, because the spending on one or more items is greater than allowed for in the budget.

We will look at an example of a small printing business. Once again the figures are in US Dollars

Prompt Printers
Income and Expenditure Statement
For the period ended, 31st December, 2009

	Approved	This Qtr	Year to date
Grant			
Capital	34,782		34,782
		-	
Recurrent Wages	42,060	10,515	21,030
Other Recurrent Expenses	12,960	3,240	6,480

Total Income from Grants 89,802 13,755 62,292

**Project-generated
receipts**

Printing jobs 49,400 14,569 26,792

**Expenditure
Expenses**

Recurrent Salaries

Salary – Manager 25,000 6,250 12,500

Wages – Other 17,060 4,355 8,703

Other Recurrent

Paper Stock 40,070 10,325 22,695

Ink 600 - 625

Deliveries 3,400 723 1,994

Advertising 510 110 254

Bank Charges 50 7 15

Electricity 5,200 1,850 2,904

Water 820 290 389

Insurance 2,980 - 3,014

Maintenance - Fixtures 560 190 356

Maintenance - Equipment 1,100 215 215

Postage 150 26 45

Rent 4,000 1,000 2,000

Stationery 620 230 572

Telephone 2,300 897 1,485

Total Payments 104,420 26,468 57,766

Schedule of Assets

Printing press	25,660	-	25,650
Computer	4,585	-	4,426
Printer	890	-	875
Work Bench	460	-	452
Shelving	680	-	680
Drawing equipment	895	-	895
Camera	923	-	923
Office Desk	274	-	274
Office chair	190	-	190
Filing cabinet	225	-	225
Total Capital Payments	34,782	-	34,590

Income

Grants	89,802	13,755	62,292
Project-generated	49,400	14,569	26,792
Total Income	139,202	28,324	89,084
Less Total Expenses	104,420	26,468	57,766
Less Assets Purchased	34,782	-	34,590
Surplus/(Deficit)	-	1,856	(3,272)

Debtors	
Total Debtors	Nil

Creditors	
	856
Electricity Authority	
Perfect Equipment	720
Maintenance Company	
Black Ink	254
Peacock Paper	2,479
Total Creditors	4,309

Important information

There are a number of things to note from the example:

1. The statement is an Income and Expenditure Statement showing figures for This Quarter, the Year to Date (YTD) and the Approved Budget.
It is not always necessary to include a column showing the difference between the Approved Budget and the Year to Date figures. Where the statement is used for internal reporting however, a column showing this figure is very helpful.
2. Income shows the Grant Funds and the project-generated income.
3. Expenses shows the items of expense under the headings:
Recurrent Salaries and other Recurrent Costs.
4. There is a schedule of the assets which have been purchased during the year. The cost of these assets is compared with the Approved Budget.
5. There is a detailed list of creditors. It is necessary to show a detailed list of debtors. However, this business has insisted that its customers pay cash so there are no debtors.
6. There is a reconciliation statement showing the cash position of the project.

7. A copy of the most recent bank statement must be included with the statement so that the information can be checked.

Although this example is more complicated than the one we looked at before, the information it contains is the same.

Note the section showing surplus /(deficit).

Here it is again.

	Approved Budget	This Qtr	Year to Date
Income			
Grants	89,802	13,755	62,292
Project-generated	49,400	14,569	26,792
Total Income	139,202	28,324	89,084
less Total Expenses	104,420	26,468	57,766
less Assets Purchased	34,782	-	34,590
Surplus /(Deficit)	-	1,856	(3,272)

You could call this the summary of the statement. You can see that the Year to Date column shows a deficit of \$3,272 and the This Qtr column shows a surplus of \$1,856.

Is this a problem? The deficit is a worry! There are lots of possible reasons for the deficit. It is good to see that the current quarter is in surplus. Perhaps it just took a little while for the sales (printing orders) to reach the target.

Any financial statement must be looked at carefully. Remember, the figures for the quarter for expenses and project-generated income should be about 25% of the budget figures. In addition, the Year to Date figures

should be about 50% of the budget figures because the statement is for half the year.

Grants

The capital grant money for the business has been spent.

The grant money for recurrent wages and the other recurrent expenses is being received at the rate of 25% of budget per quarter. This is to be expected.

Project-generated receipts (receipts from printing work)

Half of \$49,400 is \$24,700. The year to date figure is \$26,792.

This means that sales (i.e. income from printing jobs) are more than the budget has estimated. This is a good result. The figure for the quarter is also better than might be expected.

Recurrent salaries

These figures are about on budget and don't appear to be a problem.

Other recurrent expenses

Stock could be a problem. Half of \$40,070 is about \$20,000. The Year to Date stock figure is \$22,695. There is a possibility that the store is over-stocked with paper supplies. This must be carefully monitored

The Year to Date electricity figure is \$2,904. This is well over half the budget figure.

Insurance is okay if the business does not insure anything else during the year.

The Year to Date deliveries figure is well over budget. If \$1,994 is doubled, the amount is \$3,988. The budget figure is \$3,400. This would be nearly \$600 over budget. The thing to notice here is that the current quarter's figure is only \$723, so the manager seems to have tried to reduce delivery costs in the current quarter. The delivery costs need to be monitored.

The Year to Date Maintenance - fixtures are over half the budget figure and

could be a problem. The owner might have under-estimated the cost of maintaining the fittings in the print-shop.

Maintenance on the equipment is well below budget.

The stationery figure is high. This is okay if most of the stationery for the year has already been purchased.

The telephone expense is also high. Half of \$2,300 is \$1,150. The figure in the current quarter is also high so the telephone expense needs to be looked at carefully. This example highlights the fact that monitoring the budget against the actual figures takes time and thought.



Self testing activity 3.8

This activity relates to the Income and Expenditure Statement (below) for an imaginary Youth Study Centre in Thailand (budget in Thai Baht). The centre is funded with a grant from an NGO in, but it also has fund-raising campaigns and earns income from showing video-movies and charging entrance fees. The Centre has its own pick-up (vehicle) to be used for the centre's activities. Study the statement then try to answer the questions that follow.

Youth Study Centre July 200X – June 200Y Income and Expenditure Statement for the period ending 31st March, 200Y

	Approved Budget Baht	This Qtr Baht	Year to Date Baht
INCOME			
NGO Grant			
Capital	446 808	-	446 808
Recurrent Wages	721 080	180 276	540 816
Other Recurrent Expenses	161 520	40 380	121 140
Total Income from grants	1 329 408	220 656	1 108 764
Program-generated receipts			
Fund-raising	60 000	4 584	45 480
Video-Movies entrance fees	88 800	23 832	75 852
Bank Interest	1 260	264	780
Total Receipts from program	150 060	28 680	122 112
TOTAL INCOME	1 479 468	249 336	1 230 876

EXPENDITURE**Expense****Recurrent Salaries**

Salary - Tutor	300 000	75 000	225 000
Wages - Other	421 080	105 528	316 644

Other Recurrent

Advertising	8 640	1 608	6 492
Bank Charges	420	84	300
Electricity	28 320	7 500	20 280
Water	9 840	420	5 904
Insurance	39 480	-	40 200
Maintenance - computer equipment	31 200	8 700	24 072
Maintenance - furniture	18 000	4 344	12 276
Motor vehicle - petrol	24 960	7 620	17 880
Motor vehicle - maintenance	9 000	2 304	5 844
Motor vehicle - registration	3 600	-	3 660
Office expenses	4 800	936	4 356
Postage	1 800	456	1 380
Rent	36 000	9 000	27 000
Rent – video machine and videos	18 720	4 680	14 040
Stationery	31 200	3 720	29 772
Telephone	45 600	12 432	35 976

Total Expenses	1 032 660	244 332	791 076
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Asset Purchases

Motor vehicle	307 920	-	307 800
4 Computers	86 880	-	86 880
Printer	12 240	-	12 240
4 Computer desks	12 120	-	12 096
5 Large tables	4 200	-	4 200
30 Chairs	10 800	-	10 440
Table-tennis table	2 400	-	2 220
Water heater	1 440	-	1 500
Office Desk	3 468	-	3 468
Office chair	2 280	-	2 280
2 Filing cabinets	3 060	-	3 000

Total Asset Purchases	446 808	-	446 124
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TOTAL EXPENDITURE	1 479 468	244 332	1 237 200
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SURPLUS/(DEFICIT)	-	5 004	(6 324)
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Debtors	
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Total Debtors	Nil
Creditors	
Space-Age Computers	12 156
Top Notch Garage	900
Peacock Stationery	3 912
Zap Video Hire	480
Total Creditors	17 448

- a) Explain what the figures in the Approved Budgets column represent.
- b) List the major line headings in this statement.
- c) Name the items within Program-generated receipts.
- d) Explain how the surplus/ (deficit) is calculated.
- e) Comment on the deficit of 6 324 Baht in the Year to Date column.
- f) Comment on the video-movies income.

Variations

The calculation of variations (i.e. differences between what was planned and what has actually occurred) helps to highlight possible financial problem areas within a program.

Variations are calculated against the budget. For this to be done correctly, the budget must be split up into the same periods that are being reported. For example, if every quarter is being reported, the budget must be split into quarters.

Look at the expense figures from the print-shop, with budget figures split into quarters.

	YTD	This	Year to	Variance
	Budget	Quarter	Date	
Expenses				
Recurrent Salaries				
Salary - Manager	12,500	6,250	12,500	-
Wages - Other	8,530	4,355	8,703	(173)
Other Recurrent				
Paper	20,035	10,325	22,695	(2,660)
Stock				
Ink	600	-	625	(25)
Advertising	255	110	254	1
Deliveries	1,700	723	1,994	(294)
Bank Charges	25	7	15	10
Electricity	2,600	1,850	2,904	(304)
Water	410	290	389	21
Insurance	2,980	-	3,014	(34)
Maintenance - Fixtures	280	190	356	(76)
Maintenance –				
Equipment	550	215	215	335
Postage	75	26	45	30
Rent	2,000	1,000	2,000	-
Stationery	550	230	572	(22)
Telephone	1,150	897	1,485	(335)
Total Payments	54,240	26,468	57,766	(3,526)

Notice that the budget column in this example is a Year to Date Budget estimate.

Variances are calculated by subtracting the Year to Date (actual) figure from the YTD Budget (estimated) figure. If the estimated budget year to date figure is more than the actual Year to Date figure, the variance will be positive. This means that, according to the budget, not all the money allocated for this item has been spent.

If the estimated year to date budget figure is less than the actual Year to Date figure, the variance will be negative (in brackets), in other words over-spending compared with estimates.

At this point you could think about why there is a variance.

E.g.: **Income**

Is the actual income in line with the budget?

If the income is in line with the budget is it likely to increase during the rest of the year.

Do any seasonal factors need to be considered?

Similar questions could be asked regarding **expenses**.

The figures must be looked at line by line.

a) Salaries

These look okay, although the YTD wages figure is a bit high.

b) Stock

The variance is negative so there is more stock than planned. This could probably be fixed by not purchasing as much stock in the next quarter.

c) Advertising and bank charges

These are okay

d) Electricity

This figure is negative. This needs to be carefully examined.
Perhaps the necessary lighting costs more than was budgeted.

e) **Water and insurance**

These are okay.

f) **Maintenance**

Fixtures are costing more to maintain than was budgeted, but it is not a major item.

g) **Deliveries**

This figure is negative and a concern. Again, the people running the print-shop will need to find out why this figure is negative. Is there something wrong with these figures?

h) **Maintenance**

This figure is positive. This means that maintenance of the equipment is not costing as much as planned.

i) **Postage, rent and stationery**

These are okay.

j) **Telephone**

This figure is negative and of concern. This will need to be investigated. Perhaps there are more long distance calls being made than planned. Perhaps people are speaking too long on the phone and need to keep their conversations shorter.

Variations and control

So, variations can help to control program finances. They can help to alert people to the fact that there are problems with specific budget items.

Managers often look for **unfavourable variations** first, in other words, where more money has been spent on items than the budget allows (i.e. negative variations). For income items, it means less money received than the budget predicts.

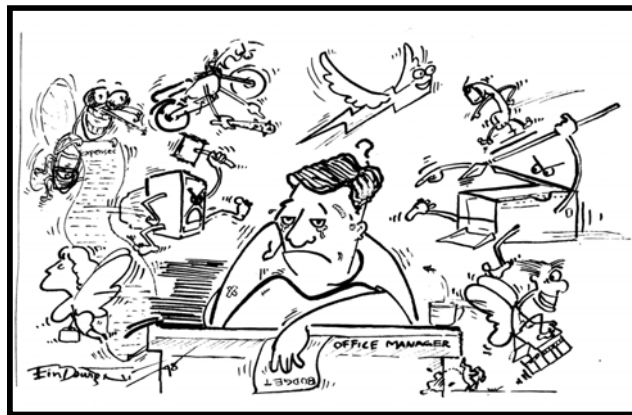
Naturally, there will always be some variance for expenses. After all, how can the telephone bill be accurately predicted? Since many of the calls would be timed long distance calls the exact length of each call would have to be calculated! Impossible!

So, small variances are expected. However, large unfavourable variances are not expected.

Variances occur because:

- You cannot accurately predict the future in many cases. The budget figures for most items like telephone, electricity, etc are best guesses, and guesses are not usually exactly right.
- Unexpected things can happen. For instance, the price of postage stamps or electricity can go up, staff members might be sick, or the equipment might break down.
- Items are sometimes used for the wrong reasons. People might use the telephone to make long distance calls to relatives. An unfavourable stock variance could mean that stock is being stolen and that security needs to be tightened.

Variances also occur in service organisations, such as community health programs. Service organisations also run according to a budget and must attempt to predict figures. As a result, variances may occur and must then be analysed and rectified.



The reason for an unfavourable variance cannot always be detected.

E.g.: If the telephone costs are over-budget, and after checking it seems that no-one is making unnecessary calls and the cost of phone calls has not gone up, it might just be that the budget figure is too low. It was a bad guess.

This can be a major problem, especially if the program is spending more money than it has in the budget.



Self testing activity 3.9

Look at the expenses listed below. The figures in the Year to Date Budget column are for the same period as the figures in the Year to Date column, so they can be compared. The difference between the two columns is the variance. Study the statement then answer the questions that follow.

Expenses	Year to Date Budget	This Quarter	Year to Date	Variance
	\$	\$	\$	\$
Recurrent Salaries				
Salary – youth worker	18 750	6 250	18 750	-
Wages – Other	26 318	8 794	26 387	(70)
Other Recurrent				
Advertising	540	134	541	(1)
Bank Charges	26	7	25	1
Electricity	1 770	625	1 690	80
Water	615	35	492	123
Insurance	3 290	-	3 350	(60)
Maintenance - computer equipment	1 950	725	2 006	(56)
Maintenance – furniture	1 125	362	1 023	102
Motor vehicle – petrol	1 560	635	1 490	70
Motor vehicle – maintenance	563	192	487	76
Motor vehicle - registration and ins	300	-	305	(5)
Office expenses	300	78	363	(63)
Postage	113	38	115	(3)
Rent – premises	2 250	750	2 250	-
Rent – video machine and video-movies	1 170	390	1 170	-
Stationer	1 950	310	2 481	(531)
Telephone	2 850	1 036	2 998	(148)
Total Expenses	65 439	20 361	65 923	(484)

- a) Do you see any significant variance?
- b) Comment on the variance in the Water figures.
- c) There is negative variance on Stationery costs. Can you suggest how this can be remedied?

Adjusting budgets

What happens when the figures are wrong? If estimated figures in the budget are wrong for some reason, they might need adjusting. There are two areas where problems can occur. They are:

1. Income - the income from program activities can be less than expected. For example, the sales might be less than budget or a fund-raising campaign may not make as much money as expected.
2. Expenditure - is too high for some items. Expenditure for assets should not be a problem because you should be getting quotes for these items. So you should know how much they are going to cost before they are purchased.

The expenditure from recurrent expenses is more likely to be the problem.

Look at the telephone expense in the previous (print-shop) example (page 112-113). The Year to Date figure is \$1,485 and the budget figure is \$2,300. Double the \$1,485 (i.e. guess what the full year's spending will be) and you get \$2,970. This is \$670 over budget.

Look at the current quarter figure of \$897. If the telephone expense is \$897, for the 3rd and 4th quarters this will be another \$1,794.

If \$1,794 is added to \$1,485 and the total telephone bill is \$3,279. This is $\$3,279 - \$2,300 = \$979$ over budget.

After looking at the telephone use, it may be decided that the cost of the telephone for the year is likely to be \$3,300. Can the budget figure be adjusted? Yes, it can be adjusted in one of the following ways:

- Increase the income that the program will generate. If another \$1,000 is earned then the amount of income in the budget could justify raising the budget allowance for telephone expenses.
- Reduce another recurrent expense by \$1,000 and increase telephone by \$1,000. If \$1,000 can't be removed from a single expense, \$1,000 may be removed from two or more expenses.

If budget figures are changed around, the action taken must be justified to the funding agency. They will want to know why the budget figures had to be changed. If you can't justify the changes they may think that the budget figures are being changed to hide problems.

Rules about changing budget figures

The following are general rules only. You must always consult the funding agency for specific rules.

Rule 1

Changes must stay within grant categories.

E.g.: Let's say you want to increase telephone. Telephone is an *Other Recurrent Expense*. The money must be taken out of *Other Recurrent Expenses*. The money cannot be taken out of salaries or assets because they come under different grant categories.

Rule 2

If other budget expenses can't be adjusted, the income generated by the program may be able to be increased.



Self testing activity 3.10

Refer to the information provided in self-testing activity 3.9.

The telephone expense has a negative variance. Describe two ways that the budget figure for this expense could be adjusted.

Cash and Accrual Accounting

When sending financial information to a funding body, the following systems can be used:

- accrual accounting;
- cash accounting.

Cash accounting

Using this system items are not recorded until the money for them has been received or paid.

Accrual accounting

Accrual accounting requires items to be recorded when income is earned or when expenses are incurred.

The use of examples may make this clearer. E.g.:

Let's say a business sells to a customer on credit. That means that the business will let the customer take the goods and pay the business later. This customer is therefore a debtor of the business because he/she owes the business money.

Under **accrual accounting** the business will record the revenue for the sale at the time the sale is made.

Under **cash accounting** the business will record the sale when the customer pays the money and not before.

Example: Now let's take an example of an expense. Prompt Printers buys rolls of paper for wrapping the smaller pieces of artwork that are sold in the shop. In the month of October they bought paper worth \$502 from a business called Peacock Paper Supplies.

Peacock Paper Supplies send Prompt Printers a statement at the end of each month and Prompt Printers pay the bill by the end of the following month.

In this example there is a difference between the accrual and the cash accounting systems.

In accrual accounting the cost of \$502 is added to the stock expense in the month of October. In cash accounting the cost of the stock is not added till the month of November, the month it is paid for.



Self testing activity 3.11

In your own words, explain the difference between cash and accrual accounting.

Summary

This topic has looked at financial reports, in particular income and expenditure statements. Remember that the major areas of the statement deal with the income, expenses and asset purchases of a program during the current financial year. You should be able to report the financial information contained in the statement to other people within your organisation or program.

The information contained in the statement provides a guide as to how the program is progressing. This topic has also looked at how variances can highlight what is happening in a program which then helps identify problem areas, and the need for adjustments.

Self-testing Activities Answers

Self testing activity 1.1

In your own words, explain why it is necessary for people working in a program to be accountable to the funding agency for the financial management of the program.

In order to prevent responsible people take risks, responsible people doing foolish things and responsible people doing illegal things.

Self testing activity 1.2

In your own words, explain why money granted for salaries must not be used for other recurrent costs.

Money granted for e.g. salaries must not be used for other recurrent costs because this money is needed for salaries. Funding agencies want to ensure that the money which has been granted to a program, according to an agreed budget, is used for the purpose which has been approved.

Self testing activity 1.3

Why is it dangerous to allow employees etc to buy equipment for an organisation or project by themselves?

Because one person alone may easily be persuaded by sales people to purchase items that cannot be covered by the budget.

Self testing activity 1.4

In the example above, the manager wants to over-spend on an asset (the computer) and take the extra money out of recurrent expenses (running costs). Is this acceptable or not? Please comment why / why not?

Normal accounting rules do not allow money to be taken from recurrent costs and used for buying assets. Assets must be purchased using only the money provided in the budget for buying assets.

Self testing activity 1.5

Explain why the planning stage is the most important stage in the financial management of a program.

The planning stage is the most important stage of the financial management of a program because without a good plan, the program has little hope of achieving its aims. Without proper planning, there may not even be any clear awareness or understanding of what the aims are.

Self testing activity 1.6

Describe in your own words the three stages of financial management.

The three stages of financial management are planning, implementing and reviewing

Self testing activity 1.7

In your own words, explain why the review stage is so important in the program planning process.

The review stage is important for program management, because it requires people to look closely at how the program is progressing as compared with what was planned. If it is not, action be taken to put the program back on track, or if necessary, to change the plan.

Self testing activity 2.1

In your own words, explain what we must know about a business or program, before we can produce an efficient accounting system for it.

All programs are different. In order for the accounting system to deal with the particular differences, we must be able to understand **all the parts or elements** of the program.

Self testing activity 2.2

Outline the major accounting difference between a retail business and a service program.

The major difference between a retail and service program is that a retail business, i.e. a shop, sells things directly to members of the community. A retail business also includes stock (items which it sells) with the the income from sales of its stock.

A service program, e.g. a tuition centre, provides services and does not have any stock. In many cases a service program may not have any income apart from the money (grants) it receives from a funding agency.

Self testing activity 2.3

Outline the accounting difference between current and non-current (fixed) assets.

The difference between current and non-current (fixed) assets is that non-current assets last longer than current assets. Fixed assets are supposed to last for 12 months or more, such as buildings, furniture and equipment etc. Current assets are those that become cash within 12 months; this includes debtors who are supposed to pay their debts within a couple of months.

Self testing activity 2.4

List three possible sources of income for a community service program.

Three sources of income for a service program might include:

- Grant money from a funding body or agency such as an NGO.
- Income generated by the people connected with the program, such as the money raised as a result of fundraising activities.
- Interest from the grant funds that are put in the bank.
- Income from the activities of the program, such as rent from a housing program, fees from a tuition centre.

Self testing activity 2.5

What are the two traditional accounting reports produced by businesses and, in your own words, explain the purpose of each of these reports.

The two traditional accounting reports are:

- The Profit and Loss Statement which shows the revenue (income) and expenses of a business over a period of time
- The Balance Sheet which shows the assets, liabilities and owners equity of the business at a particular point in time (the last day of the period of the Profit and Loss Statement).

Self testing activity 2.6

Use the following information to prepare a balance sheet.

Yadana Nyunt Store

Item	Value
Assets:	
Cash at bank	17 165
Debtors	4 356
Stock	19 050
Office equipment	28 555
Liabilities:	
Creditors	13 101
Personal loan	20 000
Owners Equity:	
Capital	20 000
Profit	16 116

Balance Sheet

Assets	
Cash at Bank	17 165.00
Debtors	4 356.00
Stock	19 050.00

Office equipment		<u>28 555.00</u>
Total Assets		69 126.00
Liabilities		
Creditors		13 101.00
Bank Loan		<u>20 000.00</u>
		33 101.00
Owners' Equity		
Capital	20 000	
Profit	<u>16 116.00</u>	<u>36 116.00</u>
		<u>\$69 217.00</u>

Self testing activity 2.7

There are many reasons why a program might accept a higher quote, i.e. buy something which costs more than the lowest price quoted. Outline two possible reasons.

For example, a program might accept a higher quote because:

- It may be considered that the higher priced equipment is better quality and less likely to break down.
- The more expensive quotation may include after sales service which is often very important, especially with complicated equipment, which can break down.
- The higher quotation may be from a seller with a good reputation for on time delivery, prompt after sales service etc.

Self testing activity 2.8

In your own words, explain why paperwork is so important in regards to financial management.

Paperwork is important to financial management because:

- It provides proof of each business transaction.
- By looking at the paperwork, somebody check that figures in financial statements are correct or incorrect.
- Funding agencies grant money to be used in accordance with an agreement. The paperwork allows them to check that the funds have actually been used in that way.
- Management need to check facts themselves from time to time to see how the business is progressing.

Self testing activity 2.9

Outline two advantages and two disadvantages of purchasing items on credit.

Advantages of buying things on credit include:

- Getting things now, but paying later. In other words, you don't need to have the money with you at the time of purchase.
- Security - if you don't carry money with you, no-one can steal it.

Disadvantages of buying things on credit include:

- Having to pay the bill at a later date, when you may not have the money available.
- Discovering that you have to pay a lot more than you thought. It is easy to forget how much you have spent on various items and you might get a big shock later on when the bill arrives.

Self testing activity 2.10

You have made a purchase and received an invoice. What information do you expect to see in the invoice?

You need to see the name of the supplier, the delivery date, and the per item cost and the quantity of items.

Self testing activity 2.11

If the amount in the stationery account was \$970 before a bill of \$173 was paid, what will it be after the amount of the bill is entered?

If the amount in the stationery account before the bill was \$970. Then after the bill was entered, it would be:

Stationery	970
+ New bill	<u>173</u>
New total	\$1 143

Self testing activity 2.12

Explain why a business owner/manager should always check a statement he/she receives from a supplier.

A business owner would check a statement he/she received from a supplier, because the business owner must make sure that the supplier's accounting records agree with the records of the business.

Self testing activity 2.13

Explain the purpose of a Schedule of Accounts Payable.

Self testing activity 2.14

Sopheap, the treasurer of the local football club, has just received the statement for the month from the local sporting goods store. The statement shows that the club owes the store \$23.5 for the month. Sopheap has gone through all the paperwork. He believes the bill should be \$22. Explain whether or not Sopheap should pay the bill of \$23.5. Give reasons for your answer.

Sopheap should not pay the bill immediately, because suppliers do sometimes make mistakes. Sopheap should check why there is a difference. After all, the football club does not want to pay \$1.4 more than it has to. For example, the football club could have returned some equipment and the store forgot to alter their records.

Self testing activity 2.15

In your own words, explain why payroll records are confidential

Payroll records are confidential because a lot of the information included is personal. For example, often payroll files contain the bank account numbers of employees, so that salaries can be paid directly into the accounts. If the wrong people have access to this information, they could possibly try to withdraw the money illegally.

Self testing activity 2.16

- a) Explain the difference between net pay and gross pay.
- b) If an employee is paid \$14 an hour and works 20 hours in a week, what is this employee's gross pay?
- c) If this person then worked an additional two hours in overtime, which is double time, what is the employee's gross pay now?
- d) If the tax in example c) above has been calculated as \$53, calculate the employee's net pay.

- a) Gross pay is the amount of money you earn prior to the tax etc being deducted. Net pay is the amount of money you take home, once your deductions have been made.
- b) $14 \times 20 = \$280.00$
- c) $14 \times 20 + 28 \times 2 = \$280 + \$56 = \336.00
- d) $\$336 - \$53 = \$283$

Self testing activity 3.1

If your total income is 33 440 Thai Baht and your total expenditure is 33 880 Thai Baht, would you have a surplus or deficit?

You would have a deficit because your expenditure exceeds your income.

Self testing activity 3.2

- a) Explain what period the column titled 'This Qtr' refers to.
- b) Explain what period the column titled 'Year to Date' refers to.

- a) In this case, 'This Qtr' refers to the period from 1st October to 31st December.
- b) Since the program runs from July to June, the column titled 'Year to Date' refers to the period from 1st July to 31st December.

Self testing activity 3.3

A program is provided a grant of 520 000 Thai Baht to cover recurrent expenses for the whole year. If the grant will be paid in 4 equal amounts at the beginning of each quarter:

- a) How much will the program receive each quarter?
- b) How much, in total, will the program have received by the end of the second quarter?
- c) How much will the program have received by the end of the 3rd quarter?

- a) The program will receive 130 000 Baht each quarter.
- b) The program will have received a total of 260 000 Baht by the end of the second quarter.
- c) The program will have received 390 000 Baht by the end of the 3rd quarter.

Self testing activity 3.4

Look at the income and expenditure statement below and then try to answer the questions a) to d) that follow

**ABC Community Health Program July 2008 – June 2009
Income and Expenditure Statement
for the period ended 31st December, 2008**

	Approved Budget	This Qtr	Year to Date
Income	\$	\$	\$
Grants	50 000	5 000	40 000
Project-generated	10 000	3 000	4 700
Interest	300	175	291
Total Income	60 300	8 175	44 991
Expenditure			
less Expenses			
Wages	17 200	4 301	8 653
Insurance	1 100	0	1 100
Office Expenses	5 600	1 005	2 205
Motor vehicle Expenses	6 400	1 658	2 956
Total Expenses	30 300	6 964	14 914
less Assets Purchased	30 000	0	30 000
Total Expenditure	60 300	6 964	44 914
Surplus/(Deficit)	0	1 211	77

- a) Look at the line for wages. Explain why the figure of \$4 301 in the This Qtr column is about half the figure in the Year to Date column.
- b) Explain why the figure for insurance in the This Qtr column is 0.
- c) Do you think that the spending in the Office Expenses category is too high? Explain your answer.
- d) Explain whether or not the total spending on expenses is within budget and why.

- a) The figure of \$4 301 in the This Qtr column is about half the figure in the Year to Date column because the Year to Date is for 6 months. The figure in This Qtr is for 3 months.
- b) The figure for insurance in the This Qtr column is 0 because no assets were bought in this quarter so there was no need for insurance in this quarter.
- c) The spending on Office Expenses is not too high because half of the annual budget for this item (\$5 600) would be \$2 800 and the Year to Date figure is only \$2 205.
- d) The total spending on expenses appears to be within budget at the half year stage because the expenses budget for the whole year is \$30 300 and half of \$30,300 is \$15 150. Whereas \$14 914 has been spent.

Self testing activity 3.5

Explain why funding agencies would require program managers to report on a regular basis.

Funding agencies are likely to require program managers to report on a regular basis, because they need proof that the money they have provided is being spent correctly, i.e. in accordance with the agreed budget. If the money is not being spent correctly or the program is in financial trouble, the funding agency usually wants to know as soon as possible, so that they can either improve the program management or suspend funding.

Self testing activity 3.6

Look at the following **third** quarter figures for the ABC Community Health Program (Self-testing activity 3.4) and prepare an Income and Expenditure Statement,

Income:	\$
Grants	6 000
Project generated	2 000
Interest	100

Expenses:

Wages	5 200
Insurance	0
Office expenses	2 725
Motor Vehicle expenses	1 525

ABC Community Health Program July 2008 – June 2009
Income and Expenditure Statement
For the period ended 31st March, 2009

	Approved Budget	This Qtr	Year to Date
Income			
Grants	50 000	6 000	46 000
Project-generated	10 000	2 000	6 700
Interest	300	100	391
Total Income	60 300	8 100	53 091
Expenditure			
Less Expenses			
Wages	17 200	5 200	13 853
Insurance	1 100	0	1 100
Office Expenses	5 600	2 725	4 930
Motor vehicle Expenses	6 400	1 525	4 481
Total Expenses	30 300	9 450	24 364
Less Assets Purchased	30 000	0	30 000
Total Expenditure	60 300	9 450	54 364
Surplus/ (Deficit)	0	1 350	1 273

Self testing activity 3.7

Expenditure is made up of money spent on assets and money spent on recurrent expenses. Explain why the money used to buy assets is less likely to be over-spent than recurrent expenses.

Money used to buy assets is not likely to be over-spent because before the program buys assets it must go through the process of getting quotations and this process makes purchasers aware of having to select a supplier that can provide the items within their budget. Whereas recurrent expenses may vary from time to time and be difficult to predict over the full year.

Self testing activity 3.8

This activity relates to the Income and Expenditure Statement (below) for an imaginary Youth Study Centre in Thailand (budget in Thai Baht). The centre is funded with a grant from an NGO in, but it also has fund-raising campaigns and earns income from showing video-movies and charging entrance fees. The Centre has its own pick-up (vehicle) to be used for the centre's activities. Study the statement then try to answer the questions that follow.

Youth Study Centre July 200X – June 200Y
Income and Expenditure Statement for the period ending 31st
March, 200Y

	Approved Budget Baht	This Qtr Baht	Year to Date Baht
INCOME			
NGO Grant			
Capital	446 808	-	446 808
Recurrent Wages	721 080	180 276	540 816
Other Recurrent Expenses	161 520	40 380	121 140
Total Income from grants	1 329 408	220 656	1 108 764
Program-generated receipts			
Fund-raising	60 000	4 584	45 480
Video-Movies entrance fees	88 800	23 832	75 852
Bank Interest	1 260	264	780
Total Receipts from program	150 060	28 680	122 112
TOTAL INCOME	1 479 468	249 336	1 230 876
EXPENDITURE			
Expense			
Recurrent Salaries			
Salary - Tutor	300 000	75 000	225 000
Wages - Other	421 080	105 528	316 644
Other Recurrent			
Advertising	8 640	1 608	6 492
Bank Charges	420	84	300
Electricity	28 320	7 500	20 280
Water	9 840	420	5 904
Insurance	39 480	-	40 200
Maintenance - computer equipment	31 200	8 700	24 072
Maintenance - furniture	18 000	4 344	12 276

Financial Management Module

Motor vehicle - petrol	24 960	7 620	17 880
Motor vehicle - maintenance	9 000	2 304	5 844
Motor vehicle - registration	3 600	-	3 660
Office expenses	4 800	936	4 356
Postage	1 800	456	1 380
Rent	36 000	9 000	27 000
Rent – video machine and videos	18 720	4 680	14 040
Stationery	31 200	3 720	29 772
Telephone	45 600	12 432	35 976
Total Expenses	1 032 660	244 332	791 076

Asset Purchases

Motor vehicle	307 920	-	307 800
4 Computers	86 880	-	86 880
Printer	12 240	-	12 240
4 Computer desks	12 120	-	12 096
5 Large tables	4 200	-	4 200
30 Chairs	10 800	-	10 440
Table-tennis table	2 400	-	2 220
Water heater	1 440	-	1 500
Office Desk	3 468	-	3 468
Office chair	2 280	-	2 280
2 Filing cabinets	3 060	-	3 000
Total Asset Purchases	446 808	-	446 124
TOTAL EXPENDITURE	1 479 468	244 332	1 237 200
SURPLUS/(DEFICIT)	-	5 004	(6 324)

Debtors	
Total Debtors	Nil
Creditors	
Space-Age Computers	12 156
Top Notch Garage	900
Peacock Stationery	3 912
Zap Video Hire	480
Total Creditors	17 448

- a) Explain what the figures in the Approved Budgets column represent.
- b) List the major line headings in this statement.
- c) Name the items within Program-generated receipts.
- d) Explain how the surplus/ (deficit) is calculated.
- e) Comment on the deficit of 6 324 Baht in the Year to Date column.
- f) Comment on the video- movies income.

Answers:

- a) The figures in the Approved Budgets column represent the budget figures for the full year, which have been approved by the funding body.
- b) The major line headings in this statement include the Income heading and the Expenditure heading. Within Expenditure there are Expenses and Asset Purchases.
- c) The items within program-generated receipts include fundraising, video movies entrance fees and bank interest.
- d) The surplus / (deficit) is calculated in the following way:
Surplus / (Deficit) = Total Income - Total Expenditure
Total Income = Total income from Grants + Total Receipts from program
Total Expenditure = Total Expenses + Total Asset Purchases
- e) Since the budget year is July to June, this statement is for the 3rd Qtr, so this deficit of 6 324 Baht is small and probably manageable. However, it could become a problem and it would be better if it was a surplus. There will need to be very careful spending on expenses in the final quarter to ensure a small surplus by the end of the year.
- f) The budget for the video-movies income is 88,800 Baht. One quarter of this figure is 22,200 Baht. The income for the quarter is 23,832 Baht. Therefore, the program received more income from the video movies in this quarter than it expected. Three quarters of 22,200 Baht is 66,600 Baht. The Year to Date income is 75,852 Baht, which is much more than expected.

Self testing activity 3.9

Look at the expenses listed below. The figures in the Year to Date Budget column are for the same period as the figures in the Year to Date column, so they can be compared. The difference between the two columns is the **variance**. Study the statement then answer the questions that follow.

	Year to Date Budget	This Quarter	Year to Date	Variance
Expenses				
	\$	\$	\$	\$
Recurrent Salaries				
Salary – youth worker	18 750	6 250	18 750	-
Wages – Other	26 318	8 794	26 387	(70)
Other Recurrent				
Advertising	540	134	541	(1)
Bank Charges	26	7	25	1
Electricity	1 770	625	1 690	80
Water	615	35	492	123
Insurance	3 290	-	3 350	(60)
Maintenance - computer equipment	1 950	725	2 006	(56)
Maintenance – furniture	1 125	362	1 023	102
Motor vehicle – petrol	1 560	635	1 490	70
Motor vehicle – maintenance	563	192	487	76
Motor vehicle - registration and ins	300	-	305	(5)
Office expenses	300	78	363	(63)
Postage	113	38	115	(3)
Rent – premises	2 250	750	2 250	-
Rent – video machine and video-movies	1 170	390	1 170	-
Stationery	1 950	310	2 481	(531)
Telephone	2 850	1 036	2 998	(148)
Total Expenses	65 439	20 361	65 923	(484)

- a) Do you see any significant variance in the expenses total?
- b) Comment on the variance in the Water figures.
- c) There is negative variance on Stationery costs. Can you suggest how this can be remedied?

- a) The variance for Total Expenses is \$484. The negative variance is due to the \$531 negative variance in stationery. If no more stationery needs to be purchased i.e. there is enough stationery to last for the rest of the year and spending in other areas is controlled, this variance may become positive.
- b) In regards to the water figures, the variance is positive. Therefore, the program has not used as much water as expected.
- c) Stationery includes paper. One example of cost saving is for people to use both sides of the paper; there may be many other cost-cutting measures which will reduce stationery costs.

Self testing activity 3.10

Refer to the information provided in self-testing activity 3.9.

The telephone expense has a negative variance. Describe two ways that the budget figure for this expense could be adjusted.

One way of adjusting the budget figure for this expense item would be to take the money out of other expense items and put it into the telephone expense item.

E.g. Electricity has a positive variance of \$80 and vehicle maintenance has a positive variance of \$76. If the budget figure for electricity is reduced by \$80 and vehicle maintenance is reduced by \$76, the budget figure for telephone can be increased by \$156. This would make the variance for telephone positive.

The information given relates only to the expenditure side of the budget. Another way of adjusting the budget is to increase the income budget e.g. through sales or fund raising, to allow for an increase in telephone expenses.

Self testing activity 3.11

In your own words, explain the difference between cash and accrual accounting.

Cash accounting is an accounting system in which items do not need to be recorded until the money for them has been received.

Accrual accounting is an accounting system in which items are recorded when income is earned or expenses incurred.