

Budgeting Made Easy

Presented July 16, 2020

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Agenda

- Introduction
- Basic Financial Terms
 - Not-For Profit & For Profit
- Why a Budget is Important
- 5 Tips for Making Your Budget



Introduction

- B.Comm. Saint Mary's University (1998)
- CMA Accounting Designation (2008)
- Treasurer, Broadmoor Lake Condo Complex
- Treasurer, Edmonton Business Association
- Chair of the Board of Director, Goodwill Industries of Alberta
- Controller or CFO for Companies

Basic Financial Terms

- Different Accounting Statements
- Transaction Types
- Not-For Profit vs For-Profit Comparisons



Basic Financial Terms

- Accrual Accounting

“measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur.”¹

- Cash Accounting

“payment receipts are recorded during the period they are received, and expenses are recorded in the period in which they are actually paid. In other words, revenues and expenses are recorded when cash is received and paid, respectively.”

1. <https://www.investopedia.com/terms/a/accrualaccounting.asp>
2. <https://www.investopedia.com/terms/c/cashaccounting.asp#:~:text=Cash%20accounting%20is%20an%20accounting,is%20received%20and%20paid%2C%20respectively.>

Basic Financial Terms

- For Profit
 - Profit and Loss Statement
 - P&L
 - Income Statement
 - Earning Statement
 - Statement of Operations*
- Not-For Profit
 - Income Statement
 - Statement of Operations*

Basic Financial Terms – Income Statement

- For Profit

	A	B	C	D	E	F
1	[Company Name]			Income Statement		
2	Address: 123 Street Avenue, Cityville, State, 12333					
3						
4	Date Created:	Date Issued:				
5	11 Jan, 2020	11 Jan, 2020				
6						
7						
8	Income Statement					
9	Revenue			Year 1	Year 2	Year 3
10	Sales			\$78,000.00	\$78,000.00	\$78,000.00
11	Less: Sales Return			\$3,000.00	\$3,000.00	\$3,000.00
12	Less: Discounts and Allowances			\$1,000.00	\$1,000.00	\$1,000.00
13	Net Sales			\$74,000.00	\$74,000.00	\$74,000.00
14	Cost of Goods Sold					
15	Materials			\$8,000.00	\$8,000.00	\$8,000.00
16	Labor			\$9,000.00	\$9,000.00	\$9,000.00
17	Overhead			\$2,000.00	\$2,000.00	\$2,000.00
18	Total Cost of Goods Sold			\$19,000.00	\$19,000.00	\$19,000.00
19	Gross Profit			\$55,000.00	\$55,000.00	\$55,000.00
20	Operating Expenses					
21	Wages			\$10,000.00	\$10,000.00	\$10,000.00
22	Advertising			\$500.00	\$500.00	\$500.00
23	Repairs & Maintenance			\$100.00	\$100.00	\$100.00
24	Travel			\$50.00	\$50.00	\$50.00
25	Rent/Lease			\$5,000.00	\$5,000.00	\$5,000.00
26	Delivery/Freight Expense			\$1,000.00	\$1,000.00	\$1,000.00
27	Utilities/Telephone Expenses			\$1,000.00	\$1,000.00	\$1,000.00
28	Insurance			\$500.00	\$500.00	\$500.00
29	Mileage			\$1,500.00	\$1,500.00	\$1,500.00
30	Office Supplies			\$1,000.00	\$1,000.00	\$1,000.00
31	Depreciation			\$8,000.00	\$8,000.00	\$8,000.00
32	Interest			\$2,000.00	\$2,000.00	\$2,000.00
33	Other Expenses			\$100.00	\$100.00	\$100.00
34	Total Operating Expenses			\$30,750.00	\$30,750.00	\$30,750.00
35	Operating Profit (Loss)			\$24,250.00	\$24,250.00	\$24,250.00
36	Add Other Income					
37	Interest Income			\$2,000.00	\$2,000.00	\$2,000.00
38	Other Income			\$1,000.00	\$1,000.00	\$1,000.00
39	Profit (Loss) Before Taxes			\$27,250.00	\$27,250.00	\$27,250.00
40	Less: Tax Expense			\$4,000.00	\$4,000.00	\$4,000.00
41	Net Profit (Loss)			\$23,250.00	\$23,250.00	\$23,250.00

- Not-For Profit

		ORG NAME
		Statement of Activities
Income by SOURCE	{	Earned Revenue
		Contributed Revenue
		Released from Restriction (1)
		Total Unrestricted Revenue
Expenses by function / activity	{	Program Expense
		Development Expense
		Admin Expense
		Total Operating Expense
		NET UNRESTRICTED INCOME
Separate restricted	{	Restricted Contributions
		Released to Unrestricted
		NET RESTRICTED INCOME
		NET ALL ACTIVITY

Basic Financial Terms - Income Statement

- For Profit

- Revenue (Sales)

- Earned via activity associated with selling to customer
 - Memberships Fees
 - Investment Income
 - Grants (Depends)

- Not-For Profit

- Revenue

- Earned via activity associated with selling to customer
 - Memberships Fees
 - Investment Income
 - Grants
 - Contributions (Donations)

Basic Financial Terms - Income Statement

- Not-For Profit Revenue
 - Contributions (Donations)
 - Restricted Vs Not Restricted
 - Internally Restricted vs Externally Restricted
 - Endowment vs Non-Endowment



Basic Financial Terms - Income Statement

- Expenses
 - Amounts spent related to operating the organization
 - Salaries
 - Rent
 - Office Supplies
 - Amortization
 - Fixed vs Variable



Basic Financial Terms – Income Statement

- For Profit
 - Profit
 - Net Income/Loss
- Not-For Profit
 - Excess of Revenues over Expenditures or Operating Surplus or...
 - Deficiency of Revenues over Expenditures or Operating Deficit
 - **Revenue - Expenses**



Basic Financial Terms – Balance Sheet

- For Profit
 - Balance Sheet
 - Statement of Financial Position*

- Not-For Profit
 - Balance Sheet
 - Statement of Financial Position*

Mythical Company, Inc.

BALANCE SHEET

Stated in 000s, for the period ending:
12/31/2014

Current Ratio [A/B] 0.45	Working Capital [A-B] (\$58,750,000)
Quick Ratio [(A-C)/B] 0.29	Debt-to-Equity Ratio [(G+H)/F] 0.42
Cash Ratio [D/B] 0.05	Debt Ratio [(G+H)/E] 0.26

Assets		% of Assets
Current Assets		
Cash and cash equivalents [D]	\$5,000	0.8%
Short-term investments	\$250	0.0%
Accounts receivable [I]	\$20,000	3.1%
Inventories [C]	\$18,000	2.8%
Deferred income taxes	\$3,500	0.5%
Prepaid expenses	\$2,000	0.3%
Total [A]	\$48,750	7.6%
Fixed Assets		
Property, plant & equip. at cost	500,000	77.6%
Less accumulated depreciation	27,500	4.3%
Total	\$27,500	81.9%
Other Assets		
Long-term cash investments	\$8,000	1.2%
Equity investments	\$27,000	4.2%
Deferred income taxes	\$22,000	3.4%
Other assets	\$11,000	1.7%
Total	\$68,000	10.6%
Total Assets [E]	\$644,250	100.0%
Total Owner Equity [F]	\$400,250	62.1%
Total Liabilities + Owner Equity	\$644,250	100.0%

Liabilities & Owners' Equity		% of Assets
Current Liabilities		
Loans payable & current portion LT Debt	\$75,000	11.6%
Accounts payable and accrued expenses	\$14,500	2.3%
Income taxes payable	\$10,000	1.6%
Accrued retirement and profit-sharing con	\$8,000	1.2%
Total [B]	\$107,500	16.7%
Other Liabilities		
Long-term debt [G]	\$92,500	14.4%
Accrued retirement costs	\$34,000	5.3%
Deferred income taxes	\$6,000	0.9%
Deferred credits and other liabilities	\$4,000	0.6%
Total	\$136,500	21.2%
Total Liabilities	\$244,000	37.9%

Statement of Financial Position As of December 31, 2015

ASSETS	
Current Assets	
Cash and cash equivalents	152,846
Investments	7,223,286
Accounts receivable	23,875
Contributions and grants receivable	1,875,326
Prepaid expenses	9,255
Non-Current Assets	
Equipment, net	125,832
TOTAL ASSETS	9,410,420
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	158,246
Accrued expenses	57,218
Payroll withholding	63,432
Total liabilities	278,896
NET ASSETS	
Temporarily restricted	2,191,553
Unrestricted (operating)	5,939,971
Unrestricted (board designated)	1,000,000
Total net assets	9,131,524
TOTAL LIABILITIES AND NET ASSETS	9,410,420

Basic Financial Terms – Balance Sheet

- Assets: Things owned by or owed to the Organization
- Short Term Asset: Items Expected to be Used Within 1 year
 - Cash On Hand
 - Contributions Receivables

Assets		% of Assets
Current Assets		
Cash and cash equivalents [D]	\$5,000	0.8%
Short-term investments	\$250	0.0%
Accounts receivable [I]	\$20,000	3.1%
Inventories [C]	\$18,000	2.8%
Deferred income taxes	\$3,500	0.5%
Prepaid expenses	\$2,000	0.3%
Total [A]	\$48,750	7.6%

Basic Financial Terms – Balance Sheet

- Assets: Things owned by or owed to the Organization
- Long-Term Asset: Items Expected to be Used Beyond 1 year
 - Office Furniture
 - Investments

Fixed Assets	
Property, plant & equipt. at cost	500,000
Less accumulated depreciation	27,500
Total	\$27,500
Other Assets	
Long-term cash investments	\$8,000
Equity investments	\$27,000
Deferred income taxes	\$22,000
Other assets	\$11,000
Total	\$68,000

Basic Financial Terms – Balance Sheet

- Liabilities: Things owed to Third Parties
- Current Liabilities: Items Expected to be Paid Within 1 year
 - Payables
 - Vendors, Government
 - Current Portion of Loans

Current Liabilities	
Loans payable & current portion LT Debt	\$75,000
Accounts payable and accrued expenses	\$14,500
Income taxes payable	\$10,000
Accrued retirement and profit-sharing con	\$8,000
Total [B]	\$107,500

Basic Financial Terms – Balance Sheet

- Liabilities: Things owed to Third Parties
- Long-term Liabilities: Items Expected to be Paid Beyond 1 year
 - Loans*
 - Mortgage*
 - Pensions*

Other Liabilities	
Long-term debt [G]	\$92,500
Accrued retirement costs	\$34,000
Deferred income taxes	\$6,000
Deferred credits and other liabilities	\$4,000
Total	\$136,500

Basic Financial Terms

- For Profit
 - Source and Uses Statement
 - Cash Flow Statement
 - Statement of Changes in Financial Position
- Not-For Profit
 - Source and Uses Statement
 - Cash Flow Statement
 - Statement of Changes in Financial Position

Basic Financial Terms – Cash Flow Statement

- For Profit
- Not-For Profit

Cash Flow Statement Company XYZ FY Ended 31 Dec 2003		
all figures in USD		
Cash Flow From Operations		
Net Earnings		2,000,000
<i>Additions to Cash</i>		
Depreciation		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
<i>Subtractions From Cash</i>		
Increase in Inventory		(30,000)
Net Cash from Operations		2,012,000
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Notes Payable		10,000
Cash Flow for FY Ended 31 Dec 2003		1,522,000

Not-for-Profit Entity A Statement of Cash Flows Year Ended June 30, 20X1 (in thousands)		
Cash flows from operating activities:		
Cash received from service recipients	\$	5,220
Cash received from contributors, restricted for investment in land, buildings, equipment		1,210
Cash received from contributors, other		10,645
Proceeds on sale of equipment		200
Insurance proceeds from fire loss on building		250
Miscellaneous receipts		150
Cash paid to employees and retirees		(13,400)
Cash paid to suppliers		(5,858)
Grants paid		(5,175)
Purchase of equipment		(1,500)
Net cash used by operating activities		(8,258)
Cash flows from investing activities:		
Interest and dividends received		8,870
Proceeds from sale of investments		76,100
Purchase of investments		(74,900)
Net cash provided by investing activities		10,070
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment		200
Investment in term endowment		70
Investment subject to annuity agreements		200
Payments of annuity obligations		(145)
Payments of interest		(382)
Payments on notes payable		(1,140)
Payments on long-term debt		(1,000)
Net cash used by financing activities		(2,197)
Net decrease in cash and cash equivalents		(385)
Cash and cash equivalents at beginning of year		4,960
Cash and cash equivalents at end of year		\$ 4,575
Supplemental data for noncash operating, investing, and financing activities:		
Gifts of equipment	\$	140
Gift of paid-up life insurance, cash surrender value		80

Basic Financial Terms

- 3 Areas of Cash Flow Statement
 - Operations
 - Running of your Operations
 - Investing
 - Buying and Selling of Assets
 - Financing
 - Loans, Mortgages

Basic Financial Terms – Cash Flow Statement

- For Profit
- Not-For Profit

Cash Flow Statement Company XYZ FY Ended 31 Dec 2003		
all figures in USD		
Cash Flow From Operations		
Net Earnings		2,000,000
<i>Additions to Cash</i>		
Depreciation		10,000
Decrease in Accounts Receivable		15,000
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Increase in Taxes Payable		2,000
<i>Subtractions From Cash</i>		
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Cash Flow From Investing		
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Gift of paid-up life insurance, cash surrender value		80

Why A Budget?



Why A Budget?



Why A Budget?



**KEEP CALM
YOU'RE
IN CONTROL**

Why A Budget?



Why A Budget?



Top 5 Budget Tips

#1: Use Previous Year's Experience or....

Follow the yellow keys to help you navigate through this document. Double click for entry. Click left corner box to close.

	University of South Carolina Purchasing Department 1600 Hampton Street, 6th floor Columbia, SC 29208 Telephone: (803) 777-4115		Request for Quotation Page One THIS IS NOT AN ORDER	
	Quotation must be received No Later Than 10:00 AM 3 26 2010		Send quotation to above address Attention of: Damon Hightower Quotation Number: USC-RFQ-1673-DH Date: 3 18 2010	
Print company name and address:				
Please quote your lowest delivered price of the item(s) listed below. The Purchasing Department reserves the right to reject any or all quotes and to waive any or all technicalities.				
1. If an item cannot be furnished, indicate by NO QUOTE . 2. All quotes must be signed by the vendor's representative and terms noted, failure to comply with this instruction may result in disqualification of the quote. 3. FAXED QUOTES ACCEPTABLE. FAX # (803) 777-2032				

Federal I.D. or Social Security No. _____		SC Minority Certification Number (If Applicable) _____		
Submitted By (Print Name) _____		Signature _____ Telephone _____		
Item No.	Quantity and Unit	Description of Commodity or Services	Unit Price	Total Price
1	1.0 Lot	Furnish and Install Two (2) BECSys 5 Water Chemistry Controller Packages per the attached specifications. Quote only as specified. (SPM210) Award will be made to one vendor (SPM034) Insurance Requirements: The successful vendor must provide copy of his liability insurance certificate (SPM006) *Work to be perform at Strom Thurmond Wellness Center located at 1000 Blossom St, Columbia SC 29208* A faxed quote is acceptable. Quotes may be faxed to (803) 777-2032.		\$ _____

Top 5 Budget Tips

#2: Use Industry Information

	Whole industry (reliability)	Bottom quartile (25%)	Lower middle (25%)	Upper middle (25%)	Top quartile (25%)	Percentage of businesses reporting
Number of businesses	3,427					
Profit margin range:						
Low (%)			-0.5%	4.5%	15.8%	
High (%)	N/A	-0.5%	4.5%	15.8%	N/A	
Revenues and expenses	(percentage of total revenue) — <u>Averages</u>					
<u>Total revenue</u>	100.0	100.0	100.0	100.0	100.0	100.0
<u>Sales of goods and services</u>	N/A	N/A	N/A	N/A	N/A	N/A
<u>All other revenues</u>	N/A	N/A	N/A	N/A	N/A	N/A
<u>Cost of sales (direct expenses)</u>	7.3 ^E	6.0	11.1	5.9	3.8	17.4
<u>Wages and benefits</u>	1.5 ^E	0.8	2.6	1.2	0.6	7.6
<u>Purchases, materials and sub-contracts</u>	5.8 ^E	5.2	8.5	4.7	3.2	17.1
<u>Opening inventory</u>	0.2 ^E	0.2	0.3	0.2	0.1	6.3
<u>Closing inventory</u>	0.2 ^E	0.2	0.3	0.2	0.1	6.2
<u>Operating expenses (indirect expenses)</u>	87.1 ^E	108.1	87.0	85.1	62.8	99.6
<u>Labour and commissions</u>	30.7 ^B	35.2	33.1	30.2	20.8	77.4
<u>Amortization and depletion</u>	1.4 ^C	1.5	1.1	1.7	1.2	57.0
<u>Repairs and maintenance</u>	1.2 ^E	1.4	0.8	1.6	1.3	33.7
<u>Utilities and telephone/telecommunication</u>	2.0 ^E	2.1	1.8	2.4	1.6	70.0
<u>Rent</u>	3.0 ^C	2.8	3.0	3.2	3.0	54.2
<u>Interest and bank charges</u>	0.4 ^E	0.7	0.3	0.4	0.6	42.0

Top 5 Budget Tips

#3: Talk To People (Vendors, Customers, Team)



Top 5 Budget Tips

#4: Understand Your Cost Drivers



Top 5 Budget Tips

#5: Just Do It!



Quick Recap

- Cash vs Accrual Accounting
- Different Financial Statement
- Different Types of Accounting Accounts
- Difference between NFP and FP
- Why Develop a Budget?
- Top 5 Budget Tips



