

Enterprise Budgets, Forecasts and Cashflow Analysis for Enterprise Success

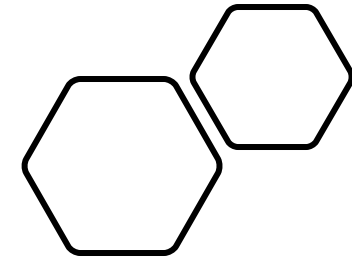
With Phuthanang
Motsielwa



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About the Presenter

- **Phuthanang Motsielwa**
- Wife and mother
- Traveller
- CA (SA)
- RA
- Director at PSTM Chartered Accountants
- Serve on boards and committees
- Small business cheerleader
- Children's book author

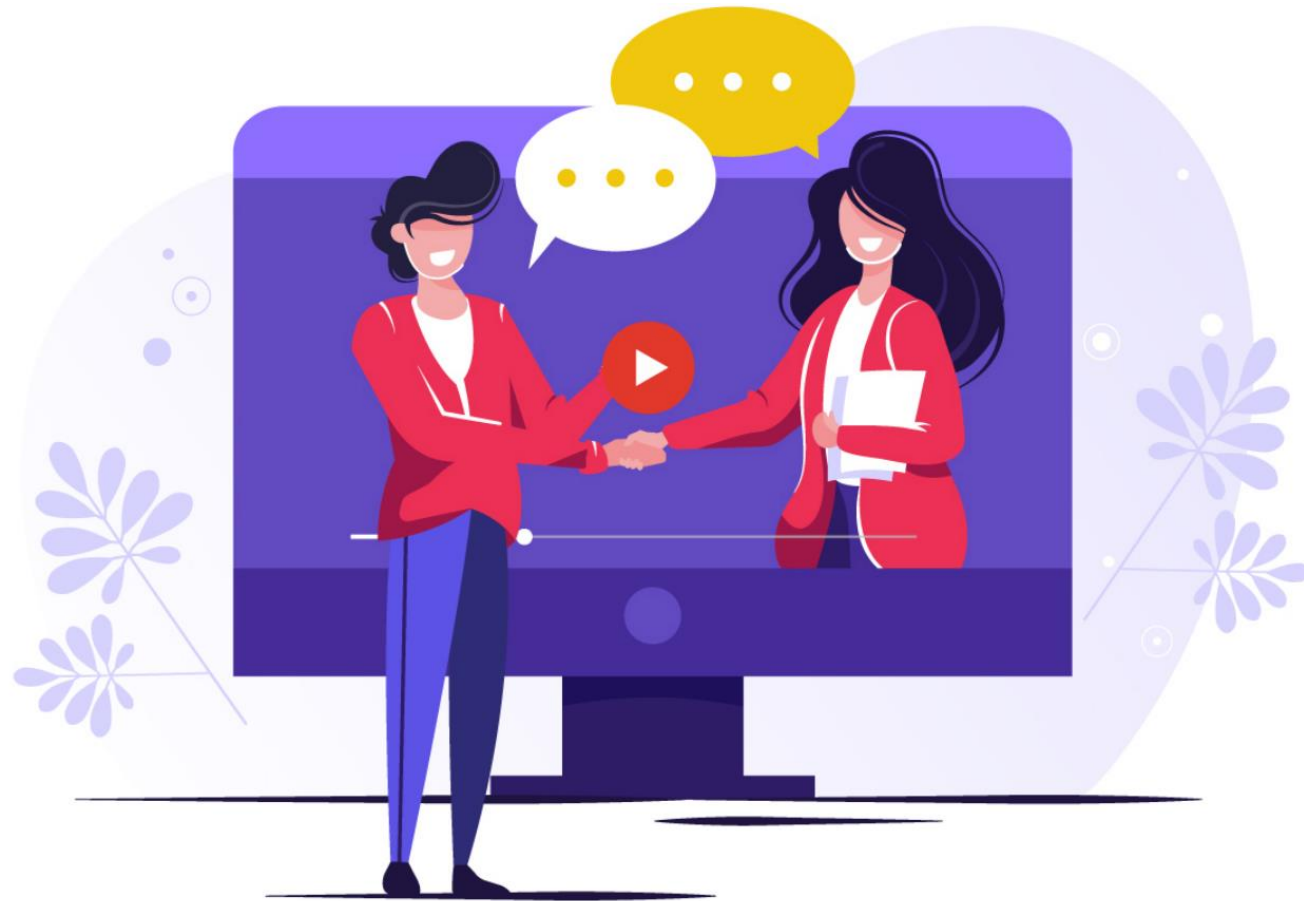


Our Objectives Today:

- Understand and be able to clearly distinguish between budgeting, forecasting and cash flow analysis in business,
- Make use of budgeting to plan, coordinate and control operations as a means to achieve goal congruence and improved organisational performance,
- Use appropriate financial and non-financial performance techniques to aid decision making across all departments of your organisation and your clients',
- Report budgetary and cash flow information to management and clients in a clear and appropriate format that assists in effective decision making,
- Expand on your advisory role for your clients and point them in the right direction to have meaningful conversations about their businesses



Introduction

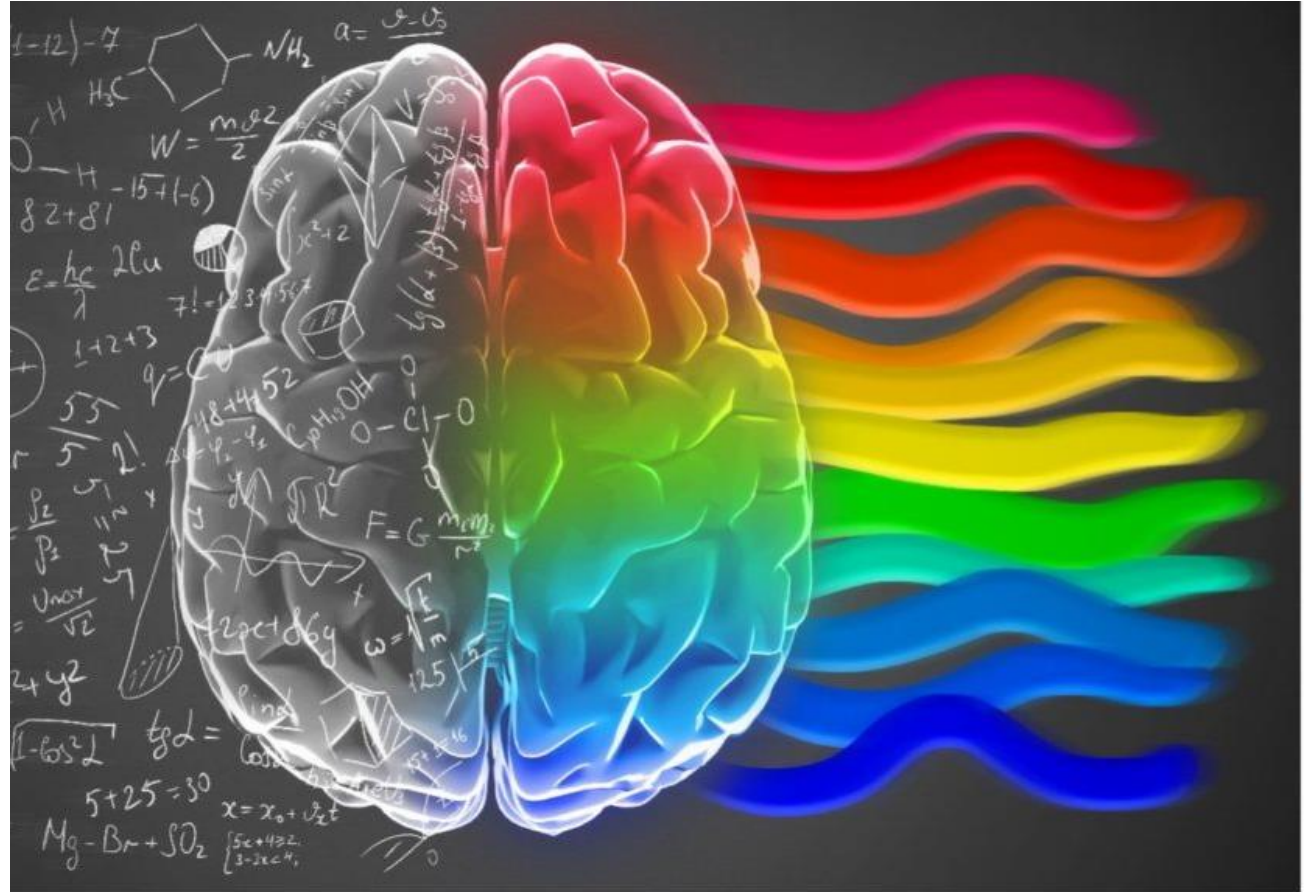


- Successful financial planning is a mix between the technical skill, goals and strategies and your creativity.



Accounting – the language of business

- **Accounting Intuition:** “If we make the principles of accounting accessible to everyone, then not only will that benefit those individuals but society as a whole.”



Cash Flow



Budget



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Forecast



- **Budget**

- Forecast
- Cash flow analysis
- Automation of the accounting function
- Budget example
- Forecast example
- Cash flow analysis example
- Other analysis
- Notes
- Value added services







budget

- an **estimate** of the **income** and **expenditure** of an entity
 - Budget preparation
 - Budget authorization
 - Budget execution
 - Budget accountability
- To help guide the day to day running of the business



- **Budget**
- Prepared annually
- For approval by the board
- Monitored at least monthly
- Generally, approval required to go above budget amounts with capex and opex (even if increased revenue requires increased opex/capex)
- Presented with management accounts
- Management accounts to provide explanations where amounts vary budget
- Guided by policy

How to prepare a budget

- Knowledge of your business is important – trends and scenarios
- Two options:
 - Zero based budgeting – start from revenue contracts and capacitate them, including overheads
 - Traditional budgeting – start from historical information
- Historical records (AFS) can be useful
- Account for the future and any current growth projects – e.g. marketing and lead generation
- Factual vs projective – bird in the hand
- Set up in accounting system for periodic reporting purposes
- Useful in stable companies with limited growth



- Budget
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F O R E C A S T

Forecast

- financial projections performed to facilitate any decision-making relevant for determining future business performance



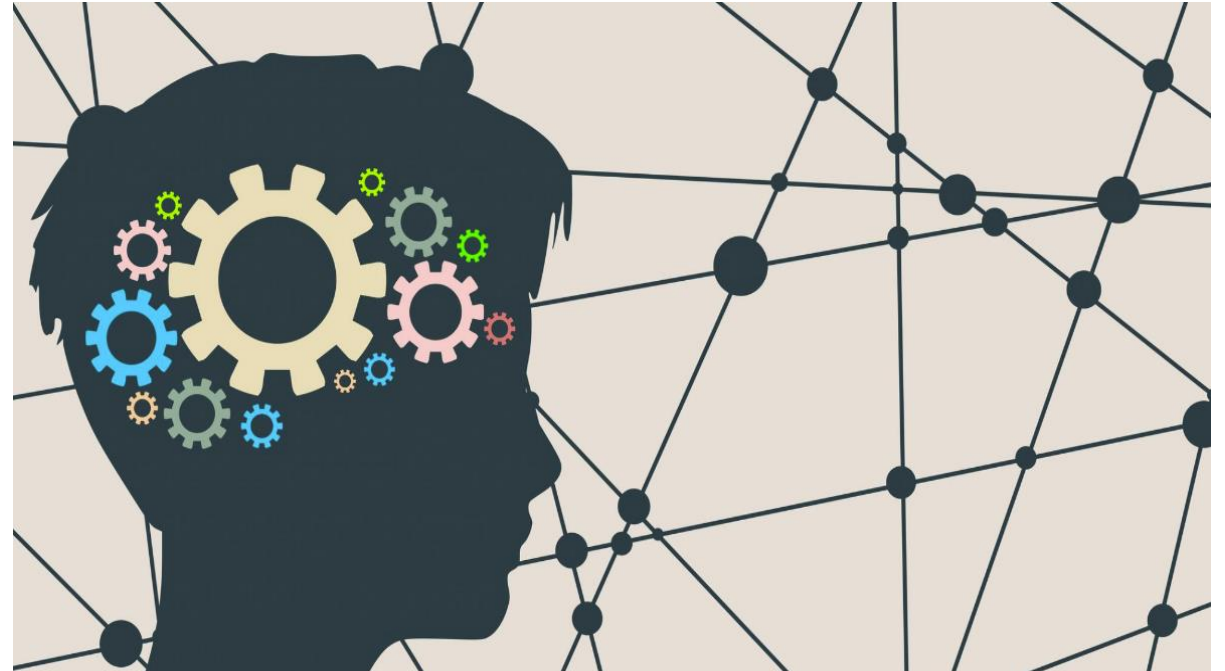
Forecast

- Knowledge of your business is important – trends and scenarios
- Historical records (AFS) may be useful
- Account for the future and any current growth projects – e.g. marketing and lead generation
- Projective vs factual
- Useful where high growth is projected
- Useful for scenario planning and related decision making



Preparing a forecast

- Understand the purpose of the forecast? Specific project/growth/normal course of business,
- Determine the fundamental assumptions,
 - Historic data
 - Zero forecast
 - % increase on historic data
- Gather information
- Compile the forecast
- Stress test the forecast
- Present for decision making
- Effect the required changes

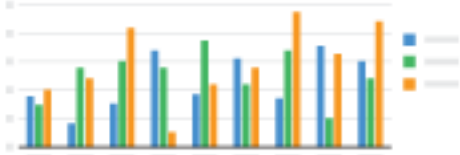


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CASH FLOWS



Cash Flow Analysis

The amount of money available to run business operations and complete transactions



Cash flow analysis

- A forecast is most accurate only to a month or 2,
- It does require a high level of detail, working through individual customer credit terms, contracts, expected events etc
- Beyond that, we can have assumptions, increasing the level of uncertainty,
- Of critical importance is relationships, especially within bigger entities. Cash events are to be communicated to you with sufficient notice for planning
- You may have to account for undocumented processes within your own process
- Budget for feedback, the first draft is hardly ever the final draft





Cash flow analysis

- The short term cash flow analysis helps with short term decisions, and can also assist in amending the budgeting and forecasting processes, if used well
 - A budget tends to be viewed as an allowance to spend with less focus on the revenue line,
 - Management views budgeting as an annual process, even if there is fundamental information that you become aware of that may require alterations to this – a good guide is strategy focus. If you have to change strategy every 6 months, then rather have a bi-annual budgeting process,
 - Events can't be predicted perfectly, and when you start having significant variances, people may start to ignore the budget

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Automation of the accounting function

- Use of applications vs Excel
 - Your online accounting provider (e.g. Xero or QuickBooks)
 - Syft Analytics (SA based)
 - Fathom
 - Spotlight Reporting
 - Etc
- Allows for completing on platform and downloading onto pdf or excel or adding to other reports you already have
- Allows for easy edits



Future focus – how do we budget/forecast

- Make use of technologies – templates available, and will assist you with review of data vs compilation of data from scratch
- Prepare and have the conversation with management to account for possible trends/expected anomalies etc
- Monitor as you move through time and compile your financial reports
- Consider if any data on your models should be adjusted and have another conversation
- Decision making process



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Budget example

- SAAA (Pty) Ltd. is an IT services company based in JHB, servicing 28 different companies with varying SLA's, with R 65 000 to R 180 000 in revenue per month
- They have no marketing campaign currently and are only working to service their current clients and any others who are referred by word of mouth
- They operate from their office and have 5 client servicing staff, plus the director and 2 support staff
- Budget process will be straightforward



Budget example



Budget (per month)	ZAR
Revenue	3 400 000
Subscriptions	1 000 000
Staff costs	850 000
Overheads (rent, wifi, cloud services etc)	56 000
Monthly net profit	1 494 000

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Forecast example

SAAA (Pty) Ltd. would like to invest in setting up another office in Mpumalanga as they have noticed that they have had a steady flow of clients that are based there.

Each client has an SLA with revenue of R 25 000 to R 80 000 per month.

On average over the past 8 months there are about 1-2 new clients being onboarded monthly.

SAAA management considers that most support will be provided from the JHB office, with the exception of office support (reception, cleaning etc) and logistics.



Forecast example

- In this example, we would have to forecast for growth
- Our budget for the JHB office is in place, we can forecast for MP to see what further investments would be required to get the MP office fully equipped and running efficiently
- Our forecast would need to account for the projected growth
- In accounting for the growth, we have to take note of the required investment, which may be in the form of:
 - seconding JHB staff to MP for a few months?
 - Additional hires that still need induction for a few months?
 - Other scenarios?
- Don't forget your assumptions

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Cash flow analysis example

- You have noted that a few debtors within SAAA have not been honoring their SLA payment commitment, despite the fact that your team continues to service them as per the SLA
- You highlight this fact to the management team and they request that you analyse the trends and forecast your expectations over the next month – so they can see what the impact is on cash flows



Cash flow analysis example – contd

- Obtain customer aging and set up meetings between your clients and their internal relationship managers,
- Highlight to them that you will not be able to continue servicing them until they settle their debts to you
- Implement debit order solutions to ensure you are not behind on collections
- Compile your forecast, taking into account that some of the clients may delay with their payments, and your debit order system may also not be fully effective for at least 2-3 month ends
- Understand what the cash flow impact is over the next month, and what actions are required from individual team members





Cash flow drivers

- Revenue and receivables
- Expenses and payables
- Financing of operations – loans, equity etc
- Capex
- Staff costs



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Other analysis – what else are you seeing?

- Cash flow management not a priority – not collecting on debtors invoices?
- Ad hoc spending increasing? Why?
- Client complaints increasing? What do we need to work on?
- Some of these items are on management dashboards vs finance dashboards, consider what the impact is on finance and cash flows



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Other noteworthy

- Longer term forecasts (over 12 months) decline in , a lot more assumptions are required
- The use of DCF and NPV may need to come in
 - DCF – Discounted cash flow
 - NPV – Net present value
- Be clear on which processes affect you (customer billing, payables, payroll, and inventory if any, any other relevant in your environment) – internal or audit process may assist you. If the entity has none, you may have to document these before you get started on your own processes
- Understand if it's a budget, forecast or just an analysis you need
- Historical information must always be up to date in order for you to reap the most benefit

Other noteworthy

- You will need to balance performance targets against the budgeting process. People may tend to underbudget so as to appear having performed well. This is normally an area where accountants can be helpful. You would have been part of the process that determines as an example, that each client facing individual can handle 8 clients without compromising on client experience (SAAA example)
- Spend it or lose it can be detrimental as people rush to spend their allocated budget towards the end of the reporting period
- Some needs may be unexpected, you need to take note and highlight these in your reporting. This may require reprioritization
- It may be difficult to make decisions that are to the benefit of your company where budgets are set in stone – e.g. an unexpected opportunity comes by



Other noteworthy



- Make the budgeting process as simple as possible for your colleagues (so you can get buy-in), on whom you are dependent,
 - Templates and clear questions go a long way
 - Communicate your needs and timelines clearly and on time,
 - Always go back to the strategy and goals to remind people what they are working towards
- Be patient with the process, and ask of the same from your colleagues, especially if you are setting up a finance function from very basic

Other noteworthy - Forecasting in a growth environment

- Balance profit margins and growth rate
- E.g. if you have a 25% year on year growth on revenue, that would have to result in a lower net profit margin as you need to use some of the profits to fund your growth – you need to determine the reasonable % relationship
- Be clear on how the growth will be funded – new equity raising, overdraft, shareholder loans etc or a combination



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Creating
value for
our clients



Value added services



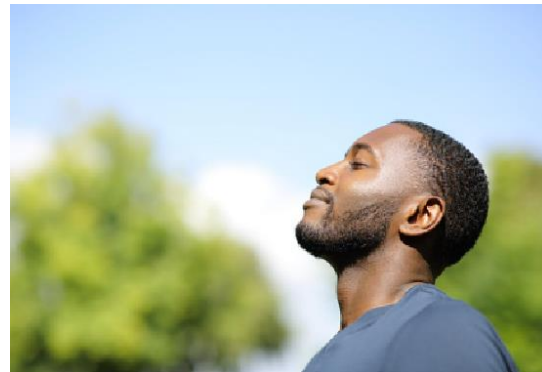
- Explain as simply as possible to your colleagues what the budget/forecast/cash flow is used for and how it impacts them – what you want is ownership beyond you and your team, use your management to assist you
- Get permission to communicate results beyond management, to further enhance ownership

The reality...

Turnover =
Vanity



Profit =
Sanity



Cash Flow
= REALITY





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 Phuthanang Motsielwa





Thank You!