**13. Financial Planning**

**PROJECT/ PRODUCTION COSTS**

**FIXED/ RUNNING COSTS**

**FINANCE**

**START UP COSTS**

**Start-up costs.** When an organisation starts up there are one-off costs to be covered. These costs may be paid immediately or spread over several years. Your costs will be different- these are example figures.

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| **A social enterprise decided to pay their start up costs in their first year of operation. Your costs will be different.** | | |
| **Start-up costs** | **Example social enterprise** | **Your notes** |
| Furniture and equipment | PHP 4,000 |  |
| Legal Fees (co-operative etc.) | PHP 8,000 |  |
| Building alterations (lighting etc.) | PHP 7,000 |  |
| **Total start-up costs** | **PHP 19,000** |  |

**Fixed (running) costs.** Are those that must be paid regardless of the level of operation- costs to keep the doors open. These costs are called ‘fixed’ costs because they stay at much the same level no matter how much activity is undertaken. Some likely fixed costs for a social enterprise are listed below.

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| **Fixed (running) costs** | **Example social enterprise** | **Your notes** |
| Rent | PHP 2,000 |  |
| Telephone | PHP 1,000 |  |
| Postage | PHP 600 |  |
| Electricity | PHP 400 |  |
| Printing and stationary | PHP 400 |  |
| Insurance | PHP 900 |  |
| Promotion/ Advertising | PHP 800 |  |
| Staff costs and wages | PHP 8,000 |  |
| **Total fixed (running) costs** | **PHP 14,600** |  |

Social enterprises and not for profit organisations often run their activities project by project and these costs are known as **project** or **production** costs.

Such costs vary depending on the level of activity and the number of projects attempted during the year.

Say an organisation attempted two projects for their first year. They have drawn up a budget (an estimate) of the costs. To keep their costs on budget they will spend only what has been estimated in the budget on each project. Your costs will be different- these are example figures.

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| **Project 1: Art Exhibition** | **Example project costs** | **Your notes** |
| Freight | PHP 1,500 |  |
| Printing catalogue | PHP 2,000 |  |
| Postage and mailing costs | PHP 500 |  |
| Opening costs: wine, catering | PHP 1,000 |  |
| **Total costs for project 1** | **PHP 5,000** |  |
|  |  |  |
| **Project 2: Children’s ward circus day** |  |  |
| Circus performer fees | PHP 1,000 |  |
| Travel for performers | PHP 50 |  |
| Printing costs: program and flyers | PHP 500 |  |
| Materials: Face paintng, balloons | PHP 500 |  |
| Catering: Children’s fun food | PHP 500 |  |
| **Total costs for Project 2** | **PHP 2,550** |  |
|  |  |  |
| **Total production/ project costs**  **(project 1 and 2 added together)** | **PHP 7, 550** |  |

Say the organisation’s next step is to work out if their income for the year will be sufficient to cover their expenses; that is, how much income they will need to operate and undertake these two projects.

**Budget**

This exercise in planning is known as a **budget.** The budget has two parts: and expendature section (money going out) and an income section (money coming in).

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| **Expenditure** | **Example Budget** | **Your notes** |
| Start-up costs (U) | PHP 19,000 |  |
| Fixed costs for one year (F) | PHP 14,600 |  |
| Production costs for 2 projects (P) | PHP 7,550 |  |
| **Total expenditure for first year (U + F + P = E)** | **PHP 41,150** |  |

The **income** part of the budget tells you where your money is coming from.

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| **Income** | **Example Income** | **Your notes** |
| Start-up grant | PHP 20,000 |  |
| Cash donations | PHP 10,000 |  |
| Membership fees | PHP 12,000 |  |
| **Total Income for the first year (I)** | **PHP 42,000** |  |

With this information, the example organisation can now work out if their budget will balance (break-even) or give them a small **surplus** – something left over. By taking their expenditure (E) away from their Income (I), the budget tells them they will have sufficient funds to cover their start-up costs, operate for one year and undertake two projects.

The example organisation budget also informs them they will have a small surplus of PHP 850 to commence activities for next year, a good result.

**Budget Outcome**

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|  | **Example Organisation** | **Your notes** |
| Total income for first year (I) | PHP 42,000 |  |
| Total expenditure (costs) for first year (E) | PHP 41,150 |  |
| **Balance: surplus/deficit (I – E = Surplus)** | **PHP 850** |  |

If all the sections of the example social enterprise are put together, it woul look like this:

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| **Income (I)** |  | **Totals** |
| Start-up grant | PHP 20,000 |  |
| Cash donations | PHP 10,000 |  |
| Membership fees | PHP 12,000 |  |
| **Total income for the first year (I)** |  | **PHP 42,000** |

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| **Expendature:**  **Start-up costs (U)** |  | **Totals** |
| Furniture and equipment | PHP 4,000 |  |
| Legal Fees (co-operative etc.) | PHP 8,000 |  |
| Building alterations (lighting etc.) | PHP 7,000 |  |
| **Total start-up costs (U)** |  | **PHP 19,000** |
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| **Expenditure:**  **Fixed costs (F)** |  |  |
| Rent | PHP 2,000 |  |
| Telephone | PHP 1,000 |  |
| Postage | PHP 600 |  |
| Electricity | PHP 400 |  |
| Printing and stationary | PHP 400 |  |
| Insurance | PHP 900 |  |
| Promotion/ Advertising | PHP 800 |  |
| Staff costs and wages | PHP 8,000 |  |
| **Total fixed costs (F)** |  | **PHP 14,600** |
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| **Production costs (P)** |  |  |
| **Project 1: Art Exhibition** |  |  |
| Freight | PHP 1,500 |  |
| Printing catalogue | PHP 2,000 |  |
| Postage and mailing costs | PHP 500 |  |
| Opening costs: wine, catering | PHP 1,000 |  |
| **Total costs for project 1** | **PHP 5,000** |  |
| **Project 2: Children’s ward circus day** |  |  |
| Circus performer fees | PHP 1,000 |  |
| Travel for performers | PHP 50 |  |
| Printing costs: program and flyers | PHP 500 |  |
| Materials: Face paintng, balloons | PHP 500 |  |
| Catering: Children’s fun food | PHP 500 |  |
| **Total costs for Project 2** | **PHP 2,550** |  |
| **Total production costs (P) for year** |  | **PHP 7,550** |
| **Total expenditure (U + F + P = E )** |  | **PHP 41,150** |

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| **Balance (S/D): surplus/deficit**  **(I-E = S)** |  | **PHP 850** |

**Budget template**

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| **Income (I)** |  | **Totals** |
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| **Total income for the first year (I)** |  |  |

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| **Expendature:**  **Start-up costs (U)** |  | **Totals** |
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| **Total start-up costs (U)** |  |  |
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| **Expenditure:**  **Fixed costs (F)** |  |  |
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| **Total fixed costs (F)** |  |  |
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| **Production costs (P)** |  |  |
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| **Total production costs (P) for year** |  |  |
| **Total expenditure (U + F + P = E )** |  |  |

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| **Balance (S/D): surplus/deficit**  **(I-E = S)** |  |  |

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| **Sample Cash Flow Budget** | | | | | | | | | | | | |
| **Cash in** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| Start-up grant | 20,000 |  |  |  |  |  |  |  |  |  |  |  |
| Cash donations | 2,000 | 1,000 | 500 | 200 | 2,500 | 500 | 100 | 400 | 1,800 | 600 | 200 | 200 |
| Membership fees | 6,000 | 6,000 |  |  |  |  |  |  |  |  |  |  |
| **Total cash in** | 28,000 | 7,000 | 500 | 200 | 2,500 | 500 | 100 | 400 | 1,800 | 600 | 200 | 200 |
| **Cash out** | | | | | | | | | | | | |
| **Start-up costs** | | | | | | | | | | | | |
| Furniture and equipment | 4,000 |  |  |  |  |  |  |  |  |  |  |  |
| Legal Fees (co-operative etc.) | 8,000 |  |  |  |  |  |  |  |  |  |  |  |
| Building alterations (lighting etc.) | 7,000 |  |  |  |  |  |  |  |  |  |  |  |
| **Running costs** | | | | | | | | | | | | |
| Rent | 1,000 |  |  |  |  | 1,000 |  |  |  |  |  |  |
| Telephone |  |  |  | 500 |  |  |  |  |  | 500 |  |  |
| Postage | 100 | 50 | 50 |  | 200 |  | 100 | 50 |  |  | 50 |  |
| Electricity |  |  | 200 |  |  |  |  |  | 200 |  |  |  |
| Printing and stationary | 100 |  |  | 100 |  |  |  |  |  | 200 |  |  |
| Insurance | 900 |  |  |  |  |  |  |  |  |  |  |  |
| Promotion/ Advertising | 400 |  |  |  |  |  |  | 400 |  |  |  |  |
| Staff costs and wages | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 | 666.60 |
| **Production costs** | | | | | | | | | | | | |
| Project 1: Art Exhibition | | | | | | | | | | | | |
| Freight |  | 1,500 |  |  |  |  |  |  |  |  |  |  |
| Printing catalogue |  | 2,000 |  |  |  |  |  |  |  |  |  |  |
| Postage and mailing costs |  | 500 |  |  |  |  |  |  |  |  |  |  |
| Opening costs: wine, catering |  |  | 1,000 |  |  |  |  |  |  |  |  |  |
| **Children’s ward circus day** |  |  |  |  |  |  |  |  |  |  |  |  |
| Circus performer fees |  |  |  |  |  |  | 1,000 |  |  |  |  |  |
| Travel for performers |  |  |  |  |  |  |  | 50 |  |  |  |  |
| Printing costs: program and flyers |  |  |  |  |  |  |  | 500 |  |  |  |  |
| Materials: Face paintng, balloons |  |  |  |  |  |  |  | 500 |  |  |  |  |
| **Total cash out** | 22,167 | 4716.60 | 1916.60 | 1266.6 | 866.60 | 1666.6 | 1766.6 | 2166.6 | 866.60 | 1366.6 | 716.60 | 666.60 |
| Total cash in | 28,000 | 7,000 | 500 | 200 | 2,500 | 500 | 100 | 400 | 1,800 | 600 | 200 | 200 |
| Total cash out | -22,167 | -4716.6 | -1916.6 | -1266.6 | -866.60 | -1666.6 | -1766.6 | -2166.6 | -866.60 | -1366.6 | -716.60 | -666.60 |
| **Surplus or shortage** | 5,833 | 2283.4 | -1416.6 | -1066.6 | 1633.4 | -1166.6 | -1666.6 | -1766.6 | 933.40 | -766.60 | -516.60 | -466.6 |
| **Cash position** | | | | | | | | | | | | |
| Cash at start of month | 0 | 5,883 | 8166.40 | 6749.8 | 5683.2 | 7316.6 | 6150 | 4483.4 | 2716.8 | 3650.2 | 2883.6 | 2367 |
| Surplus or shortage | 5,833 | 2283.4 | -1416.6 | -1066.6 | 1633.4 | -1166.6 | -1666.6 | -1766.6 | 933.40 | -766.60 | -516.60 | -466.6 |
| **Cash at end of month** | 5,833 | 8166.40 | 6749.8 | 5683.2 | 7316.6 | 6150 | 4483.4 | 2716.8 | 3650.2 | 2883.6 | 2367 | 1,900 |
| **Cash Flow Budget Template** | | | | | | | | | | | | |
| **Cash in** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
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| **Total cash in** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash out** | | | | | | | | | | | | |
| **Start-up costs** | | | | | | | | | | | | |
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| **Running costs** | | | | | | | | | | | | |
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| **Production costs** | | | | | | | | | | | | |
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| **Total cash out** |  |  |  |  |  |  |  |  |  |  |  |  |
| Total cash in |  |  |  |  |  |  |  |  |  |  |  |  |
| Total cash out |  |  |  |  |  |  |  |  |  |  |  |  |
| **Surplus or shortage** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash position** | | | | | | | | | | | | |
| Cash at start of month |  |  |  |  |  |  |  |  |  |  |  |  |
| Surplus or shortage |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash at end of month** |  |  |  |  |  |  |  |  |  |  |  |  |