



Global Innovative Leadership Module

BUDGET AND FINANCIAL PLANNING

GLOBAL INNOVATIVE LEADERSHIP MODULE

ERASMUS+ STRATEGIC PARTNERSHIP FOR YOUTH

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Table Of Contents

CHAPTER 1: THEORETICAL BACKGROUND	1
1. Budgeting	1
1.1. Definition.....	1
1.2.Purpose of Budgeting.....	1
1.3.Budget Types	3
1.4.How To Start A Business Budget.....	4
1.5.Components Of A Budget.....	5
1.6. How To Draft A Business Budget	7
2. Financial Control	8
2.1.Definition.....	8
2.2.The Importance Of Financial Control	8
2.3.Exploring The Fraud Triangle.....	9
2.4.Strengthening Financial Control	10
2.5.Financial Control Models	12
2.5.1. Overview	12
2.5.2. Introduction	13
2.5.3. Financial Definitions And Classifications	14
CHAPTER 2: APPLICATION.....	25
1. Six Steps To A Better Business Budget	25
2. Smart Ways To Trim Your Company's Budget	28
CHAPTER 3: TOOLS	31
1. Vertex 42	31
2. Office Budget Template	31
3. Capstone Simulation	31
4. Other Tools	32
5. Videos	32
CHAPTER 4: CASE STUDIES.....	33
1. Kiwi Restaurant	33
RESOURCES	38

1. Budgeting

1.1. Definition

According to Certified Institute of Management Accountants (CIMA) a budget is a “quantitative expression of a plan for defined period of time. It may include planned sales volumes and revenues, resources quantities, costs and expenses, assets, liabilities and cash flow”. Therefore, to call a plan – budget, it must comprise the quantities of economic resources to be allocated and used, it must be made for certain period of time, it has to be expressed in monetary terms, the managers needs to act in a way that shows intention to realize the plan. Budgeting is a process of expressing quantified resource requirements (amount of capital, amount of material, number of people) into time-phased goals and milestones.

1.2. Purpose of Budgeting

Budget helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise. It also helps co-ordinate the activities of the organization by compelling managers to examine relationships between their own operation and those of other departments. Other essentials of budget include:

- To control resources
- To communicate plans to various responsibility center managers.
- To motivate managers to strive to achieve budget goals.
- To evaluate the performance of managers
- To provide visibility into the company's performance
- For accountability

In summary, the purpose of budgeting tools:

1. Tools provide a forecast of revenues and expenditures, that is, construct a model of how a business might perform financially if certain strategies, events and plans are carried out.
2. Tools enable the actual financial operation of the business to be measured against the forecast.
3. Lastly, tools establish the cost constraint for a project, program, or operation.

1.3. Budget Types

- Sales budget – an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.
- Production budget - an estimate of the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, including labor and material.
- Capital budget – used to determine whether an organization's long-term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.
- Cash flow/cash budget – a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short – term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.
- Marketing budget – an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.
- Project budget – a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.
- Revenue budget – consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.
- Expenditure budget – includes spending data items.

1.4. How To Start A Business Budget

It's a basic tenet of business - before you can make money you have to figure out how to spend it. Drafting a budget is a key way to help you turn your dreams for business success into reality. Using this vital tool, you can track cash on hand, business expenses, and how much revenue you need to keep your business growing -- or at least afloat. By committing these numbers to paper, your chances of succeeding with your business are helped by anticipating future needs, spending, profits and cash flow. It also may let you spot problems before they mushroom, so that you can switch gears.

"It's like a roadmap for your company," says Victor Butcher, of Butcher Financial Services in Memphis, Tenn., a former president of the Tennessee Society of Certified Public Accountants' Memphis Chapter who advises small businesses. "You need the roadmap to understand where you're going with your business."

Conversely, if you don't have the discipline to sit down and assemble a business budget, you may not have insight into how your business is performing from year to year, whether there are cuts you can make to improve performance and whether you have the needed funds to purchase new equipment -- be it computers, trucks, machinery, or a new factory. "It's like being in a car without a map or GPS system," Butcher says. "You hope going in the right direction, but you don't know."

The following pages will detail why your business needs a budget, what components you should include in a budget, and how to get started drafting a budget, and how to use the budget to better your business performance.

Why Your Business Needs a Budget

The bottom line on why to draft a budget for your business is that it will help you figure out how much money you have, how much you need to spend, and how much you need to bring in to meet business goals. But there are other reasons, too. Bankers and other financiers may want to see a budget when you ask for a loan. Employees should also be privy to the budget so that they understand where the business is going and are motivated to work harder. "It would be stupid not to

share this with employees. Everybody should know what the goal of the company is. It's a group goal," Butcher says. "Don't expect your staff to meet your goals if they don't know what they are."

Budgets can also help you minimize risk to your business. A budget should be created before you sign a new lease or invest in new machinery or equipment. It's better to find out that you can't afford new office space before you commit to spending a certain amount of money every month. According to the

U.S. Small Business Administration, a budget can be used to indicate some of the following:

- The funds needed for labor and/or materials.
- For a new business, total start-up costs.
- Your costs of operations.
- The revenues necessary to support the business.
- A realistic estimate of expected profits.

You can use this information to adjust your plans or expectations going forward. A 12-month budget can be updated with actual expenditures and revenues each month so that you know you're on target. If you're missing the targets set out in your budget, you can use the budget to troubleshoot by figuring out how you can reduce expenses like labor or new computers, increase sales by more aggressive marketing, or lowering your profit expectations.

1.5. Components of a Budget

A budget should include your revenues, your costs, and -- most importantly -- your profits or cash flow so that you can figure out whether you have any money left over for capital improvements or capital expenses. A budget should be tabulated at least yearly. Most yearly budgets are also divided up into 12 months, with blank columns next to your estimates to fill in with your actual results as the year progresses. You may want to consult an accountant in preparing a budget, but it also may be something you can do yourself with small business financial software and/or some of the free budget worksheets and templates available online (see Recommended Resources below.)

Here is how the SBA defines the basic budgeting components:

Sales and other revenues - These figures are a budget's "cornerstone." Try to make these estimates as accurate as possible, but err on the side of being conservative if you have to. "Everyone would like to see sales double each year but the odds of that happening are very unlikely," Butcher says. The best basis for your projected sales revenues are last year's actual sales figures. If you're just starting out, hopefully you have done your research by asking other business people in the same field as you, using knowledge of the field you had at a previous job, and/or doing market research.

Total costs and expenses - Now that you have your sales estimates done, you can come up with figures for how much it will cost your business to earn those revenues. These can be tricky because sometimes they will vary because of inflation, price increases, and other factors. Costs can be divided into categories: fixed, variable, and semi-variable.

- Fixed costs are those expenses that remain the same, whether or not your sales rise or fall. Some examples include rent, leased furniture, and insurance.
- Variable costs correlate with sales volumes. These include the cost of raw materials you need to make products, inventory, and freight.
- Semi-variable costs are fixed costs that can be variable when influenced by volume of business. These can include salaries, telecommunications, and advertising.

Profits - Let's face it: you're in business to make a profit on your investment and work. You estimate this figure by subtracting your costs from your revenues. The SBA advises to check with trade associations, accountants, or bankers to make sure that you're getting an appropriate profit from your business. Once you have profit estimates, you can also start to plan for whether you can purchase new equipment, move to a bigger location, add staff, or give your employees bonuses or raises. You can also troubleshoot your projected costs and see where you can cut if your profit projections aren't up to snuff.

The budget should operate according to basic mathematical equations -- either "sales = total cost + profit" or "sales - total cost = profit."

1.6. How to Draft a Business Budget

Drafting a budget is easiest if you wrote one the previous year. Those projections, coupled with the actual income and expense figures you realized, would form the basis of your estimates for the coming year. But if you're reading this article, the odds are that you've never written a budget for your business before. In that case, read on.

Target your sales and profits. Start out by developing a target for your sales revenues, advises SCORE, a non-profit group with 370 chapters that is dedicated to helping entrepreneurs and small businesses form, grow and succeed. For a startup business, begin by estimating what type of realistic profit you'd like to see in the coming year. If you have been in business for a while, take your company's most recent financial statements -- be they generated by a ledger or a computer software program -- and use those as the basis for developing your sales and profit targets. The reason you start with sales and/or profits is because this information will drive the rest of your estimates for costs, expenses, and capital expenditures. Take into considering factors that might affect your sales numbers -- such as the

economy or the loss of a major customer -- but don't worry too much because the basic tenet of budgeting is that the figures will never turn out to be exactly right.

Calculate operating expenses. A good place to start, once again, is those financial statements. These statements should include an itemized list of the fixed and variable expenses you incurred during the year, including salaries and wages, rent, postage, research, travel, utilities, taxes, etc. If you're just starting out, you're going to have to brainstorm to make sure you factor in all the costs you will incur.

Figure out gross profit margin. Again, this is much easier if you've been in business for a while. In that case, estimate the cost of your goods sold (beginning inventory, goods purchased or manufactured, shipping charges, etc.) and subtract that from your overall sales revenue, SCORE advises.

Take time to readjust figures. Given the estimations for sales and expenses, you most likely will want to go back and readjust your estimates to reach your profit targets. This may mean you purchase fewer new supplies in the coming year or you need to add two new employees. Factor in

these adjusted costs and or savings and run the numbers again. You may need to bite the bullet and go to an accountant or business consultant for help with your budget figures. Either way, remember that it's important to use realistic figures so that your budget can help you guide your business. Remember that budgeting is not an exact science. "A budget works on common sense," Butcher says. "If you made \$100,000 last year in revenue, common sense indicates you won't make a million next year. Your best off estimating in the range of \$80,000 to \$120,000." But be prepared to make adjustments to your budget as the year progresses. You may have set your sales figures too high when the economic slump hits your business. Or, conversely, you may land a client that doubles your business.

2. Financial Control

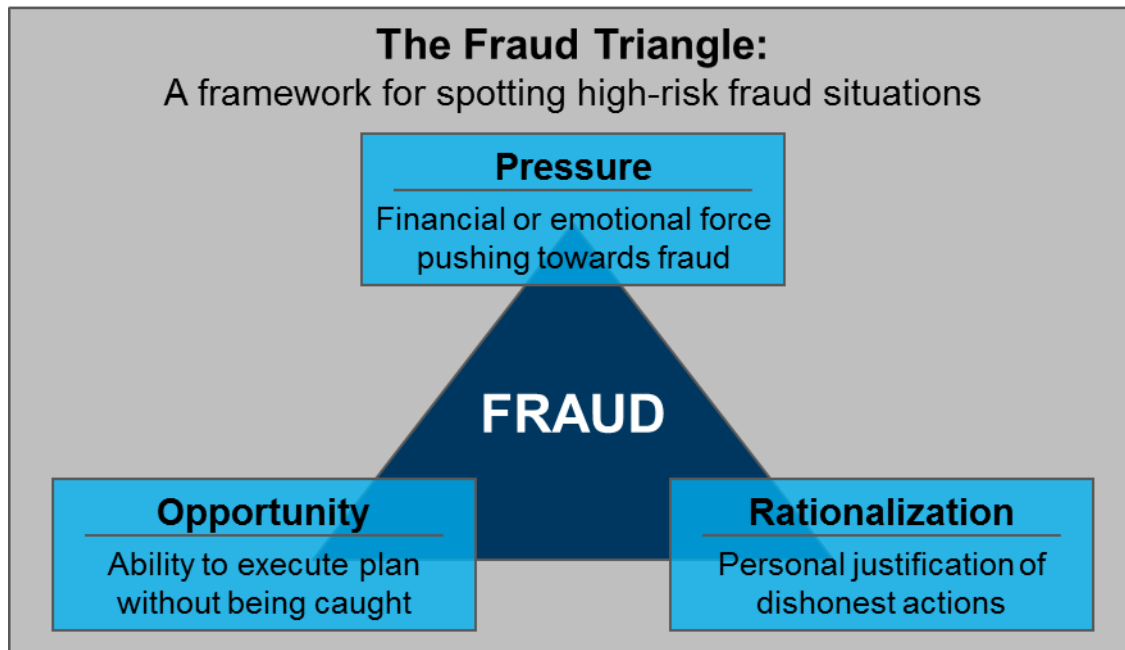
2.1. Definition

Financial controls are among the tools that managers use to satisfy the third and fourth aspects of their roles, tracking progress and evaluating results, and they fall into the controlling category. Other controls may show progress in other areas, such as market share or customer satisfaction, but financial controls are the most important for an objective measure of company performance. During strategic planning, management defined measurable objectives for operations. Financial controls report on these objectives and to what extent they have been met. During the reporting period, managers can impose corrective action if necessary and at the end of the reporting period, the results form part of the overall evaluation of the success of the strategic plan.

2.2. The Importance of Financial Control

"So how are we doing in the restaurant this week?" or "It seemed to be pretty empty this weekend, how did that new promo work out?" are only two of many questions that gaming operations management teams may be asking, but need to know on a regular basis. The answers to these questions, and other similar ones, should be readily available from the accounting and finance group. The results being reported need to be accurate so that the operations management team can make informed decisions about the business. The key questions that internal auditors need to ask themselves are: "Does the financial information make sense?" and "Are we proactively protected from fraud?" Strong financial controls help internal auditing and the operations team have confidence in the numbers being reported to management and help protect the organization's assets. As in any area of operations – whether it be gaming, food and beverage, or the hotel – the financial controls need to be documented, assessed, and strengthened where necessary and tested regularly.

2.3. Exploring the Fraud Triangle



Due to the current troubled economic environment, the likelihood that fraud will occur has increased significantly. The pressures — the first of the three components of the Fraud Triangle — on employees and customers have increased through lower or lost wages, spouses being out of work, and lack of medical insurance. These tough times also have allowed potential fraudsters to easily rationalize — the second component of the Fraud Triangle — the fraud that they are contemplating. Many fraud perpetrators say they are "just borrowing the money to pay a medical bill" or "using the money to help out until their spouse gets a job." Other common rationalizations include: "They will never miss US \$200 a day with all the money they make," or "They don't pay me enough anyway."

Operations has little control over most of those pressures and rationalizations but it does have control over the last component of the Fraud Triangle: opportunity. By evaluating and strengthening the financial internal controls of the operation, internal auditors can greatly reduce the opportunity component.

2.4. Strengthening Financial Control

When assessing the current state of an organization's financial controls, begin by determining which financial processes pose the most risk. One way internal auditors can assess financial controls is by looking at all of the functions and processes in accounting and finance and asking if a process were "broken" and activities were not getting done correctly, how much trouble would that cause the organization? For example, if for some reason checks were not cut or the accounts payable system did not function and vendors were not paid, goods and services would no longer be coming in and things would get dicey. In this example, the cash disbursements process would be an area where internal auditors would want strong financial controls in place. Additionally, within the cash disbursements processes, employees could set up fictitious vendors, cut fraudulent checks, or make deals with vendors to defraud the operation. Another example of an area where strong controls are absolutely essential would be within the payroll function. Payroll is such a huge expense for all operations that the slightest weakness or gap in the controls could have disastrous results. Employees could be paid incorrectly — or not at all — and once again, unscrupulous employees could exploit gaps and weaknesses in the controls to perpetrate frauds such as having fictitious employees on the payroll, not recording vacation or other paid time off, or overpaying themselves, relatives, and friends. Unfortunately, there always will be people who try to perpetrate fraud, but internal auditors need to stay one step ahead.

In addition to the potential for fraud in the operation, without strong financial controls it would be easy for innocent mistakes (e.g., misposting to the general ledger or forgetting to book an entry) to allow a major reporting error to go undetected and cause management to make an incorrect decision, which could potentially cost large amounts of money. Strong financial controls not only help prevent and detect fraud, but they also help detect true mistakes in the accounting and management reporting.

Other risk areas within an operation include controls around cash, financial reporting, general ledger, general ledger account reconciliation, and inventory (particularly in the food and beverage area), as well as controls around the hotel front desk. Another area that often is overlooked — but warrants strong controls — is management reporting. Is anyone in internal auditing verifying that the information being sent to the management team daily, weekly, or monthly is accurate? Could

there be inconsistencies or mistakes made in the haste to get them done? Does the sum of all the departments' profit and loss reports equal the total of the entire operation's profits and losses? Many times when these areas are audited, numerous discrepancies surface and the first questions clients will ask are: "How long has this been going on?" and "Did we pay incorrect bonuses as a result?"

The above-mentioned items are not meant to be complete by any means; rather, they should get auditors thinking outside the gaming areas in their risk assessment and audit planning and provide a starting point for their audit. Internal auditing's own customized risk assessment should identify all the areas that auditors feel are at risk within their specific operation, including the nongaming areas.

Remedying Gaps and Weaknesses

Once auditors have performed their risk assessment and have identified the areas that they feel are at risk within their organization, they need to assess the controls currently in place. Review the policies and procedures for each of those areas, interviewing staff at all levels within the particular areas and observing them performing the various functions. After documenting the current state, auditors should determine whether the controls are adequate to mitigate or protect the organization from the risks, or if there are weaknesses or gaps that need to be addressed and corrected.

To best accomplish this, the operation should prepare remediation plans with a time line and identify responsible people. The internal audit team should review the plan, and once the remediation plans have been developed and are in progress, it is important to monitor progress regularly. Having the operations staff responsible for the remediation send periodic updates to the internal audit team would be an excellent way to monitor each of the various remediation plans. The update should include tasks accomplished to date, tasks outstanding (with expected completion dates), and any identified issues or roadblocks. This will allow internal auditing to know at which stage each of the remediation plans is as they move forward.

Once the remediation plans have been completed and the revised controls have been in operation for a few months, internal auditing should test compliance with, and the effectiveness of, the new controls. When the reviews have been completed with satisfactory results, internal auditing should add the accounting and finance departments to its audit plan and schedule — if it hasn't already — so that the financial controls are being monitored regularly going forward.

Tighter Controls

Strong financial controls will allow for reliable financial reporting throughout the organization, which will allow for more solid financial management of the operation. Strong controls also provide greater peace of mind that the accounting data is correct and the money is better protected from potential frauds. That, in turn, allows for larger profits for the operations. And who wouldn't want that during this current economy?

2.5. Financial Control Models

2.5.1. Overview

Financial reports

Financial reports are your financial controls. Explanations of the three major financial reports used for financial management are given below.

The balance sheet

The balance sheet shows the financial position of a business at a specific point in time, for example, the last day of the month or the year.

This financial statement shows total assets (what the business owns — items of value) and total liabilities (what the business owes).

Total assets are broken down into subcategories of current, assets and other assets. The total liabilities are broken down into subcategories of current liabilities, long-term liabilities/debt and owner's equity. The total assets must equal the total liabilities plus owner's equity.

The accounting equation

Assets = liabilities + owner's equity is a simple formula to describe the balance sheet.

The profit and loss statement

The profit and loss statement shows revenues, minus the cost of goods sold, minus operating expenses, plus other revenues and expenses and the net income/loss before taxes.

The cash flow statement

The cash flow statement is the detail of cash received and cash expended for each month of the year. A projected cash flow statement helps you determine if the company has positive cash flow. If your company's projections show a negative cash flow, you must revisit your business plan and solve this problem.

Summary

Accurate and timely financial reports show the progress and current condition of the business. You can compare performance during one period of time (month, quarter or year) with another period, calculate trends and plan for the business's future.

Comprehensive overview — financial controls

2.5.2. Introduction

By analyzing your business's financial reports, you are able to determine how well your business is doing and what you may need to do to improve its financial viability. There are three basic financial reports that all business owners need to understand and interpret in order to manage their businesses successfully — the balance sheet, the profit and loss and the cash flow statement.

These are often referred to as the financials. Pro forma financials are projections, usually projected for three fiscal years. Financial controls provide the basis for sound management and allow you to establish guidelines and policies that enable the business to succeed and grow.

Proactive vs. reactive financial management

The proactive financial manager uses pro forma or projections to plan ahead for the problems the

business is likely to encounter and the opportunities that may arise. To be proactive you must read and analyze your financial statements on a regular basis. Monthly financial analysis is preferred, quarterly is more common, and yearly is not often enough. The proactive manager has financial data available based on actual results and compares them to the budget. This process points out weaknesses in the business before they reach crisis proportion and allows the manager to make the necessary changes and adjustments before major problems develop.

A reactive manager waits to react to problems, and then solves them by crisis management. This type of manager goes from crisis to crisis with little time in between to notice opportunities. The reactive manager's business is seldom prepared to take advantage of new opportunities quickly. Businesses that are managed proactively are more likely to be successful.

Assistance in developing financial controls

You may need an accountant or business consultant to assist you in setting up your chart of accounts. Accountants use a standard numbering system for the business accounts in the chart, but each business may have a different chart of accounts depending on the operational plan. The accountant or business consultant also will assist you in setting up the financial reports you need to manage the operation of your business.

Many business owners purchase software to do record keeping and develop financials. These programs provide a chart of accounts that can be individualized to your business and the templates for each account ledger, the general ledgers, etc. and the financial reports. These programs are menu-driven and user-friendly, but knowing how to input your data correctly is not enough. You must know where to input each piece of data and how to analyze the reports compiled from the data. If you have not learned a manual record keeping system, you need to do this before attempting to use a computerized system.

2.5.3. Financial Definitions and Classifications

a. The balance sheet : The balance sheet is a snapshot of the business's financial position at a certain point in time. This can be any day of the year, but balance sheets are usually done at the end of each month.

This financial statement is a listing of total assets (what the business owns — items of value) and total liabilities (what the business owes). The total assets are broken down into subcategories of current, fixed and other assets. The total liabilities are broken down into subcategories of current liabilities, long-term liabilities/debt and owner's equity.

Assets:

- Current assets

Current assets are those assets that are cash or can be readily converted to cash within the next 12 months, such as accounts receivable or inventory. In the balance sheet shown for Sterling Retail, the current assets are cash, petty cash, accounts receivable and inventory.

Some business people define current assets as those the business expects to use or consume within the coming fiscal year. Thus, a business's noncurrent assets would be those that have a useful life of more than one year. These include fixed assets and intangible assets.

- Fixed assets

Fixed assets are those assets that are not easily converted to cash in the short term; i.e., they are assets that only change over the long term. Land, buildings, equipment, vehicles, furniture and fixtures are some examples of fixed assets. In the balance sheet for Sterling Retail (below), the fixed assets shown are furniture and fixtures and equipment. Note that these fixed assets are shown less accumulated depreciation.

- Intangible assets (net)

Intangible assets also may be shown on a balance sheet. These may be goodwill, trademarks, patents, licenses, copyrights, formulas, franchises, etc. In this instance, net means the value of intangible assets minus amortization.

Liabilities:

- Current liabilities

Current liabilities are those liabilities coming due in the short term, usually within the next 12 months. These are accounts payable; employment, income and sales taxes; salaries payable; federal and state unemployment insurance; and the current year's portion of multi-year debt.

A comparison of your current assets and your current liabilities reveals your working capital.

Many managers use an accounts receivable aging report and a current inventory listing to help them manage the current asset structure.

- Long-term debt

Long-term debt/liabilities may be bank notes or loans made to purchase your business's fixed asset structure. Long-term debt/liabilities come due in a time period of more than one year. The portion of a bank note that is not payable in the coming year is long-term debt/liability.

For example, a business owner may take out a bank note to buy land and a building. If the land is valued at \$50,000 and the building is valued at \$50,000, the business's total fixed assets are \$100,000. If \$20,000 is made as a down payment and \$80,000 is financed with a bank note for 15 years, the \$80,000 is the long-term debt.

Owner's equity: Owner's equity refers to the amount of money the owner has invested in the firm. This amount is determined by subtracting current liabilities and long-term debt from total assets. The remaining capital/owner's equity is what the owner would have left in the event of liquidation, or the dollar amount of the total assets that the owner can claim after all creditors are paid.

The profit and loss statement: The profit and loss statement represents the relation of income and expenses for a specific time interval. This statement is expressed in a one-month format, January 1 through January 31, or a quarterly year-to-date format, January 1 through March 31. This financial statement is cumulative for a 12-month fiscal period, at which time it is closed out. A new cumulative record is started at the beginning of the new 12-month fiscal period.

The profit and loss statement is divided into five major categories:

- Sales or revenue
- Cost of goods sold/cost of sales
- Gross profit
- Operating expenses
- Net income

Sales or revenue

The sales or revenue portion of the income statement is the retail price of the product expressed as

dollars times the number of units sold. This can be product units or service units. Sales can be expressed in one category as total sales or can be broken out into more than one type of sales category: car sales, part sales and service sales, for example.

Cost of goods sold/cost of sales

The cost of goods sold/sales portion of the income statement is where you show the cost of products purchased for resale, or show the direct labor cost (service person wages) for service businesses. Cost of goods sold/sales also may include additional categories, such as freight charges cost or sub-contract labor costs. These costs also may be expressed in one category as total cost of goods sold/sales or can be broken out to match the sales categories: car purchases, parts, purchases and service salaries, for example.

Breaking out sales and cost of goods sold/sales into separate categories can have an advantage over combining all sales and costs into one category. When you break out sales, you can see how much each product you have sold cost and the gross profit for each product. This type of analysis enables you to make inventory and sales decisions about each product individually.

Gross profit

The gross profit portion of the profit and loss statement tells you the difference between what you sold the product or service for and what the product or service cost you. The goal of any business is to sell enough units of product or service to be able to subtract the cost and have a high enough gross profit to cover operating expenses, plus yield a net income that is a reasonable return on your investment. The key to operating a profitable business is to maximize gross profit.

If you increase the retail price of your product too much above the competition, you might lose units of sales to the competition and not yield a high enough gross profit to cover your expenses. On the other hand, if you decrease the retail price of your product too much below the competition, you might gain additional units of sales but not make enough gross profit per unit sold to cover your expenses.

A carefully thought out pricing strategy maximizes gross profit to cover expenses and yield a positive net income.

Operating expenses

The operating expense section of the profit and loss statement is a measurement of all the operating expenses of the business. There are two types of expenses, fixed and variable. Fixed expenses do not vary with the level of sales, thus you will have to cover these expenses even if your sales are less than the expenses. The entrepreneur has little control over these expenses once they are set. Examples of fixed expenses are rent (contractual agreement), interest expense (note agreement), an accounting or law firm retainer for legal services of X amount per month for 12 months, local phone charges, etc.

Variable expenses vary with the level of sales. Examples of variable expenses are bonuses, employee wages (hours per week worked), long-distance telephone expense, etc. (Note: categorization of these may differ from business to business.) Expense control is an area where the entrepreneur can maximize net income by holding expenses to a minimum.

Net income

The net income portion of the profit and loss statement is the bottom line. This is the measure of a firm's ability to operate at a profit. Many factors affect the outcome of the bottom line. Level of sales, pricing strategy, inventory control, accounts receivable control, ordering procedures, marketing of the business and product, expense control, customer service and productivity of employees are just a few of these factors. The net income should be enough to allow growth in the business through reinvestment of profits and to give the owner a reasonable return on investment.

b. The cash flow statement: The cash flow statement is the most important financial tool you have. The cash flow statement is the detail of cash received and cash expended for each month of the year. By closely monitoring cash flow, the entrepreneur can manage the business's most important asset effectively.

Many entrepreneurs think that the only financial statement they need to manage their business effectively is a profit and loss statement, and that a cash flow statement is excess detail. They mistakenly believe that the bottom line profit is all they need to know and that if the company is

showing a profit, it is going to be successful. In the long run profitability and cash flow have a direct relationship, but profit and cash flow do not mean the same thing in the short run. A business can be operating at a loss and have a strong cash flow position. Conversely, a business can be showing an excellent profit but not have enough cash flow to sustain its sales growth.

The cash flow statement is composed of:

- Beginning cash on hand
- Cash receipts for the month
- Cash paid out for the month
- Ending cash position

Cash on hand

Cash on hand is the starting cash position of the business on the first day of the month. It usually represents the business's checkbook balance.

Cash receipts

Cash receipts is the total of cash inflows — cash sales, collections from accounts receivable, monies received from loans, etc. The cash flow statement considers only cash. It does not take into account any uncollected portion of a credit sale.

Cash expense

Cash expense represents the total cash paid out of the business account. Purchases, wages, taxes, expenses, capital equipment purchases, loan repayments and owner's withdrawals represent most cash expenses. The cash flow statement measures and takes into account all of these cash expenditures as they are paid.

Ending cash position

Total cash available minus total cash paid out equals the end of month cash position. The ending cash position should equal the balance of the checkbook account at the end of the month of business

activity.

Summary

Financial controls enable you to take a proactive management position in your business. The three most important financial controls are:

1. The balance sheet,
2. The profit and loss statement and
3. The cash flow statement.

Each gives the entrepreneur a different perspective on and insight into how well the business is operating toward its goals. The business plan requires a projection of these statements to obtain financing. The financial controls provide a blueprint to compare against the actual results once the business is in operation. A comparison and analysis of the business plan against the actual results can tell the entrepreneur whether or not the business is on target. Corrections or revisions to policies and strategies may be necessary to achieve the business's goals. Analyzing monthly financial statements is a must if you want to successfully manage your new business.

[Business Name]

Business Startup Costs

FUNDING	Estimated	Actual	Over/(Under)
Investor Funding			
Owner 1	10,000	9,600	(400)
Owner 2	5,000	5,500	500
Other			
Total Investment	15,000	15,100	100
Loans			
Bank Loan 1			
Bank Loan 2			
Non Bank Loan 1			
Total Loans	-	-	-
Other Funding			
Grant 1			
Other			
Total Other Funding	-	-	-
Total FUNDING	15,000	15,100	100

COSTS	Estimated	Actual	Under/(Over)
Fixed Costs			
Advertising for Opening			
Basic Website			
Brand Development			
Building Down Payment			
Building Improvements/Remodeling			
Business Cards/Stationery			
Business Entity			
Business Licenses/Permits			
Computer Hardware/Software			
Decorating			
Franchise Start Up Fees			
Internet Setup Deposit			
Lease Security Deposit			
Legal/Professional Fees			
Machines & Equipment			
Office Furniture/Fixtures			
Operating Cash (Working Capital)			
Point of Sale Hardware/Software			
Prepaid Insurance			
Public Utilities Deposits			
Reserve for Contingencies			
Security System Installation			
Setup, installation and consulting fees			
Signage			
Starting Inventory			
Telephone			
Tools & Supplies			
Travel			
Truck & Vehicle			

Other 1 (specify)			
Other 2 (specify)			
Total Fixed Costs	-	-	-

Average Monthly Costs

Advertising (print, broadcast and Internet)			
Business Insurance			
Business Vehicle Insurance			
Employee Salaries and Commissions			
Equipment Lease Payments			
Inventory, raw materials, parts			
Franchise Fee			
Health Insurance			
Internet Connection			
Loan and Credit Card Interest & Principal			
Legal/Accounting Fees			
Merchant Account Fees			
Miscellaneous Expenses			
Mortgage Payments			
Lease Payment			
lisence	600		
Machinary ekipman	5,000		
Owner Salary			
Payroll taxes or Self-employment tax			
Postage/Shipping Costs			
Security System Monthly Payment			
Supplies			
Telephone	63	65	(2)
Travel			
Public Utilities			
Website Hosting/Maintenance	24	15	9
Other 1 (specify)			
Other 2 (specify)			
Total Average Monthly Costs	5,687	80	7
x Number of Months	6		
Total Monthly Costs	34,122	480	42
Total COSTS	34,122	480	42
SURPLUS/(DEFICIT)	(19,122)	14,620	33,742

[Business Name]

Restaurant Startup Costs

FUNDING	Estimated	Actual	Over/(Under)
Investor Funding			
Owner 1	10,000	9,000	(1,000)
Owner 2	5,000	5,500	500
Other			
Total Investment	15,000	14,500	(500)
Loans			
Bank Loan 1			
Bank Loan 2			
Non Bank Loan 1			
Total Loans	-	-	-
Other Funding			
Grant 1			
Other			
Total Other Funding	-	-	-
Total FUNDING	15,000	14,500	(500)

COSTS	Estimated	Actual	Under/(Over)
Fixed Costs			
Advertising for Opening			
Basic Website			
Brand Development			
Building Down Payment			
Building Improvements/Remodeling			
Business Cards/Stationery			
Business Entity			
Business Licenses/Permits			
Commercial Cooking Equipment			
Compliance Permits (Health, Safety, etc)			
Computer Hardware/Software			
Cutlery			
Decorating			
Dishes/Glasses			
Dishwasher			
Employee Uniforms			
Fixture Installation			
Fixtures/Counters			
Franchise Start Up Fees			
Freezers/Refrigerators			
Internet Setup Deposit			
Kitchen Supplies & Equipment			
Lease Security Deposit			
Legal/Professional Fees			
Linens			
Machines & Equipment			
Menu Development			
Office Furniture			
Operating Cash (Working Capital)			

Point of Sale Hardware/Software			
Potential Market Surveys			
Prepaid Insurance			
Public Utilities Deposits			
Reserve for Contingencies			
Salaries for Employee Trainers/Trainees			
Security System Installation			
Setup, installation and consulting fees			
Signage			
Starting Inventory			
Tables/Chairs			
Telephone			
Tools & Supplies			
Travel			
Travel to secure suppliers/distributors			
Truck & Vehicle			
Ventilation Equipment			
Other 1 (specify)			
Other 2 (specify)			
Total Fixed Costs	-	-	-

Average Monthly Costs

Advertising (print, broadcast and Internet)			
Business Insurance			
Business Vehicle Insurance			
Cleaning Services			
Employee Salaries and Commissions			
Equipment Lease Payments			
Inventory, raw materials, parts			
Franchise Fee			
Health Insurance			
Internet Connection			
Loan and Credit Card Interest & Principal			
Legal/Accounting Fees			
Merchant Account Fees			
Miscellaneous Expenses			
Mortgage Payments			
Lease Payment			
Owner Salary			
Payroll taxes or Self-employment tax			
Postage/Shipping Costs			
Security System Monthly Payment			
Supplies			
Telephone	63	65	(2)
Travel			
Public Utilities			
Website Hosting/Maintenance	24	24	-
Other 1 (specify)			
Other 2 (specify)			
Total Average Monthly Costs	87	89	(2)
x Number of Months	6		
Total Monthly Costs	522	534	(12)
Total COSTS	522	534	(12)

1. Six Steps To A Better Business

Why Budgeting Is Important?

Estimating and matching expenses to revenue (real or anticipated) is important because it helps small business owners to determine whether they have enough money to fund operations, expand the business and generate income for themselves. Without a budget or a plan, a business runs the risk of spending more money than it is taking in or, conversely, not spending enough money to grow the business and compete.

Budgeting Techniques

Every business owner tends to have a slightly different process, situation, or way of budgeting. However, there are some parameters found in nearly every budget that you can easily employ. For example, many business owners must make rent or mortgage payments. They also have utility bills, payroll expenses, cost of goods sold expenses (raw materials), interest and tax payments. The point is that every business owner should consider these items and any other costs specifically associated with his or her business when setting up shop or when taking over an existing business.

What To Do with Revenue

With a business that is already up and running, you can make assumptions of future revenue based on recent trends in the business. If the business is a startup, you'll have to make assumptions based on your geographic area, hours of operation and by researching other local businesses. Small business owners can often get a sense of what to expect by visiting other local businesses that are for sale and asking questions about weekly revenue and traffic patterns.

After you've researched this information, you should then match the business's revenue with expenses. The goal is to figure out what an average weekly expense for overhead, utilities, labor,

raw materials, etc. would look like. Based on this information, business owners may then be able to estimate or forecast whether they'll have enough extra money to expand their business, or to tuck away some money into savings. On the flip side, owners may realize that in order to have three employees instead of two, the business will have to generate more in revenue each week.

Let's look at six tips that will help you plan your small business budgets.

Tip No.1: Check Industry Standards

Not all businesses are alike, but there are similarities. Therefore, do some homework and peruse the local library for information about the industry, speak with local business owners, and check the IRS website to get an idea of what percentage of the revenue coming in will likely be allocated toward cost groupings.

Small businesses can be extremely volatile as they can be more susceptible to industry downturns than larger, more diversified competitors, so you only need to look for an average here, not specifics.

Tip No.2: Make a Spreadsheet

Prior to buying or opening a business, construct a spreadsheet to estimate what total dollar amount and percentage of your revenue will need to be allocated toward raw materials and other costs. It's a good idea to contact any suppliers you'd have to work with before you continue on. Do the same thing for rent, taxes, insurance(s), etc.

Tip No.3: Factor In Some Slack

Remember that although you may estimate that the business will generate a certain rate of revenue growth going forward or that certain expenses will be fixed or can be controlled, these are estimates and not set in stone. Because of this, it's wise to factor in some slack and make sure that you have more than enough money socked away or coming in before expanding the business or taking on new employees.

Tip No.4: Look To Cut Costs

If times are tight and money must be found somewhere in order to pay a crucial bill, advertise, or otherwise capitalize on an opportunity, consider cost cutting. Specifically, take a look at items that can be controlled to a large degree. Another tip is to wait to make purchases until the start of a new billing cycle, or to take full advantage of payment terms offered by suppliers and any creditors. Some thoughtful maneuvering here could provide the business owner with much needed breathing and expansion room.

Tip No.5: Review the Business Periodically

While many firms draft a budget yearly, small business owners should do so more often. In fact, many small business owners find themselves planning just a month or two ahead because business can be quite volatile and unexpected expenses can throw off revenue assumptions.

Tip No.6: Shop Around for Services/Suppliers

Don't be afraid to shop around for new suppliers or to save money on other services being performed for your business. This can and should be done at various stages, including when purchasing or starting up a business, when setting annual or monthly budgets, and during periodic business reviews.

Bottom Line

Budgeting is an easy but essential process that business owners use to forecast (and then match) current and future revenue to expenses. The goal is to make sure that enough money is available to keep the business up and running, to grow the business, to compete, and to ensure a solid emergency fund.

2. 7 Smart Ways To Trim Your Company's Budget

These penny-pinching times are the perfect opportunity to reassess how effectively your company dollars are being spent. Here, seven smart entrepreneurs, including Tony Hsieh of Zappos.com and

Piggyback on Someone Else's Marketing Efforts

"You don't need big budgets or expensive promotions to get publicity," says Eric Ryan, co-founder of Method, the chic San Francisco-based consumer products company that had revenue exceeding \$100 million in 2007. "One of the most effective things you can do is participate in established events. Here's an example: Last September, 70 cities across the nation celebrated Parking Day, an event to raise environmental awareness. We set up mini golf courses in San Francisco and Chicago. We didn't have to shell out money for a sponsorship. We did this ourselves and exposed our brand to thousands of consumers."

Make Saving Money a Game for Workers

"We just launched a program called Action Figures, in which we encourage our employees to pursue cutting costs, which this does, or producing better products, which this also does," Stephens says. "It's about encouraging people to aspire to things beyond their current timecard." Geek Squad had sales of \$1 billion last year.

Be Brutally Honest

"Take an honest look at what revenue is likely to do over the next year. Then, reduce it by 10 percent and adjust your business plan to that revenue number," says Keith McFarland, founder of McFarland Strategy Partners, and the author of *The Breakthrough Company* (Crown). "Don't take the coward's way out by making across-the-board cuts. Figure out where your core leverage points are in your business model and make sure these are adequately funded. Cut anything that is not in the 20 percent of the activities that generate 80 percent of the results. Once you have scoped the business, get your folks together and talk to them honestly about the environment ahead and what you are doing to address it. "

Make Good Use of All the Free Software That Exists

"A recession is a great time to ask yourself, Why am I spending so much money on IT?" says Paul Graham of Y Combinator, a Cambridge, Massachusetts group that funds high-tech start-ups. "If you go to a typical Silicon Valley start-up, you will find that its IT expenses consist of laptops, Internet connections, servers, and nothing else," Graham says. "It uses free Web-based software like Gmail. Large software companies spend huge amounts of money sending very convincing salespeople to come and sell you their products. But most companies don't need to pay \$1,000 a head for software."

Simplify Your Product

"In times like these, it's smart to think about de-featuring: dialing back the performance of products or services to make them cheaper and simpler," says Scott Anthony, CEO of Innosight, a Watertown, Massachusetts consulting firm that helps businesses grow through innovation. "As a management consulting company, we focus on full-scale projects that cost clients hundreds of thousands of dollars. The costs to us are mostly people: A typical project requires three to five consultants working for several months. But when we started out, our core business was workshops. They were far less resource intensive than our current offerings, lasting just one or two days and requiring one or two people to stage. Now, we are looking at nringing back those workshops. We already know how to do them, and we can hit an attractive price point of less than \$100,000." In 2008, Innosight had \$12 million in revenue.

Pay Employees To Quit

Midway through the first month of training, Tony Hsieh, CEO of the Las Vegas-based shoe-selling website Zappos.com, offers employees a \$2,000 bonus so long as they quit the company. The goal? Hsieh wants to maximize the efficiency of payroll dollars by getting half-hearted workers to move on as swiftly as possible. "We want people here because they are passionate about customer service and because they like our culture," he says. "We don't want people who are just here for a paycheck." Zappos grossed a staggering \$1 billion in revenue in 2008.

Move Customer Service To E-mail

Richard Thalheimer, founder of the great '80 retailer The Sharper Image, thinks it's time to say goodbye to phone orders. "In my new company, we have eliminated phone ordering," says the San Francisco based entrepreneur, referring to RichardSolo.com, the online gadget retailer he launched in 2008. "Customers can't buy over the phone even if they want to. Providing customer service over e-mail is not only cheaper--it's more efficient. It's hard to monitor phone calls, but with e-mail, you can quickly read all the customer comments."

CHAPTER 3. TOOLS

1. Vertex 42

Vertex 42 has been creating professionally designed spreadsheet templates for business personal, home, and educational use. Its collection of financial calculators include some of the most powerful and user-friendly [debt reduction](#) and [money management](#) tools anyone can find. Vertex42 offers a wide variety of free business templates as well as some Premium spreadsheet solutions for your growing business. You can save a lot of time and frustration by starting a project with a good template. So, if you are trying to start a new business or just trying to find a budget friendly solution, these templates are a great place to start. (<https://www.vertex42.com/>)

2. Office Budget Templates

Office Budget Templates offers a free budget and finance template provided by Microsoft Office. From the expense reports, the graphic integrated monthly planning budget, the investment planning charts to the budget planner, it offers a lot of templates. The descriptions and usage forms of these tools come with fairly simple and ready-made pens. For this reason, depending on what you want the tool can be used very easily.

3. Capstone Simulation

Management games offer a unique means of teaching business managers and financial executives financial and managerial concepts and developing their strategic abilities. More and more companies, as well as virtually all MBA programs across the nation, are using management games as a basic teaching tool for industrial training programs. The management game is a form of budget simulation. The distinction between a game and a budget simulation is subtle. At this point for people who are not financial experts we will apply the Capstone Simulation as a finance teacher.

Capstone is reputed to be the one of the best known business educational simulation on finance. Simulations provide an unparalleled means of injecting interactivity into the classroom. Interactivity

in learning is — a necessary and fundamental Mechanism for knowledge acquisition and the development of both cognitive and physical skills. Through the introductory exercises, students learn that shareholders were unhappy with the financial performance of the previous management team. Within this simulation, financial reports on the various processes of the company are presented to the participants and it is expected to take strategic steps by interpreting it. They can have information about what to do, how to think and how to interpret when they see a financial table or a budget table on this page.

4. Other Tools

- YNAB - <https://www.youneedabudget.com/>
- QUICKEN - <https://www.quicken.com/>
- MINT - <https://www.mint.com/>
- Free Budget Worksheet - <http://www.betterbudgeting.org/budgetformsfree-basicbudgeting.htm>
- Budget Calculator-
http://www.businessownersideacafe.com/financing/budget_calculator.html

5. Videos

- The Art Of Startup Finance - <https://www.entrepreneurship.org/videos/the-art-of-startup-finance/financial-budgeting-your-operating-budget>
- <https://www.entrepreneurship.org/learning-paths/the-art-of-startup-finance>

1. Kiwi Restaurant

On a first look Kiwi is a just restaurant and many people would say: “What is the innovation here?” However Kiwi developed original concept that has worked out for three years so far. This place is situated in Maastricht, one of the oldest cities in the Netherlands with old buildings and paved streets. Maastricht is a center of a region called Limburg, region famous with its traditions. Not many things different than traditional Limburgish style can be found here. Less than 50 years ago something new and different was started in Maastricht – Maastricht University where most of study programs are taught in English. In the last couple of years students have become a significant part of the city population – many of them come from Germany, Belgium, Spain, Italy, UK, Eastern Europe and the other parts of the Netherlands. The majority of these students were unemployed therefore they depended on their parents and did not want to spend a lot of money on a snack or on a drink – something that all these old traditional places in Maastricht could not offer them. Many of them bored out of all day sitting in the library found a very good environment in Kiwi. Kiwi was established as kind of a library, restaurant, bar and diner place – all in one. During the day very light chill out music and ultra-fast Wi-Fi made it perfect environment for students that wanted to study on a different place than the library. The students could have drinks, snack and a meal on better price compared to all the other food places in Maastricht. Around eight o’clock in the evening, the whole place was transforming from library to bar where you can have stronger drink with friends with loud music and dance floor working till three o’clock in the morning. The place was positioned in traditional building with two floors close to the Maastricht University. Kiwi was a place where a student can spend the whole day and the business model was so successful in Maastricht that in a period of year the same place was opened in another student city in the Netherlands – Tilburg. Later it went over the border in Aachen, Germany and Leuven in Belgium – both of them old traditional cities with many students. The main initiator behind the idea and its execution was Ryan van Bun who together with his wife and some other family members decided to start this project in the summer of 2009. He was working in the mines situated in Heerlen, a city 100 kilometers away from Maastricht. After 10 years in Heerlen he decided that it’s time to start his own business. He was born and raised in Maastricht, but for last couple of years before starting Kiwi he was living in Heerlen. After coming back to Maastricht, he saw that the city was not that old traditional town he left ten years ago – international students were everywhere and English became second language in

Maastricht. He decided to target these young people from all over Europe with his business, but he did not have any entrepreneurial experience so far. Ryan rented an old house with two floors close to the library and started executing the idea. He managed to save a lot of money through all these years working in the mines, but in the beginning he wanted to start with a loan from the bank. Unfortunately due to the ongoing crisis back then in Europe the bank did not give him the loan, so he had to start everything on his own – without additional money and without venture capitals. In the beginning he started with three guys in the kitchen, four waitresses, one restaurant manager and him as a general manager but he was also working in the kitchen, behind the bar and the sometimes as waiter. Creating its first budget was not as recent as first two companies but the focus on our interview was only that. They have gone through the process of creating and using startup company's budget almost four years ago. By now Kiwi is already a key player on the market in Maastricht. According to the founder, the whole project was extremely successful. He is having a lot of customers on a daily basis, more than ten people in the kitchen working on shifts, two guys behind the bar and around ten people serving on the customers who also work on shifts. He hired another general manager for Kiwi two weeks after the restaurant opened – her name was Nicky.

Ryan, the founder of Kiwi, spent around two and a half months on researching the market; getting in contact with the potential customers, and creating the first budget. Creating the budget was part of the whole process of getting ready to start the company. The period covered by the first budget was one year – he decided to use the standard time dimension. Ryan did not use any help from financial accountant or anyone else with financial professional background.

“I am the one who knows my business, not the accountant or the banker. The idea of Kiwi came into my head and I did the market research, so I am the one who will make the budget plan as accurate as possible.”

Kiwi like the other two startup companies in the paper used the results from the market research to build the revenue part of the first budget. Ryan, with the help of his wife, did a really good market research for around two months and he based the budget numbers on that. The most important aspect according to him was to focus on customers.

“Make your plan around the audience. My plan is not the customers plan. Don’t create the products and then sell, first see what customers want and create your product. This is what helped me personally to create Kiwi first budget”

So after having the idea about the new innovative student place in the heart of the old Maastricht he did a really comprehensive research on customers via interview and surveys. He really wanted to make sure that the new potential clients will like his idea. The good thing about his business is the immense amount of information that can be found online or from other easy accessible sources - information on the cost model, margin sell and others related to food and drinks places. What he had to plan is the sales that Kiwi needed to make in order to return his investment back and establish the company on the market. Ryan focused on interviewing the potential customers and preparing a lot of surveys that were sent to many of the students in Maastricht University. In the survey there were questions connected to his idea about Kiwi – the answers on these questions helped him to understand if the students would like the new place. After he received a lot of positive responses he calculated percentage of these positive responses out of the total number. These percentage was used to calculate the how many of the Maastricht University students were willing to go to Kiwi. One of the questions in the surveys and the interviews with the potential customers was *“How often would you visit Kiwi?”* Based on these numbers he managed to make an approximate number of sales. After the survey he contacted with some of the students from both groups – the one who reacted positive on his idea and the one who reacted negative. This helped him to know what the customer would like and how much money they are willing to spend in Kiwi. He calculated the revenue part of his budget based on this solid market research he did around the customers. Kiwi went fine – everything started more than well and the startup performed better than the plan which was good sign for the research Ryan did.

“We based part of our planning on market research and part on guessing, because I cannot predict the future on 100 %. You can inform yourself as much as possible and as accurate as possible but you cannot be hundred percent sure. You really don’t know how the people are going to react on your ideas. Yes, during the surveys they said, the idea sounds good, but you never know what may happen after that. But after all we did pretty good job and Kiwi performed better than the plan. I think the research we did helped us to foresee that, but a lot of luck was involved as well.”

After Ryan created the budget, it came time to use it during the first budgeting year. Once Ryan had the budgeting plan for next year, he wanted to make sure that the actual numbers of his business are more than the planned one.

“Honestly, we got on a roller coaster – plans and everything they vanished on the table. We just had to make sure that we got the quality and the product on a very good level. We wanted to attract more and more customers so we were totally focused on making sure that product is good and continues. The budget plan – we did not even care about it at that moment because we were out of concerns. I was checking the budget and I knew we were performing better than what it was planned, so that was giving me a good sign about the company. We put on the table things that are really important like the product and the customer. You can see the budget afterwards. If you are busy you don’t need to look after the budget because you are busy anyway.”

According to Ryan, important for him in the beginning was to stay always on the top of everything. That is the principle he tried to follow in running Kiwi. Staying always on the top of what is happening gave him information for every aspect of the business. This helped him to spot if something is going wrong with Kiwi.

“If I hear that something is not going well, I need to make sure that I react in a week, but not two months later. Information up to date is very important.”

He followed the same principle in budgeting:

“I was checking if the actual numbers were matching with the planned ones on a weekly basis. I did not spend any time on analyzing the budget because we were totally focused on the product and customers. But knowing that we are doing better than the budget made me confident for the future of the company”

When building the first budget he did not into consideration coordination the activities and communication the targets among the employees with the budget. He preferred the direct way of doing the things – face to face. Kiwi is a place that highly depends on its staff – waitress, people in the kitchen and managers. When the restaurant started working three years ago, the smiled staff, well prepared food by the people in the kitchen and the quality of serving in general was the first

and most important that attracted new customers. Ryan had one general manager – Nicky who was responsible for everything. She is the one getting a bonus when the restaurant reaches the weekly target that is tightly related to the revenue. The target is 90 euro revenue for the restaurant per 1 working hour. He set the target on 90 euro based on Kiwi`s strategy – they wanted to sell their service on the lowest possible price, so setting 90 euro per hour would guarantee covering the expenses and minimal profit for the company. According to Ryan the target was doable but Nicky had to stretch a bit in order to reach the goal. Employees did not have any targets – Nicky is the one who looked after their performance – ‘She is able to do that by staying on top of the things all the time’ said Ryan about the way Nicky managed the rest of the employees. Ryan also relied on the social control in Kiwi.

“If one of the employees didn’t do good job the others would not like him or her – so it’s like social control. It’s hard to get that, it needs some time, but it is really effective and I tried to implement that from the day Kiwi opened. If the people in the kitchen made a mistake, waiters were not happy, if the waiters made a mistake, the people from the kitchen were not happy.”

According to Ryan money is important motivator, but when starting a new company there is something more important and that is to have people that understand what you are trying to achieve and they are willing to go with you for that. According to Ryan nonmonetary extrinsic way of motivating the people is much more important than the monetary intrinsic. In that sense Ryan said that young people are much easier to be motivated with extrinsic methods.

“I prefer to work with young people because they are the one that gets your idea. Experienced one already know a way of doing the things and most of the time that is not your way, if you want to try something different than your competitors. For finding good people that suits your company you really need good recruitment process – 1 out of 10 people will have the character that you are looking for. This is what I did when started Kiwi –relied only on young people. They got the idea from the beginning and they have a part from the success of Kiwi. “

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