



Financial management system

The following related tools and resources can be found in the 'Tools and Resources' section in the members only area of the website.

- *Business Forecast spread sheet*
- *Cash Flow Forecast spread sheet*
- *Weekly Income and Expenditure spread sheet*
- *Profit and Loss Statement spread sheet*

What is a financial management system?

This is a system that includes all your daily business activities, including monitoring your bank balance, your income and expenditure and how you manage your budget to ensure you make a surplus at the end of the year.

Why do we need it?

It enables the setting to make informed decisions, as a financial management system looks at

- your past to see what has happened
- your present to make sure that things are running smoothly
- the future to plan and forecast to ensure sustainability

How do we do it?

This can be split into three main areas, forecasting, record keeping and reviewing.

- **Forecasting**

Forecasting is predicting what will happen in the year ahead and using it to set an appropriate budget.

It is useful to carry out a cash flow forecast, which is a statement of each month's expected income and expenditure for the coming year. This will predict any future financial problems and enable you to plan for them

The cash flow forecast can be used to generate your annual budget.

The year end totals from the cash flow forecast will give you a business forecast for the year which can be used as part of your business plan

- **Record keeping**

It is essential to keep accurate, up to date records of your business income and expenditure. It will help the setting to submit the required information to bodies such as Her Majesty's Revenue and Customs (HMRC), Charity

Commission and Companies House as well as to notice and respond quickly to potential problems.

Examples of records include:

- cash book
- invoices
- grants
- Nursery Education Funding (NEF)
- receipts
- wages
- bank statements

- **Reviewing**

It is important to regularly review the setting's financial position. This can be done by comparing the actual income and expenditure figures each month with the cash flow forecast. You will then be able to see if you are on track or if there are any unexpected variations. This will be needed to be reported in your monthly budget report or at your committee meeting. This will enable you to adjust your forecasts and deal with any issues.

At the end of the year you will have the actual figures of what has happened during that year and this will give you a profit and loss statement