

# Basic Financial Planning for National Chess Federations

TEAM PDC

FEBRUARY 27, 2020



# VIDEO: BUDGETING

- ▶ <https://www.youtube.com/watch?v=VFslAudxrlc&feature=youtu.be>

# Current Financial Status-Starting Point

- ▶ One of the first activities to be performed in planning is understanding what is the current financial position of our federation.
- ▶ Current balance:
  - ▶ Income
    - ▶ Primary Sources. Example: Government Subsidy, register tournament fees, memberships fees.
    - ▶ Secondary Sources. Example: PDC funding programme.
  - ▶ Expenditure
    - ▶ Operatives (daily). Example: workers, rent...
    - ▶ Financials (debt). Example: Loans.

# Federation objectives: What do we want to do?

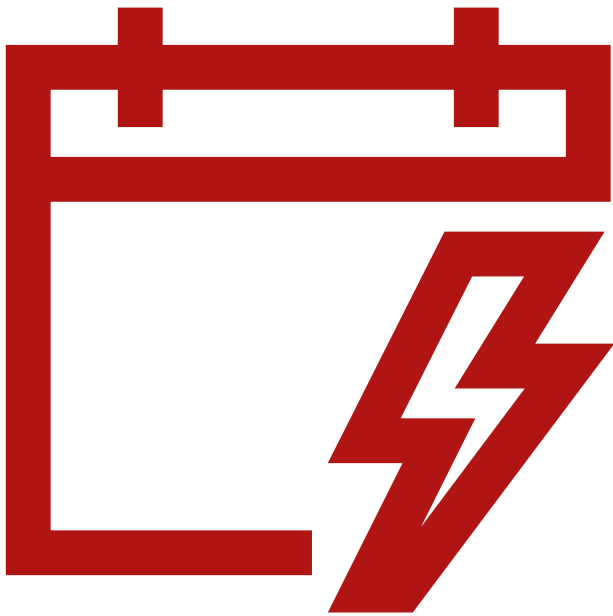
## **Identification of Objectives:**

Start by listing the objectives in which you want to direct your efforts.

**Prioritisation:** Once the list of objectives has been prepared, these objectives are prioritized. It is important to take into account the interests of stakeholders such as players, national teams, Ministry of Sports, National Olympic Committee, FIDE.

**Measurement and control:** A key indicator or performance meter or key performance indicator (KPI), is a measure of the level of performance of a process. The value of the indicator is directly related to a previously set objective and is usually expressed in percentage values. Example: increase the number of players participating in tournaments by 10%.

# Measurement and Control



- ▶ All plans and projections are constantly subjected to control review and evaluation of results.
- ▶ Objective tracking- With KPI's.
- ▶ Constant review- monthly, bi-monthly, quarterly ...
- ▶ **Tip:** Schedule specific dates to follow up. Example: on the 5th day of each month.
- ▶ Redefinition- What we have to Start doing/More of/Keep doing/Less off/Stop doing.
- ▶ Valuation of time and resources.
  - ▶ What is not measured is not controlled.
  - ▶ What is not controlled is not managed.

# Financial Statements

- ▶ Once the bases are defined and understood, the financial landscape must be clear, using 3 basic Financial statements:
- ▶ **Balance Sheet:** “The balance sheet displays the company’s total assets, and how these assets are financed, through either debt or equity. It can also be referred to as a statement of net worth, or a statement of financial position. The balance sheet is based on the fundamental equation: **Assets = Liabilities + Equity.**”  
(<https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/>)
- ▶ **Income statement:** “The Income Statement is one of a company’s core financial statements that shows their profit and loss over a period of time. The profit or loss is determined by taking all revenues and subtracting all expenses from both operating and non-operating activities.”  
(<https://corporatefinanceinstitute.com/resources/knowledge/accounting/income-statement/>)
- ▶ **Cash Flow Statement (CFS):** “The statement of cash flows, or the cash flow statement, is a financial statement that summarizes the amount of cash and cash equivalents entering and leaving a company. The CFS measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses.”  
(<https://www.investopedia.com/investing/what-is-a-cash-flow-statement/>)

# Balance Sheet

- ▶ The balance Sheet include:
- ▶ Fixed / Non-Current Assets
- ▶ Current Assets
- ▶ Current Liabilities
- ▶ Long-Term Debts
- ▶ Own Capital (unregistered activities) or Own funds (registered activities).

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**Balance Sheet**  
[USD \$ millions]

	2014	2015	2016	2017	2018
<b>Assets</b>					
Current assets:					
Cash	167,971	181,210	183,715	211,069	239,550
Accounts Receivable	5,100	5,904	6,567	7,117	7,539
Prepaid expenses	4,806	5,513	5,170	5,998	5,682
Inventory	7,805	9,601	9,825	10,531	11,342
<b>Total current assets</b>	<b>185,682</b>	<b>202,228</b>	<b>205,277</b>	<b>234,715</b>	<b>264,112</b>
Property & Equipment	45,500	42,350	40,145	38,602	37,521
Goodwill	3,580	3,460	3,910	3,870	3,850
<b>Total Assets</b>	<b>234,762</b>	<b>248,038</b>	<b>249,332</b>	<b>277,187</b>	<b>305,483</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts Payable	3,902	4,800	4,912	5,265	5,671
Accrued expenses	1,320	1,541	1,662	1,865	1,899
Unearned revenue	1,540	1,560	1,853	1,952	1,724
<b>Total current liabilities</b>	<b>6,762</b>	<b>7,901</b>	<b>8,427</b>	<b>9,082</b>	<b>9,294</b>
Long-term debt	50,000	50,000	30,000	30,000	30,000
Other long-term liabilities	5,526	5,872	5,565	6,051	5,909
<b>Total Liabilities</b>	<b>62,288</b>	<b>63,773</b>	<b>43,992</b>	<b>45,133</b>	<b>45,203</b>
<b>Shareholder's Equity</b>					
Equity Capital	170,000	170,000	170,000	170,000	170,000
Retained Earnings	2,474	14,265	35,340	62,053	90,280
<b>Shareholder's Equity</b>	<b>172,474</b>	<b>184,265</b>	<b>205,340</b>	<b>232,053</b>	<b>260,280</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>234,762</b>	<b>248,038</b>	<b>249,332</b>	<b>277,187</b>	<b>305,483</b>
Check	0.000	0.000	0.000	0.000	0.000

	A	B	C	D	E	F	G	H	I	J
1	© Corporate Finance Institute. All rights reserved.		Historical Period				Forecast Period			
2	<b>Financial Model</b>		2014	2015	2016	2017	2018	2019	2020	2021
60										
61	<b>Income Statement</b>									
62										
63	Revenue		118,086	131,345	142,341	150,772	165,849	182,434	200,678	218,739
64	Cost of Goods Sold (COGS)		48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432
65	<b>Gross Profit</b>		70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306
66	<b>Expenses</b>									
67	Marketing, Advertising & Promotior		22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186
68	General & Administrative		10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000
69	Depreciation & Amortization		18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162
70	Interest		2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000
71	<b>Total Expenses</b>		53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348
72	<b>Earnings Before Tax</b>		16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958
73										
74	Taxes		4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668
75	<b>Net Earnings</b>		11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290
76										

# Income statement

([HTTPS://CORPORATEFINANCEINSTITUTE.COM/RESOURCES/KNOWLEDGE/ACCOUNTING/INCOME-STATEMENT/](https://corporatefinanceinstitute.com/resources/knowledge/accounting/income-statement/))



# Cash Flow Statement

- ▶ The main components of the cash flow statement are:
- ▶ Cash from operating activities.
- ▶ Cash from investing activities.
- ▶ Cash from financing activities.

Innovative Products, Inc. Statement of Cash Flows (Indirect Method) For Year Ending December 31, 2012	
<b>Operating Activities</b>	
Sales Receipts	\$50,00,000
Payments for Products	(\$25,00,000)
Payments for Operations	(\$20,00,000)
Interest Payments	(\$1,00,000)
Taxes	(\$2,27,500)
Extraordinary Items	\$2,00,000
<b>Net Cash Flow from Operating Activities</b>	<b>\$3,72,500</b>
<b>Investing Activities</b>	
Purchase of New Fixed Assets (Property/Machinery)	(\$21,00,000)
Interest Received	\$50,000
<b>Net Cash Flow from Investing Activities</b>	<b>(\$20,50,000)</b>
<b>Financing Activities</b>	
Short-term Debt	\$7,00,000
Long-term Debt	\$11,00,000
New Equity Issued	\$5,00,000
<b>Net Cash Flow from Financing Activities</b>	<b>\$23,00,000</b>
<b>Net Increase (Decrease in Cash)</b>	<b>\$6,22,500</b>
Cash at the Beginning of the Year	\$1,00,000
<b>Cash at the End of the Year</b>	<b>\$7,22,500</b>

# Budgets

- ▶ Budgets can be used in planned short-term or long-term situations and as a control device to measure current achievements compared to budgeted purposes. However, they are very useful to demonstrate how organizations can achieve their strategic objectives step by step.
- ▶ Budgets should be presented with three examples: a better case, a worse case and the most likely case scenario to assist management with planning aspects to avoid the worst case scenario.

Source: "Finance Handbook", CIES, 8<sup>th</sup> edition, 2016.



# COSTS CALCULATION- Importance

- ▶ The cost calculation allows organizations to estimate how much their activities will cost so that management can plan the necessary expenses and cash requirements to meet the anticipated commitments.
- ▶ Organizations should calculate the cost of their activities to ensure that they are producing a surplus with those activities (or at least to know the level of subsidy given to them).
- ▶ The calculation of the costs helps to gather the general budget of income and expenses for each activity and thus merge it to produce the budget of total income and expenses for all the activities.



Source: "Finance Handbook", CIES, 8<sup>th</sup> edition, 2016.

# COSTS/EXPENSES



## Direct or variable costs.

- These costs vary with the activity: the more the number of activities undertaken, the more the variable or direct costs are.
- Zero activity = zero costs.
- Example: In a tournament, if the number of players increase, increase the number of tables and chairs, the food, the arbiters, and so on.
- They are frequently used in the event budget.



## Indirect / fixed costs

- The costs that are fixed for a period and that do not change with respect to the number of activities undertaken.
- The costs are incurred although the activity levels are zero.
- Examples: rent, fixed salaries paid to staff.
- They are frequently used in the monthly / annual budget of the organization.



# TIPS



Include all the expenses, even if they are subsidised. In the income section includes the corresponding sponsorship or subsidy. This helps to better reflect the total cost of the activity.

Example: If the seminar is held at the Federation's office and they do not pay rent for it, the cost must be included, considering the space and time of the event. Subsequently in the income section it can be included, for example, as maintenance expense or as a subsidy.



To have an approximate value of expenses, it is recommended to ask at least 3 quotes from suppliers.



To the total amount of activity expenses, add between 10-20% of contingencies.

Example: if the total expenses are \$ 1000, \$ 100- \$ 200 contingency must be added.

# UNDERSTANDING COSTS- EXAMPLE

**You are the manager of the National Chess Federation, NCF, that considers providing a number of training courses to juniors (under 18) members of your federation. These are the costs and income:**

- ▶ Each course will last 10 weeks and will consist of a training group of 1 hour per week.
- ▶ The cost of a coach required for each course for 10 weeks will be € 300.
- ▶ The office of the federation will be used for the course. If they were not used for training, they could be rented to members for a price of € 15 per hour per office (light, internet, ventilation, cleaning included).
- ▶ The equipment and office material used will cost approximately € 120 for each ten-week course.
- ▶ A local pharmacy has agreed to pay a sponsorship of € 60 for each course that is dispensed.
- ▶ Each course is expected to have a maximum of 15 juniors.
- ▶ The federation's policy is to add 25% to the total of the relevant costs to determine the total expected income of each course and then divide that amount by the number of participants in the course to determine how much each junior should pay.



# COST- EXAMPLE

Detail	Expense/Income
Coach	€ 300
Rent (€15 per hour, 10 weeks).	€ 150
Equipment and office material.	€ 120
A. Total expenses	€ 570
B. Contingencies (10% of A).	€ 57
C. Expected income (25% of A).	€ 142,5
D. Sub total Seminar value (A+B+C)	€ 769,5
E. Sponsorship	- € 60
F. Total seminar value (D-E).	€ 709,5
Proposed Registration fee (F/15)	€ 47,3



THANK  
YOU