

A background image showing a hand pointing at a document, likely a financial statement or report, with a blurred office setting in the background.

# Financial Management and Analysis 1

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Module 5



## **At the end of module 5, Directors will be able to:**

1. Understand the financial management cycle
2. Widen their knowledge of the basic accounting and finance terminology used in financial statements
3. Be aware of the responsibility of the Board and CEO related to financial management
4. Raise awareness of the importance of audit and what to expect of external auditors



## **At the end of module 5, Directors will be able to:**

5. Develop basic skills in analyzing financial statements for monitoring and planning using the PEARLS Monitoring System
6. Increase awareness of the importance and process of budgeting



# We will take a closer look at . . .

## 1. Financial Management Cycle

- Documenting Past Performance
- Analyzing Past Performance
- Predicting Future Performance

## 2. What to expect of the Auditors

## 3. PEARLS Monitoring Tool



# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

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Predicting Future Performance  
Cash Budget

Analyzing Past Performance  
Ratio Analysis  
Trend Analysis  
Benchmarks-PEARLS,  
CAMEL



# Role of Board of Directors

- **Ensure management is providing financial reports one week before meeting**
- **Reports compared with the plan - 2**
- **Find out reasons for the deviation**
- **Identify the weaknesses of the Board & management**
- **Provide direction to management**
- **Study the report**
- **Cross check**
- **Provide feedback to management - 2**
- **Approve**
- **Internal and external audit**
- **Submit to AGM**
- **Discuss the report**



# Financial Management Cycle

- What are the **responsibilities** of the Board in respect to the financial operation of the credit union?
  - Protect members assets
  - Ensure quality service
  - Consider member needs



# Financial Management Cycle

- The financial operations of your credit union is clearly pictured in the following statements:
  1. Income Statement
  2. Balance Sheet
  3. Statement of Cash Flow
- IFRS – International Financial Reporting Standards
- Indonesian Financial Reporting Standards





# Financial Management Cycle

We have a small quiz on the terminology of  
Financial Statements . . .

Review of the Basic Finance and Accounting  
Terms the Board Needs to Know

**Instruction:** *Choose the correct answer. You have  
15 minutes to answer the questions.*

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# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

- What activities are involved in this cycle of financial management?
  - **Authority**
  - **Execution of transactions**
  - **Accounting**
  - **Recording transactions**
  - **Reporting**
  - **Internal Auditing**



# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

- What the Board assert to members and public on their financial statements:
  - Existence or occurrence
  - Completeness
  - Valuation or allocation
  - Rights and obligations
  - Presentation and disclosure



# Valuation of loans

|  |                   |
|--|-------------------|
| <b>Loans Outstanding</b>                   | <b>Rs. 10,000</b> |
| <b>Less: Provision for<br/>loan losses</b> | <b>2,000</b>      |
| <b>Net Realizable Value</b>                | <b>Rs. 8,000</b>  |

Land value in balance sheet is purchase cost



# Financial Management Cycle

- What is the meaning of Management's Assertions?

The Board Assert to the members & Public

- Existence or occurrence
- Completeness
- Valuation or allocation
- Rights and obligations
- Presentation and disclosure





# Answers to the quiz

|    |   |    |   |
|----|---|----|---|
| 1  | A | 11 | C |
| 2  | B | 12 | A |
| 3  | C | 13 | B |
| 4  | A | 14 | B |
| 5  | B | 15 | A |
| 6  | A | 16 | A |
| 7  | C | 17 | B |
| 8  | A | 18 | A |
| 9  | B | 19 | B |
| 10 | B | 20 | C |



# Financial Management Cycle

- **Existence or Occurrence**

Whether the assets, obligations and equities included in the Balance Sheet actually existed on the Balance Sheet date...

*Can you give of example?*





# Financial Management Cycle

- **Completeness**

All transactions and accounts that transpired during the accounting period should be included in the Financial Statements.

*Can you give an example?*







# Financial Management Cycle

- **Valuation and Allocation**

Whether all assets, liabilities, equity, income and expenses have been included at appropriate amounts.

***Example: Loans should be presented in amount equivalent to Net Realizable Value***





# Financial Management Cycle

- **Rights and Obligation**

Whether all assets are the rights and liabilities are the obligations of the credit union at a given time.

*Can you give an example?*





# Financial Management Cycle

- **Presentation and Disclosure**

Whether components of the financial statements are properly combined or separated, described and disclosed.

*Can you give an example?*





# Financial Management Cycle

- What is the meaning of Management's Assertions?

The Board Assert to the members & Public

- Existence or occurrence
- Completeness
- Valuation or allocation
- Rights and obligations
- Presentation and disclosure





# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

### Group activity . . .

- What are the Board & CEO responsibilities to meet the required assertions on the financial statements?



# Financial Management Cycle

- BOARD & CEO Level playing field

## *Board:*

- Develop Accounting policy following international practices
- Develop Internal control policy
- Monitor and Risk Assessment

## *CEO:*

- Adopt & develop accounting system & procedures based on policy
- Develop Internal control system & procedures based on policy
- Monthly reporting to the Board



# Financial Management Cycle

- What is accounting Policy vs Systems & Procedures ?

## *Policy*

- Generally accepted  
Accounting Standards
- Measurement systems
  - Disclosures
  - Reporting methods

## *Systems & Procedures*

### Accounting System

- Accounting documents
- Books of Accounts
- General Ledgers and Subsidiary Ledgers
- Chart of Accounts
- Reporting Formats and frequency of reporting



# Financial Management Cycle

- **What is Internal Control Policy vs Systems & Procedures ?**

## *Policy*

- Adequate separation of duties
- Proper authorization of transactions and activities
- Adequate documents and records
- Independent check on performance

## *Systems & Procedures*

- Detailed systems and procedures on transaction such as:
  - receipts
  - disbursement
  - non-cash transactions
  - loan approval
  - Purchase of equip't.
  - Others

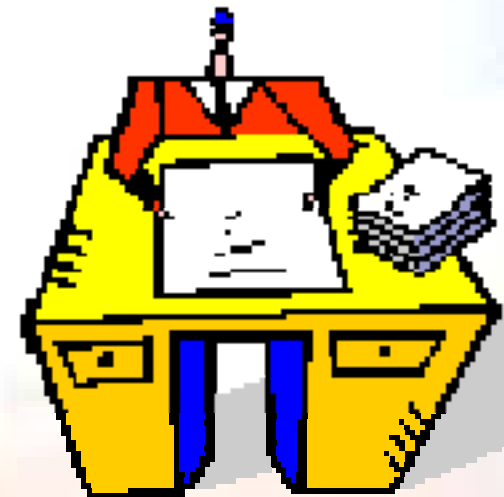




## Understand what the auditor does . . .

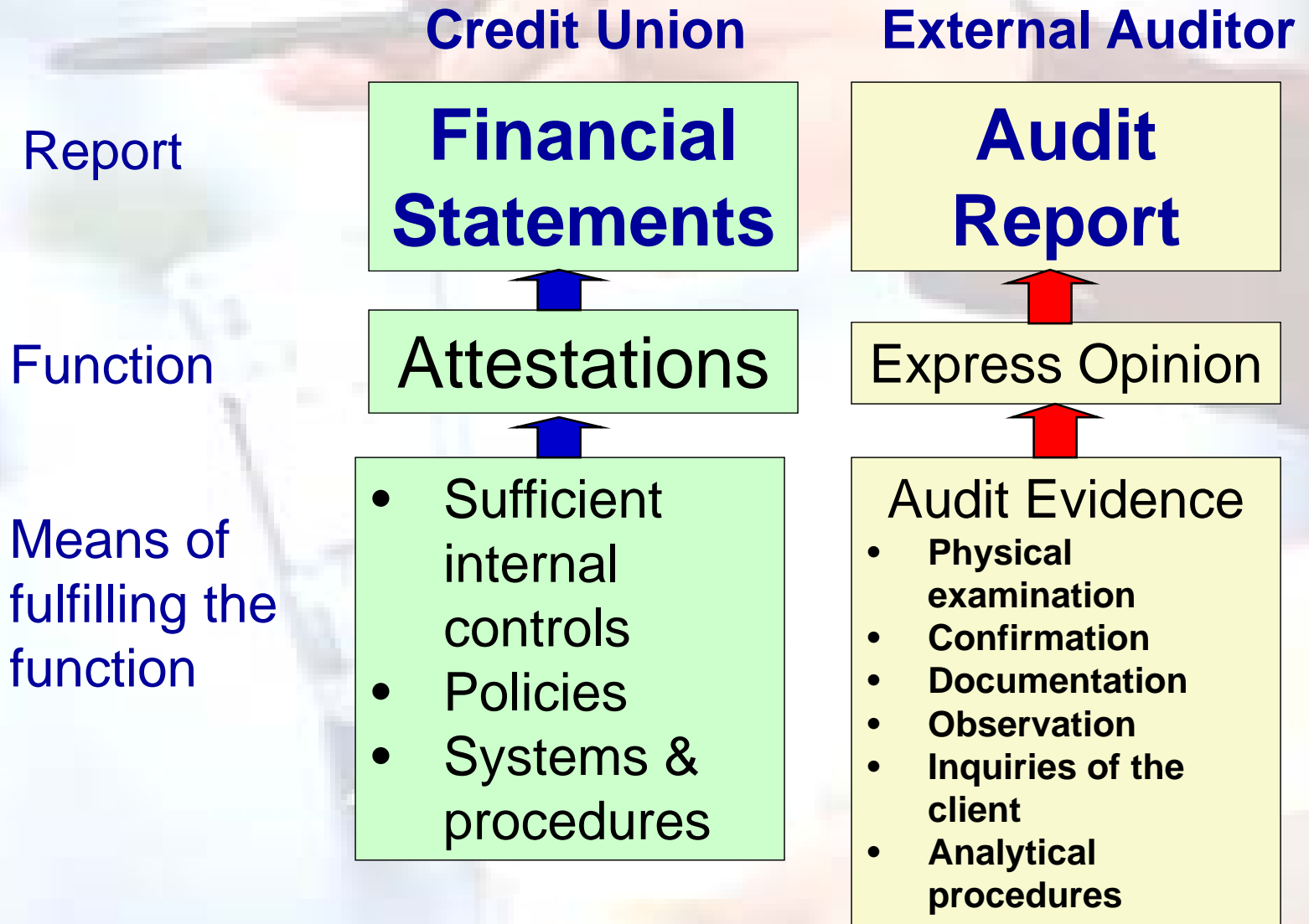
**Auditors are not engaged by your credit union to verify the accuracy of the financial statements**

*It is the job of the credit union!*





# Understand what the auditor does . . .

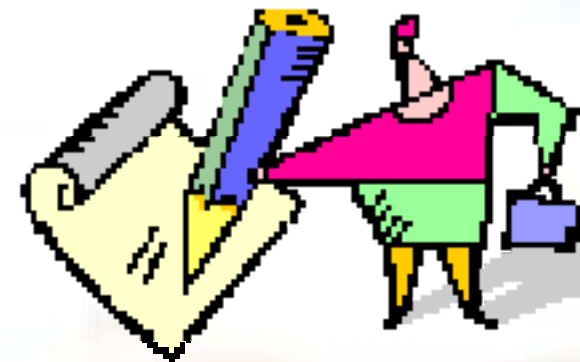




## Understand what the auditor does . . .

### Audit Opinions the Auditor issues:

- Unqualified
- Qualified
- Adverse
- Disclaimer of Opinion





# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

Predicting Future Performance  
Cash Budget

Analyzing Past Performance  
Ratio Analysis  
Trend Analysis  
Benchmarks-PEARLS,  
CAMEL

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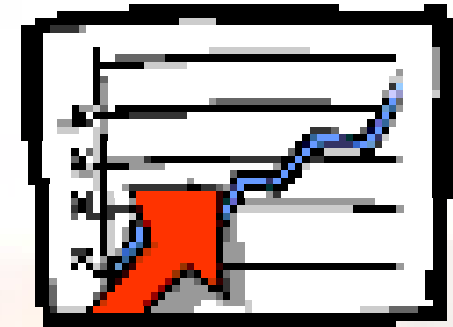
# Measuring Performance

- Financial statements provide operating results (income, cash flow, asset status, etc.), but statements by themselves yield little decision making information.
- Analysis of performance yields additional information and *aids decision making.*



# Why Ratios Are Useful?

- **Standardize numbers; facilitate comparisons**
- **Used to highlight weaknesses and strengths**
- ***Provide basis for decision making***



# Ratio Analysis

- **Ratio analysis** allows managers and others to monitor performance against norms or other standards.
- It is an **Early Warning Device**, alerts the management of the danger





# Ratio Analysis

**Effective ratio analysis requires:**

*A benchmark for comparing results (industry avg., budget, prior year ratios).*







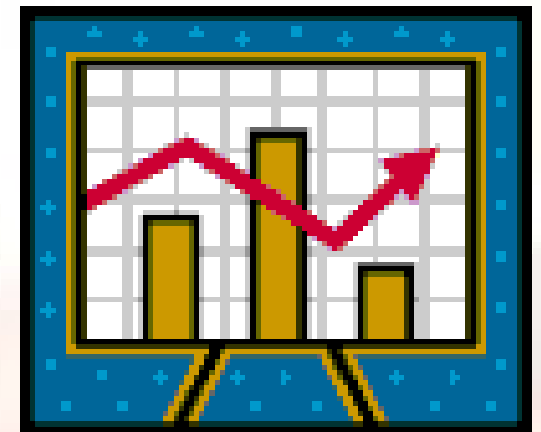
# Problems and Limitations of Ratio Analysis

- Different operating and accounting practices distort comparisons.
- Sometimes hard to tell if a ratio is ***“good”*** or ***“bad.”***
- Difficult to tell whether company is, on balance, in strong or weak position.



# Limitations of Ratio Analysis

- “Average” performance not necessarily good.
- Seasonal factors can distort ratios.
- “Window dressing” techniques can make statements and ratios look better.





# PEARLS Ratios

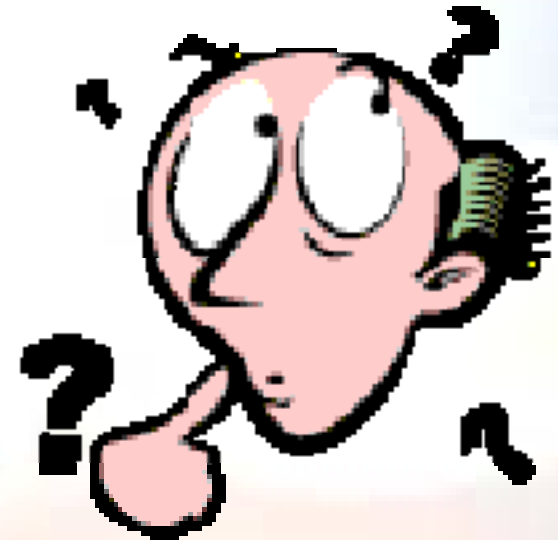
- Present the PEARLS Ratios (PowerPoint presentation in separate file)





# Number Crunching with PEARLS . . .

**What it actually  
gives you?**





# Number Crunching with PEARLS . . .

**Know that your Credit union performance is up to or not up to standards . . .**



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# Number Crunching with PEARLS . . .

**If not, you need to put together a plan meeting the standards . . .**



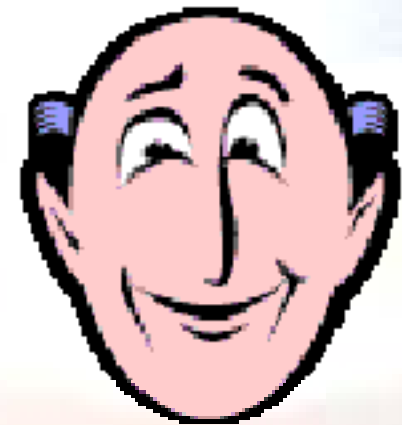
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# Number Crunching with PEARLS . . .

**What are those goal areas that you need to focus on?**



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# Number Crunching with PEARLS . . .

- **Savings**
- **Membership growth**
- **Delinquency**
- **Loans**



*And thus, the basis of your budgeting . . .*





# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

Predicting Future Performance  
Cash Budget

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Analyzing Past Performance  
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# Predicting Future Performance Budget

## Purpose of Budget:

Control tools that can help Board and Managers analyze the difference between expected activity and actual results.





# Analyzing past performance

- **Analyze the ratios – review policy**
- **Provide guidelines for improvement**
- **Find out the reasons of not achieving the ratios - 2**
- **Study and analyze**
-



# Analyzing future performance

- **Approve budget and submit to AGM**
- **Adjust budget based on past performance**
- **Business plan**
- **Give direction**
- **Develop policies**
- **Compare with strategic plan budget**
- **Give direction for ways**



# Budgeting

- BOARD & CEO Level playing field

## *Board:*

- Develop policy on budgeting
- Set priorities on the budget based on goals
- Recommend to the General Assembly the approval of the budget
- Monitor

## *CEO:*

- Implement the policy
- Prepare budget with assumptions based on the priorities
- Report to the Boards the Actual vs Budget with variance analysis of key numbers or accounts



# Budgeting

- What kind of budget has to be prepared?

## The financial picture of the future...

1. Projected Income Statement
2. Projected Balance Sheet
3. Projected Statement of Cash Flow





# Financial Management Cycle

## Documenting Past Performance

Income Statement  
Balance Sheet  
Statement of Cash Flow

## Predicting Future Performance

Cash Budget

## Analyzing Past Performance

Ratio Analysis  
Trend Analysis  
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**Thank you very much**

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