The aim of this article is to relate the principles and practice of financial planning and control to the ELT context and to show why the financial records are necessary and how they are organized.

In this respect, it is necessary to know the meaning of financial statements, how to use them intelligently, the conventional techniques of recording, adjusting and presenting financial information.

Financial statements are defined as a collection of reports about organization's financial results, financial condition and cash flows. They are useful for the following reasons:

- to determine the ability of business to generate cash, and the sources and uses of that cash,
- to determine whether business has the capability to pay back its debts,
- to track financial results on a trend line to spot any looming profitability issues,
- to derive financial ratios from the statements that can indicate the condition of business [1].

The key terms that financial managers should know include [2, p.279-280]:

<table>
<thead>
<tr>
<th>conventional financial statements</th>
<th>net assets</th>
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<tbody>
<tr>
<td>profit and loss account</td>
<td>profit-increase in net assets</td>
</tr>
<tr>
<td>income and expenditure account</td>
<td>recording transactions</td>
</tr>
<tr>
<td>profit/surplus</td>
<td>deferred income</td>
</tr>
<tr>
<td>loss/deficit</td>
<td>deferred expenditure</td>
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<tr>
<td>balance sheet</td>
<td>stock</td>
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The standard contents of a set of financial statements are:

- “**Balance sheet** shows the entity's assets, liabilities, and stockholders' equity of the report date. It does not show information that covers a span of time.

- **Income statement** shows the results of the entity's operations and financial activities for the reporting period. It includes revenues, expenses, gains, and losses.

- **Statement of cash flows** shows changes in the entity's cash flows during the reporting period.
- *Supplementary notes* include explanations of various activities, additional details on some accounts, and other items as mandated by the applicable accounting framework “[1].

Conventional financial statements are “the profit and loss account (or income and expenditure account) for a period, and a balance sheet is drawn up to represent the state of affairs at the end of the period. These are usually given with comparative figures for the previous period” [2, p. 279].

As Ron White, Mervyn Martin, Mike Stimson, Robert Hodge state financial statements should be accompanied by detailed notes, which should not be ignored. One important note should state the accounting convention and policies adopted for recognizing income and expenditure.

The most important areas in which financial considerations impinge upon a business are planning, decision-making and cash flow [3].

For each area, Ron White, Mervyn Martin, Mike Stimson, Robert Hodge develop a different way of looking at a business. For planning purposes, they develop the idea of a business as a capacity, provided by incurring certain costs, which it is necessary to use for a series of analysis, which can be used to test the effect on profit of changes in the major variables of financial planning.

For decision-making, they see a business as a series of separate transactions, each of which should be judged on its separate merits. They develop some rules for identifying and quantifying relevant costs for decision-making.

In connection with cash flow, they see a business as a reservoir in a circulating system of cash movements. They describe some ways in which cash flow can be controlled [2, p.282-283].

According to these authors planning involves business as a whole - its people and organization, its marketing strategy and its environment [2, p. 283].

They have drawn a distinction between planning and decision-making. They consider that they are in fact different activities and require different approaches. “Planning concerns intentions. The planning approach starts at the beginning and considers the long term. It frequently anticipates a long run of similar transactions.
Decision-making concerns immediate choices. The decision-making approach starts in the middle of events and considers the short term. It deals with each transaction as unique and to be assessed on its individual merits” [2, p. 298].

Two types of decision-making are described: a short-term decision-making and a long-term planning.

The decision may concern different units of activity, for example, whether to take on an extra class, or whether to employ an extra teacher.

In dealing with cash, they state that “Long-run profits should ensure that cash continues to circulate, but in the short run, revenues and costs are not simultaneously matched by inflows and outflows of cash. If the outflows of a period exceed the inflows, then the system may run dry and the business will collapse” [2, p. 316].

Ron White, Mervyn Martin, Mike Stimson, Robert Hodge describe the main factors which cause differences between profit and cash flow:

1. fixed asset purchases and sales;
2. introduction of new capital;
3. repayment of loans and distribution of profits;
4. changes in working capital[2, p. 309].

They suggest the different follow-up activities:

1. List the main annual expenditures of your school and classify the expenditures as fixed or variable. Over what range would the fixed costs remain fixed? How much in the way of time and disruption would it take to alter any of the fixed costs?

2. Obtain or estimate last year's actual figures for the expenditures you have listed, and for the volume of sales (probably student weeks) in the period. Hence, estimate a variable cost per student week.

3. What information should or could facilitate or improve the estimates you have made? [2, p. 318].

4. What are the main operating activities in your school (teaching, recruiting, buying, selling, student accommodation, cleaning, cooking etc.)?

Who is responsible for the appropriate performance of these activities?
Who should be present or represented when budgets are prepared or approved?

5. Imagine that you are the manager of your school, and that a rival school known to you is owned by the same parent organization. The organization will obviously wish to reward the managers of different schools on the basis of their performance.

How would you wish your performance to be measured?

What special circumstances of your school should be taken into account when comparing your performance with that of the manager of the rival school? [2, p. 338].

Defining a budget as the financial expression of a business plan, the authors describe the following functions of a budget:

1. **coordination**: a plan, worked out in advance, allows a business to avoid the contradictions;

2. **rational allocation of resources**: without a plan, cash is spent on a first-come first-served basis and other resources are similarly used. Budgeting allows a rational assessment of needs and priorities;

3. **delegation**: once agreed, a budget represents delegated power to deploy resources;

4. **control**: the budget represents a charted course. Regular monitoring of actual progress against budget permits a series of minor non-disruptive adjustments to bring the school back on course;

5. **motivation**: agreed budgets provide a target and some managerial commitment to meeting the target. Empirical studies show that actual performance improves when a reasonable target performance is explicitly set and agreed;

6. **raising finances**: no reasonable bank or lender will advance funds on the basis of a half-baked scheme on the back of an envelope. The interests of both parties are served by the existence of a formal business plan and budget [2, p. 320].

Thus, it is necessary to state that the role of the finance manager is very important. He should manage funds in such a manner as to maximize return on
investment while minimizing risk, and ensuring that an adequate control structure is in place over the transfer and investment of funds. Further, the finance manager is engaged in financial analysis in such areas as forecasting, budgeting, cost reduction analysis, and reviewing operational performance.

References

