

Task 3.2 Financial Planning

Purpose

A typical business goal is to make money. No business venture can operate long unless they can make more money than what they spend. Good business managers work hard to keep expenses low and income high. Businesses use budgets to make business decisions and attain financial support from investors and other financial institutions. A cooperative business manager needs to work harder when planning a budget by being fiscally responsible for its owner-members, in addition to financial institutions such as lenders. What are the income and expenses for your planned cooperative? How will the financial statement show how the cooperative is meeting member's needs?

You may have heard the phrase, "you have to spend money to make money." Expenses are part of any business. Labor, skill, inputs, and asset purchases are all expenses contributing to a business's ability to generate income. Farmers pay for seed, apply fertilizer, and run machinery over cropland before they sell grain or hay. Ranchers purchase breeding stock and acquire pasture to graze before they can sell calves. A manufacturing enterprise requires a physical facility, labor, transportation, and marketing to sell products. A cooperative business will have additional expenses related to cooperative principles, such as member dividends, community support, and educational programming.

Income is the cash received from the sale of goods and services. Selling vegetables, crops, and animals are examples of goods sold for income. Getting paid to mow a lawn or work in an auto shop are examples of income from services.

Income and expense transactions are classified as either cash or noncash. Cash income and cash expenses refer to transactions where cash or currency changes hands in exchange for goods or services. Noncash income or expenses are a little more complicated. Labor exchanged for materials, or trading products for inputs are other examples of noncash transactions. For example, a cooperative may require its members to provide a certain number of labor hours per year, no cash changes hands, but both the individual member and cooperative business find value in the transaction. The individual attains membership in the cooperative with its associated benefits, and the cooperative receives labor needed to operate the business.

What will be the expenses and income for your cooperative?

Materials

Per student:

- Pencil
- Access to the internet
- Calculator

Procedure

Work in a team of three to develop a budget for your proposed cooperative that shows how the cooperative will follow the seven principles. Use local resources and internet research to estimate income and expenses. Refer to the example case study at <https://www.co-oplaw.org/finances-tax/patronage/> explaining how a cooperative budgets dividends and patronage.

Part One – Expenses

1. Use the prompts below to brainstorm specific annual expenses. Record your cooperative expenses in Table 1 on the *Financial Planning Sheet*.
 - The main cash expense categories are _____.
 - Noncash expenses include trading labor for _____.
 - Expenses related to operating a cooperative include _____.
2. Estimate expenses for your cooperative for one year. Include all applicable expenses, including supplies, equipment, labor, utilities, rental. Record the expenses in Table 1.
 - Note expenses should reflect the costs of a cooperative business, such as dividends, community support, and member education.
3. Total all cash and non-cash expenses in Table 1.
4. On the *Financial Planning Sheet*, describe the cooperative's expenses. Include descriptions of any non-cash income, membership dividends, and how the expenses reflect how the cooperative is following the seven principles. The information should support the *Business Description Outline* you completed for *Task 3.1 Business Brainstorm*.

Part Two – Income

1. Use the prompts below to brainstorm specific annual income. Record your cooperative income in Table 2 on the *Financial Planning Sheet*.
 - Planned income for the business includes _____.
 - The funds needed for the business will come from _____.
 - Financial commitments from members include _____.
 - Noncash income includes support from _____ to support the cooperative.
2. Estimate the number of products or services you plan to sell to members and set selling prices to pay all expenses. Record the income in Table 2.
 - Note income should include cooperative member fees.
3. Total all cash and non-cash income in Table 2.
4. On the *Financial Planning Sheet*, describe the cooperative's income. Include descriptions of any non-cash income, membership fees, and how the income shows how the cooperative is following the seven principles. The information should support the *Business Description* you completed for *Task 3.1 Business Brainstorm*.

Part Three – Gain or Loss

1. Record the total non-cash income and expenses in Table 3.
2. Record the total cash income and expenses in Table 3.
3. Subtract the expenses from the income to show a net gain or loss. Note that non-cash income should equal non-cash expenses with a net gain or loss of zero.
4. Based on the net gain or loss, record recommended changes to the income or expenses to balance the budget.

Conclusion

1. How is a cooperatives budget different from other types of business budgets?
2. How can a cooperative use financial information to gain member support?

3. Why would a bank want to know a business's estimated yearly expenses and income?

