

Module 4. Budgeting and investment appraisals



In this fourth and final module of the course on financial management, we will focus on two fundamentally important and strategically useful financial management tools. First, we will begin our discussion on budgeting, a very useful tool to comprehend and one that is of fundamental importance in practice. We will discuss how budgeting can be implemented by discussing both initial steps and practical examples. We will then discuss its cyclical nature, allowing us to understand how it represents an ongoing process within a sports organisation. Following this, we will focus on a more difficult tool: investment appraisals. We will discuss the differences between investment appraisals and budgeting before we introduce some of the most common investment appraisal techniques.



4. 1. Definition of budgeting



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4. 1. Definition of budgeting

Budgeting is the architectural blueprint for managing finances, offering a structured plan that charts the financial course for individuals, businesses, or even nations (Brown et al., 2016; Stewart, 2017; Wilson, 2011). It is essentially a monetary roadmap that stipulates expected expenditures against incoming revenue. This financial tool is the compass steering the course of spending, offering a methodical guide that helps ensure resources are used effectively and goals are within reach. Budgeting is not just about drawing a line in the sand between income and expenses; it is about strategic decision-making to make every dollar count.

A budget typically outlines expected revenues, setting up the roadmap for the inflow of finances, whether they come from salaries, sales, or investments (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). On the other side, it forecasts and distributes these expected funds across various expenses. From fixed costs like rent or mortgage payments, to variable spending on groceries or entertainment, a budget segments each dollar in advance. Budgeting, therefore, acts as a framework that not only allocates cash, but also champions

prioritisation, aligning the spending with specific goals—be it savings, investment, or growth.

At its core, budgeting is an exercise in future-telling. It is a financial crystal ball that foresees expenses, and plans for emergencies, and even strategically sets aside funds for future projects or dreams. As such, budgeting can be understood as a forward-looking tool, guiding financial decisions by considering income and expenses, helping maintain financial stability, and, importantly, providing a sense of control and direction over personal or business finances. Whether on a personal or corporate level, budgeting forms the bedrock for financial wellness, ensuring that every dollar spent is a step closer to the envisioned future.

Budgeting in the realm of sports organisations is akin to orchestrating a winning game strategy. It can be understood as the playbook that carefully outlines the financial game plan, projecting anticipated revenues and allotting resources across various facets of the sporting enterprise. Whether it is a professional league team, a sports facility, or a grassroots organisation, budgeting in sports serves as the compass guiding financial decisions (Brown et al., 2016; Stewart, 2017; Wilson, 2011). But, again, it is not just about balancing the books; it is a strategic roadmap that underpins success.

In the sporting realm, a budget covers a broad spectrum of aspects—player salaries, training facilities, travel expenses, marketing and

promotion, equipment, and more. Therefore, budgeting is a tool that aligns financial resources with the team's objectives, ensuring that every euro/dollar/pound spent contributes to achieving their sporting goals. Moreover, budgeting in sports is not just about day-to-day expenses; it is also about planning for the long term, whether that involves investing in new talent, upgrading facilities, or enhancing the fan experience (Brown et al., 2016; Stewart, 2017; Wilson, 2011). This financial strategy empowers sports organisations to navigate the complex landscape of the sports industry, keeping their eye on the ball when it comes to financial sustainability and success.

Crucially, budgeting in sports allows organisations to manage the uncertainties and challenges inherent in the industry. Therefore, budgeting entails forecasting revenues from ticket sales, sponsorships, and broadcasting rights, all while considering the unpredictable variables that can influence the financial game. Whether it is dealing with unexpected injuries of the biggest star player of a sports team, changing market dynamics, or evolving fan expectations, a well-crafted budget provides the flexibility to adapt while staying true to the overall financial goals and stability of the sports organisation.

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4. 2. Budgeting in practice

Having appreciated what budgeting is in theory, let us look at some practical examples of what budgeting is, and can be, in practice. First, we begin with an easy step-by-step flowchart of how budgeting can be done. This can be considered budgeting for beginners, indicating how we can gradually learn to use this strategically important tool.

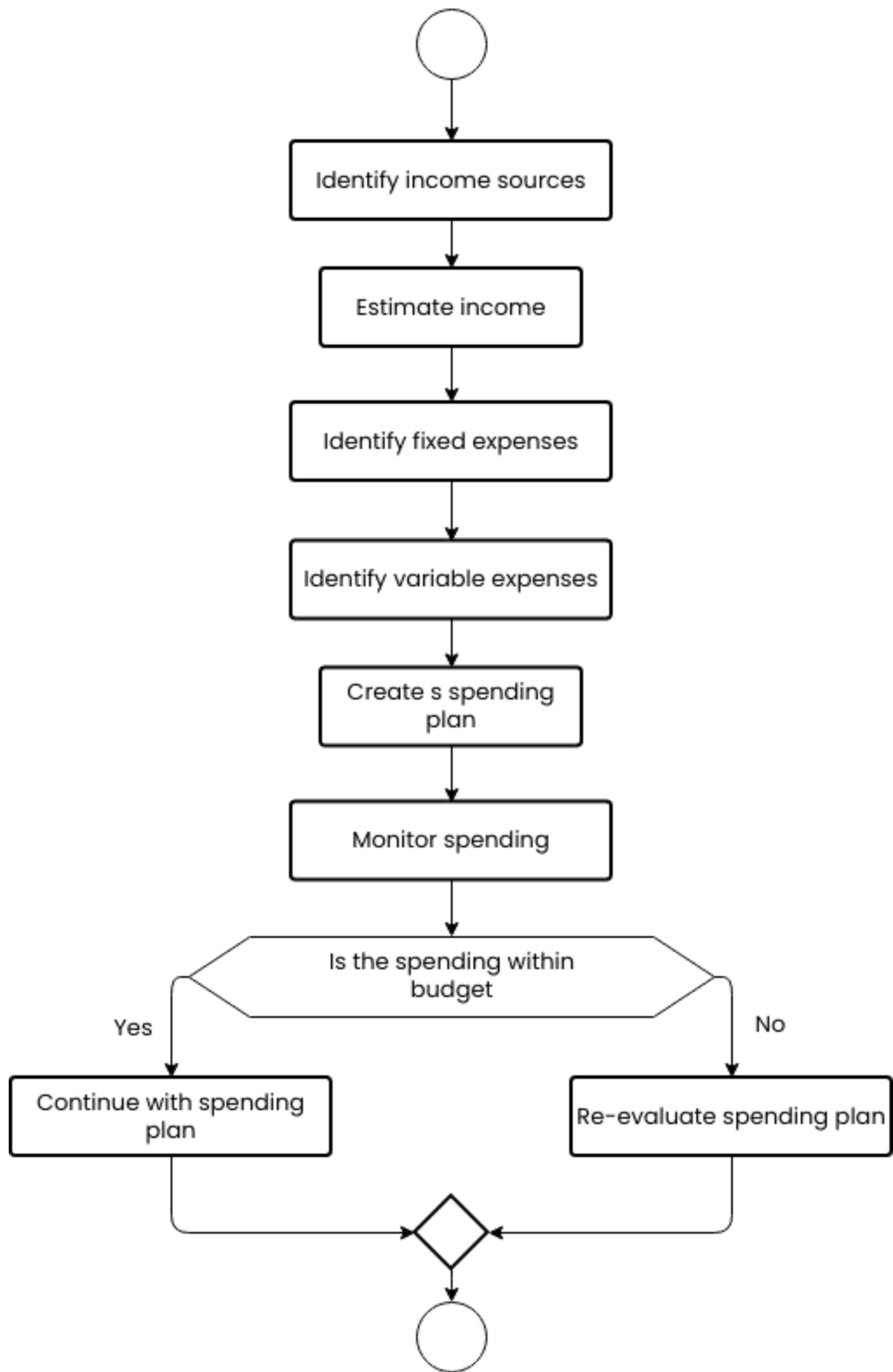
So, let us look at this simple initial process illustrated in figure 1, to understand each step together. At the beginning of the plan, we need to try to identify all our income sources. Having identified them, we can then estimate our income based on the amount of money that we are expected to gain. Historical data can be used at this time, as well as predictions on how each source of revenue will play out that year. We can therefore assess how the external environment will influence these sources of income and make an educated estimation.

The next step is to identify our fixed expenses. This will include expenses we see year after year that are fixed, such as our rent, or the salaries of our employees. The next step is to identify the variable expenses. This includes any expenses that depend on, for example,

the amount of matches the sports organisation will play, such as the electricity they pay for the stadium, and the salaries of the matchday personnel. Using those two pieces of information, we can create our spending plan which, again, needs to be realistic and, as such, needs to be using information from previous years and predictions on how each of these expenses will play out. For example, if we are expecting our expenses to go up based on the wider economic situation of the country, these need to be factored in.

This allows us to monitor our spending and to estimate if the spending we have planned for the year is within the given budget. The answer to that simple question is, as always, more complex. If our spending, which is an estimation based on historical and predictive data, is within our income abilities, then we can continue with the given spending plan. If the answer to the question is no, and we, therefore, assume that our spending will be beyond our budget, then we need to reevaluate our spending plan to ensure that we will have enough liquidity to cover all our expected costs.

Figure 1. Initial steps of a budgeting process



Source: [untitled image of initial steps of a budgeting process], (n. d.), <https://bit.ly/3vYEJiX>.

As we can see in this relatively easy-to-understand chart presenting budgeting step by step, the initial process of budgeting can be simple to comprehend, yet difficult to implement.

Having understood this first initial step, it is then worth examining a more complex budgeting example. What is depicted in figure 2 is an example of how an organisation, in this case a university sports club, can budget for their running for a full year.

Let us look at the figure in more detail. First, let us look at the different columns. On the left, we can see that there exist three broad categories. One has some information on the members, the green one below it captures the income of the club, and the red one below the expenses.

In a column next to it, we can see that the different types of income and expenses are listed right next to the year summary as they put it. Next to this column, we can see the budget or how much money each account is expected or projected to be, as well as the actual amount reflecting the amount that was achieved at the end of the year. The variance at the end estimates the difference, if any, between the two.

As we discussed above, budgeting is an estimation of how much income and expenses there will be for a year for the particular club, while in the actual accounts, we see the amounts experienced.

Rather than looking into details on every expense and income, let us focus on the total income and the total expenditure. The final line of income coloured green, capturing the total income, for example, can show us that it was estimated that the income of the club would be more than £4000. The actual income, nevertheless, proved to be about £3600, which unfortunately meant that there was a variance or a difference of more than £700. This shows us that the budget, estimated based on previous years or projections based on existing data, was estimated to be higher than what it was.

Now, let us look at the expenditure, the last line of expenses coloured red. In the figure, we can see that the total budget for the particular year was close to £4000. Nevertheless, the actual cost ended up being slightly shorter than £3000, giving them a difference of £1000.

Calculating the variance, in this case, happens at the end of each year, while budgeting normally occurs at the beginning of the year based on what is expected to happen.

What we see here is that the club, for example, was able to estimate how much money they would make, their income, and how much money they could spend accordingly, ensuring that they are within budget. Whilst accuracy was not fully achieved in either category, income, or expenses, we can see that they were able to finish the year with an estimated profit. This is of importance because we can assume that this was achieved because of their planning. Once again,

budgeting was not only a tool in their financial management, but one of critical importance for the financial health of the organisation.

Table 1. Budgeting example for university sports clubs

Monthly			Year Summary		Total	
			Budget	Actual	Variance	
Members	No. 1st team Full	£80.00	22	0	0	
	No. Full (half season)	£40.00	5	0	0	
	No. 2nd Team	£50.00	15	0	0	
	No. 2nd team (half season)	£25.00	2	0	0	
	No. 3rd team	£20.00	10	0	0	
	No. Social/Development	£20.00	25	0	0	
	Total Members					
Income	Membership					
	Full		£1,760.00	£1,760.00	£1,760.00	
	Full (Half Season)		£200.00	£0.00	£0.00	
	2nd Team		£750.00	£750.00	£850.00	£100.00
	2nd team (half season)		£50.00	£0.00	£0.00	
	3rd team		£200.00	£180.00	£120.00	-£80.00
	Social		£500.00	£500.00	£440.00	-£60.00
	Sponsorship					
	Resturant		£300.00	£300.00	£300.00	
	Corporate company		£500.00	£500.00	£0.00	-£500.00
	Fundraising					
	Social events		£200.00	£50.00	£80.00	£30.00
	Score tickets		£100.00	£50.00	£80.00	£30.00
	Kit					
	Stash		£250.00	£250.00	£0.00	-£250.00
	Total		£4,810.00	£4,340.00	£3,830.00	-£710.00
	Expenditure	Coaches				
1st team coach			£500.00	£500.00	£0.00	£500.00
2nd team coach			£300.00	£300.00	£0.00	£300.00
3rd team coach			£200.00	£200.00	£0.00	£200.00
Facilities						
Pitch Hire			£1,000.00	£1,000.00	£1,100.00	-£100.00
Last year unpaid invoice			£1,000.00	£1,000.00	£1,000.00	
Travel						
BUCS travel			£300.00	£0.00	£0.00	
Non-BUCS travel			£600.00	£300.00	£180.00	£120.00
Kit						
Club Kit			£200.00	£200.00	£180.00	£20.00
Equipment						
Balls			£50.00	£50.00	£40.00	£10.00
Administration						
National League Entry		£200.00	£200.00	£250.00	-£50.00	
Flyers/Welcme Fair Materials		£30.00	£30.00	£30.00		
Referees		£200.00	£200.00	£150.00	£50.00	
		£0.00	£0.00	£0.00		
Total		£4,580.00	£3,980.00	£2,930.00	£1,050.00	
NET		£230.00	£360.00	£700.00		
Carry forward balance		£1,230.00	£1,360.00	£700.00		

Leaving this rather complex example aside, we can see that budgeting can occur as a simple calculation. How much money are we expected to make minus how much money we are expected to spend? Based on this, we can adjust the money that we can spend, and potentially see whether we can increase any of our income or reduce any of our expenses. It is thus a simple calculation, which is, nonetheless, very difficult to manage.

We can see through this figure that the budgeting process finishes at the end of the next year, in which the actual income and expenses are juxtapositioned with our predictions or estimations so that we can also check our budgeting skills and update them and our predictions accordingly for the years to follow. If significant variations are seen between the budgeting and the actual amount, then the budgeting skills and estimations need to be reconsidered for the years to follow to improve our accuracy and avoid inaccurate estimations.

Budgeting is an ongoing process occurring annually or that should at least occur annually in sports organisations to ensure that financial management is conducted in a strategic manner that always evaluates the financial health of the organisation (Brown et al., 2016; Stewart, 2017; Wilson, 2011). As simple as a tool might be, it is not so simple to estimate the income and expenses accurately and, as such,

appropriately trained individuals who have access to adequate information from the sports organisations should be tasked with this exercise. At the same time, any decisions made on the budget must be made by carefully informed individuals who possibly sit on the higher ranks of the organisation.

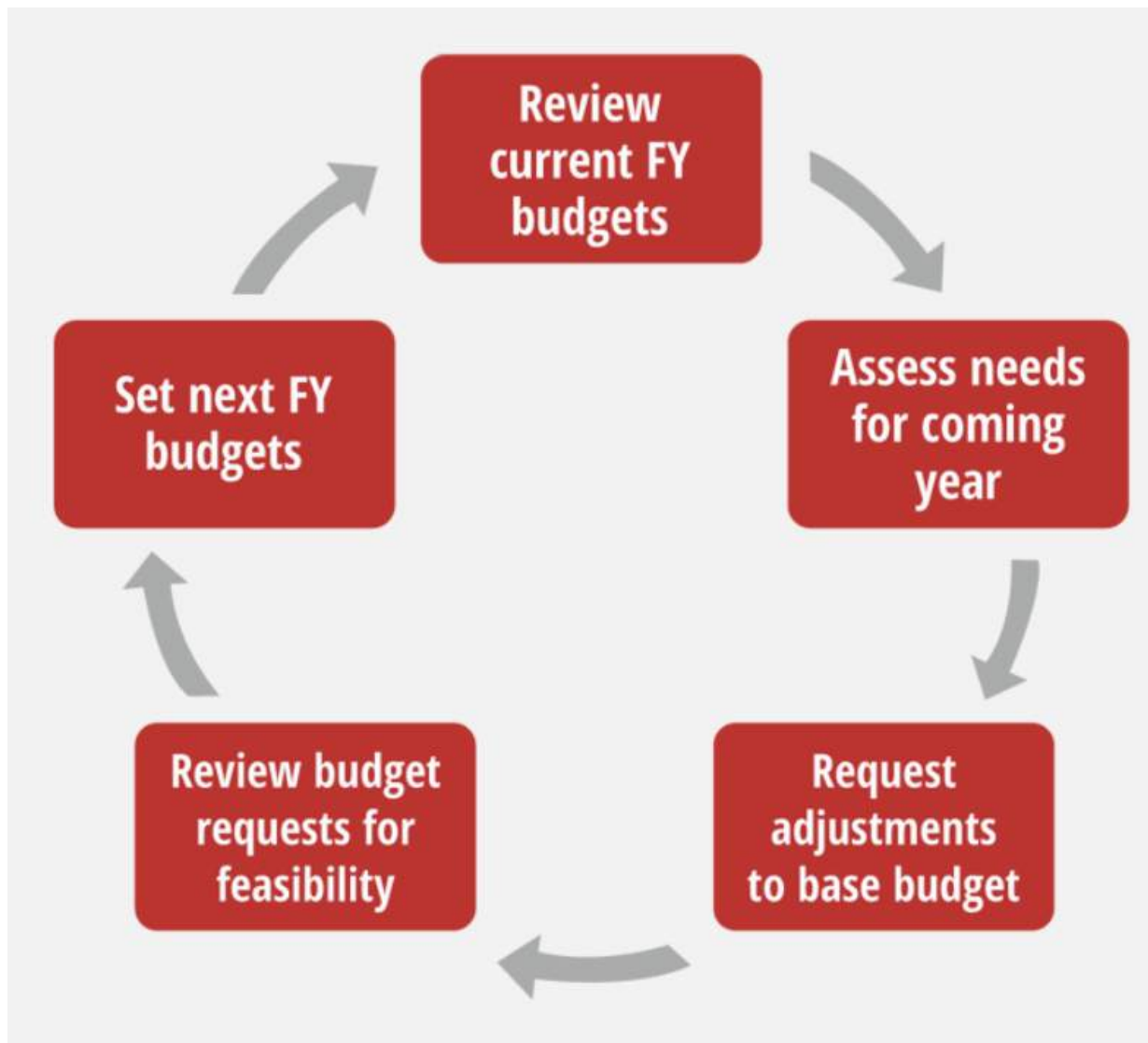
As this analysis shows, budgeting is an important tool that we should all learn to handle, from managing our own personal expenses and expected income to assist the organisations in which we are employed to manage their finances better. As the analysis also allowed us to see, budgeting is also not a one-off thing, but instead a longer process of almost cyclical nature, which we will be discussing below.

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4. 3. The budgeting process

The budgeting process, as its name indicates, is an ongoing process. We can consider it as a cycle, one that starts with the beginning of the financial year and ends with the beginning of the next. This cyclical process is depicted in figure 2 below.

Figure 2. The budget process



Source: University of Illinois, n. d., <https://bit.ly/49cLc8m>.

Within it, we can see that the budgeting process starts with a review of the current financial year budgets. In this review, the budgets for the year are carefully studied. The next step is to assess the needs for the coming year for each organisation. Part of assessing the needs is agreeing on the goals that we have for that particular year. In simple words, what is the organisation trying to achieve? Are they

estimating to have goals that need to be met or targets that need to be surpassed? This could involve expected events that are to bring income or be met with expenses. Through this assessment, the current financial status of the organisation is understood.

The current year is reviewed carefully in terms of its income and expenses, and it is compared to the budget estimated the year before. This allows for a more careful forecast to be made to the end of the year. In simple terms, if we can analyse and understand the variances we mentioned in the previous section of this module, we can better assess our needs for the coming year. This, of course, depends on our agreement on goals. Goals are to be decided and prioritised in terms of their delivery, as well as their financial importance. Based on this and on any requests to adjust, the budgets are made.

Once again, an agreement needs to be achieved on what the budgeting approach will be. We therefore need to understand what will happen in the year to come. Are we estimating for things to change? Are we estimating for our expenses to go up, for example, or for our income to go up? Are we estimating that a bad-case scenario can occur? If so, budgets can and should adjust to reflect that.

The uncertainty that is to be included needs to be agreed upon at this step. This uncertainty might not be able to capture an unexpected event such as the COVID pandemic, but it can capture, for example, a

star player's injury or something that might happen, such as a bad performance of a sports organisation, that might impact on our ticketing revenue. We should also estimate various aspects that have a high probability so that we are prepared, and our budget reflects that. Any adjustments to the budget based on this are of course to be reviewed.

At this point, we are still referring to a draft expense budget and a draft income budget. This is to be estimated based on accurate needs and as such, individuals in charge of departments must be involved (Brown et al., 2016; Stewart, 2017; Wilson, 2011). For example, if different budgets exist for different teams that all fall under the same sports organisation, for example, the women's and the men's teams, then individuals in charge of both these teams should be asked to provide their expected income and expenses. This will allow the organisation to determine an appropriate budget for each part of the organisation that can then allow for the overall budget to be reviewed and drafted accordingly.

The feasibility of additional expenses is to be calculated at this point. If new expenses are being budgeted for, based on requests of members of staff, they must be reviewed according to what the organisation can achieve. These reviews need to be done annually because some requests might reflect important issues that can allow the organisation to progress further, which might, nevertheless, be

put aside hastily for a year or two, without considering their overall importance for the organisation.

After all this information is reviewed, the budget can be approved. It can thus be presented to the board of directors, the chairman, or the chief executive officer who oversees approving it and communicating it to the appropriate people. Any budgeting decisions are to be documented following a template such as the one we discussed in figure 2. This will involve the documentation of all assumptions of what is therefore expected to be our income and expenses.

The budget can now be implemented by assigning responsibilities to the people according to the plan. The budget can now also be incorporated into the accounting system as well, ensuring that we are monitoring and responding to changes if they appear.

We are now ready to set the budget for the next financial year. At the end of this year, we are to review our previous budget and ensure that we juxtaposition any estimations with the actual amount of money earned and paid, so that we can set our next year's budget in a careful way that better reflects the reality and allows us to produce a budget close to the amount achieved (Brown et al., 2016; Stewart, 2017; Wilson, 2011). This ongoing process should be conducted annually within our organisation, and it allows your organisation to keep track of their financial health. It is thus considered an important

strategic financial management tool that all sports organisations should be using.

Having discussed the budgeting process in detail, it is now worth examining what an investment appraisal is, which we will do below.

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4. 4. Definition of investment appraisal

Not too dissimilar from budgeting, an investment appraisal is also like the crystal ball of finance; it is a process that helps you peek into the future of a potential investment. Picture it as a Sherlock Holmes investigation into whether a business venture or asset purchase is worth diving into. An investment appraisal is all about sifting through numbers, forecasts, and assumptions to predict the financial outcomes and risks associated with an investment (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Think of it as a financial roadmap that guides decision-makers toward the most promising investment opportunities. But it is not just about the potential return on investment, but also weighing that against the possible pitfalls and uncertainties lurking around the corner.

This appraisal process involves a treasure trove of techniques and methods. From the familiar net present value (NPV) and internal rate of return (IRR) calculations to more sophisticated tools like scenario analysis or sensitivity analysis, there is a toolbox packed with ways to evaluate investments. A financial appraisal can be considered a Swiss army knife of financial metrics at your disposal, each one tailored to

uncover different aspects of an investment's potential. By applying these tools, you are essentially taking a magnifying glass to the financial viability and profitability of an investment, aiming to make informed decisions that balance risks and rewards.

An investment appraisal is a compass that guides smart financial decision-making, like how budgeting does. The appraisal is not only about chasing the promise of high returns; it is also very important about making calculated choices that align with a company's objectives and long-term growth (Brown et al., 2016; Stewart, 2017; Wilson, 2011).

In the world of sports organisations, an investment appraisal is like drafting the winning playbook for deciding where to allocate resources. Whether it is building a new stadium, investing in state-of-the-art training facilities, or even signing star players, this process helps clubs or associations evaluate the potential impact and returns of their financial decisions (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). You can think of it as a team's strategic game plan, analysing the costs, benefits, and risks associated with various investment options, like how the coach uses a whiteboard session, in which they weigh the potential outcomes of different plays before making the call.

For sports organisations, an investment appraisal focuses on many issues, not just the financial bottom line, but also fostering growth,

enhancing performance, and staying competitive. As such, a properly done investment appraisal involves considering not only the monetary returns, but also the broader impacts on the team's brand, fan engagement, and overall success. Appraisals can thus help organisations navigate the complexities of financial decisions within the dynamic and passionate world of sports and can be conducted on several issues, such as improving the facilities to attract top talent or investing in marketing initiatives to boost fan loyalty (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

Just like a coach evaluating potential players, these appraisals assess the potential of different investments to contribute to the organisation's success, ensuring that every move contributes to the team's long-term strategy and overall game plan, both on the pitch and off it.

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4. 5. The difference between budgeting and investment appraisal

Budgeting and investment appraisal are both crucial financial processes, but they serve different purposes in managing an organisation's finances.

Budgeting is like creating a financial roadmap for the short term. As such, it focuses on planning and allocating resources for specific periods, typically a year. Budgets outline the expected income and expenses, setting limits on spending in various areas of the organisation. They focus on day-to-day operations, ensuring that there is enough money available to cover ongoing expenses like player salaries, travel expenses, facility maintenance, and other routine costs. Thus, budgets are often created on an annual basis, outlining the expected income and expenses to ensure the organisation can function smoothly throughout the season or fiscal year (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

On the other hand, investment appraisal is more about strategic decision-making for the long term. As such, it involves evaluating

potential investments or projects to determine their viability and potential returns. This process looks at the feasibility of investing in new ventures, equipment, facilities, or any other long-term assets, such as, for example, building or renovating stadiums, investing in youth academies, acquiring new training facilities, or even signing star athletes. Investment appraisals use financial models and tools to assess the potential risks and rewards of various options. As a result, investment appraisals focus more on assessing the future impact of an investment on the organisation's growth, profitability, and overall objectives (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

In essence, budgeting handles the day-to-day financial management and short-term planning for a sports organisation, while investment appraisal involves strategic analysis and decision-making regarding substantial, long-term investments that can shape the organisation's future trajectory and success. Both are vital components in managing the financial health and growth of a sports organisation, but they operate on different timeframes and levels of financial planning.

While the two things might be often confused, it is important that the terms are not used interchangeably (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Budgeting entails strategic aspects; however, it is to be understood as a very common, annual practice within a sport organisation, and, as such, it needs to be appreciated for its regular use. Creating a budget is, or at least should be, an annual occurrence and one that is done to manage the financial aspects of an

organisation and through it to better manage the organisation's financial health. In terms of the investment appraisal, as its name suggests, it is a practice that might not occur on such a regular basis, but instead be reserved for occasions in which a major investment is to be made. This, in turn, differentiates the gravitas behind them. While they are both significantly important tools for the strategic and appropriate management of finances, one can be thus considered a tool for the regular check-up of the progress and financial health of the organisation, and the other can be considered a tool to assess whether big investments can or should be considered.

An appraisal is, nonetheless, based on the budgeting of the organisation and, as such, budgeting is a fundamental element of all strategic financial management decisions. Nonetheless, it is worth noticing that often both tools might be underused in the context of sport. While they remain important, the lack of their strict use and adherence to their results has been often highlighted when inappropriate decisions were made in terms of investment choices of sport organisations, or when budgets were overrun on a regular basis. We will discuss some of these cases in this module.

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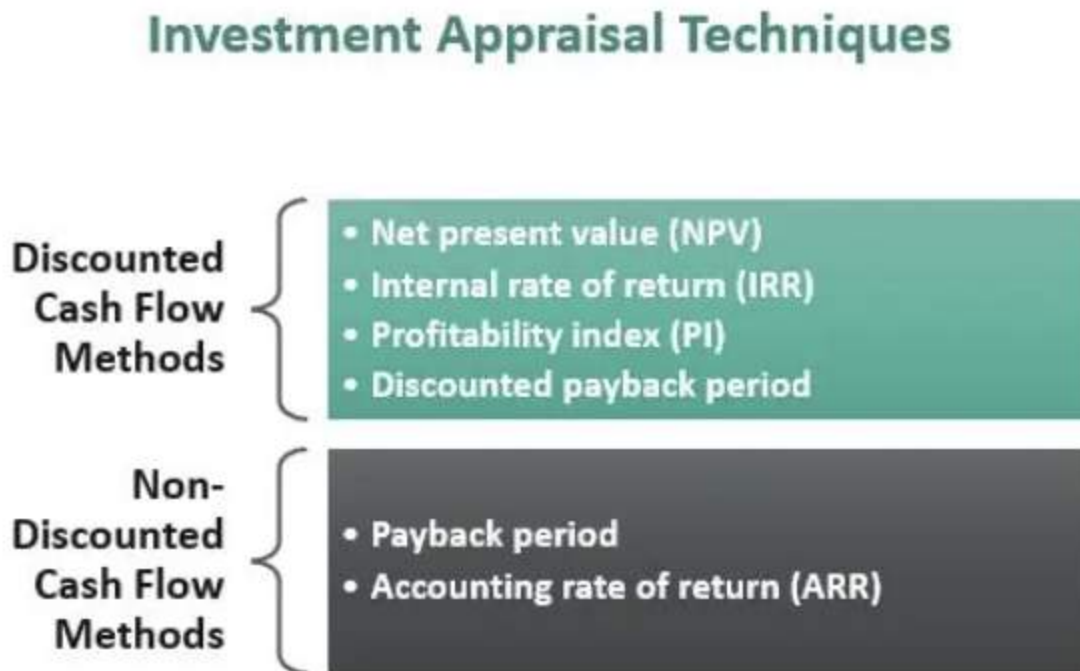
4. 6. Investment appraisals in practice

As we discussed above, whilst both tools are of strategic importance, investment appraisals are not used as often as budgets. That is because they are mostly linked with bigger investment opportunities, which might not come about that often. This might also mean that, at times, conducting an investment appraisal might be more difficult than drafting a budget.

Whilst both tools require for skills to be conducted, we can argue that investment appraisals can require even more sophisticated methods at times. Some of these methods we will discuss in this section.

To begin with, while several techniques exist to conduct investment appraisals, the most popular ones can be seen in the figure below. With them, we can separate the existing investment appraisal techniques into the discounted cash flow methods and the non-discounted cash flow methods (Brown *et al.*, 2016; Geddes, 2002; Stewart, 2017; Wilson, 2011).

Figure 3. The most common investment appraisal techniques



Source: [untitled image of the most common investment appraisal techniques], (n. d.), <https://bit.ly/30kfKgn>.

So, let us introduce each of these different techniques in more detail. First, we have the net present value, one of the most used investment appraisal techniques (Geddes, 2002). The net present value (NPV) is a financial metric used to evaluate the profitability of an investment by comparing the present value of all expected cash inflows and outflows over time. The NPV is a method that considers the time value of money, recognising that a dollar today is worth more than a dollar in the future due to factors like inflation and the potential to earn interest or returns if invested.

To calculate NPV, you take the sum of all expected future cash flows generated by an investment and discount them back to their present value using a predetermined discount rate. This discount rate typically reflects the cost of capital or the minimum rate of return expected from the investment.

If the NPV of an investment is positive, it indicates that the expected returns exceed the initial investment, and that the project is likely to generate profit. At the same time, a negative NPV suggests that the investment may not meet the desired rate of return and might result in a loss. Ultimately, the NPV helps in decision-making by providing a clear indicator of whether an investment is financially viable, considering both the timing and magnitude of cash flows.

The internal rate of return (IRR) is another commonly adopted financial metric used to evaluate the attractiveness of an investment (Geddes, 2002). It represents the annualised effective compound rate of return that an investment is expected to generate over its lifespan. The IRR is calculated as the discount rate that sets the net present value (NPV) of all cash flows from an investment to zero. In simpler terms, it is the rate at which the present value of future cash inflows equals the present value of cash outflows.

When analysing investment options, if the calculated IRR is higher than the predetermined hurdle rate or the expected rate of return, it suggests that the investment is likely to be profitable. On the

contrary, if the IRR is lower than the hurdle rate, it might not meet the desired return and could be considered less attractive.

IRR helps decision-makers compare different investment opportunities by providing a percentage figure that represents the potential profitability of an investment, considering both the size and timing of cash flows. It is therefore a valuable tool in financial analysis as it allows for the evaluation and comparison of investments of varying sizes and durations.

The profitability index (PI), also known as the profit investment ratio (PIR) or the value investment ratio, is another financial metric used to assess the attractiveness of an investment or project (Geddes, 2002). The PI or PIR is calculated by dividing the present value of future cash flows by the initial investment required.

The formula for calculating the profitability index is $PI = \text{present value of future cash flows} / \text{initial investment}$.

A PI greater than 1 indicates that the project or investment is potentially profitable and, as such, the higher the index, the more attractive the investment, as it suggests that the present value of the expected cash flows exceeds the initial investment. Conversely, a PI less than 1 implies that the project may not generate sufficient returns to cover the initial investment.

The profitability index is useful for decision-making, especially when evaluating multiple investment opportunities with varying sizes or when capital budgeting decisions need to be made within constraints of limited resources. Due to its simple final calculation, it helps in ranking projects or investments by their relative attractiveness, considering both the size and timing of cash flows.

Moreover, the discounted payback period is a variation of the traditional payback period, a financial metric used to assess the time required for an investment to generate enough cash flows to recover its initial cost (Geddes, 2002). However, the discounted payback period incorporates the concept of time value of money by considering the present value of cash flows. In calculating the discounted payback period, each future cash flow is discounted back to its present value using a predetermined discount rate. The payback period is then determined by identifying the point in time when the sum of the discounted cash flows equals the initial investment.

Unlike the traditional payback period, which does not account for the time value of money, the discounted payback period provides a more accurate measure by considering the opportunity cost of capital or the rate of return required by investors.

The main advantage of the discounted payback period is that it reflects the timing of cash flows while considering the investment's cost of capital. However, it still has limitations like the traditional

payback period, such as ignoring cash flows beyond the payback period and not explicitly accounting for profitability or overall investment value.

Finally, the accounting rate of return (ARR), also known as the average rate of return, is a financial metric that is used less often to conduct an investment appraisal and evaluate the profitability of an investment or project (Geddes, 2002). Unlike metrics such as NPV or IRR, that consider the time value of money, ARR is a simpler method that focuses on accounting profits.

The formula to calculate ARR is $ARR = (\text{average annual accounting profit} / \text{initial investment}) \times 100\%$.

The average annual accounting profit is usually derived by taking the average of the project's net income over its lifespan and dividing it by the number of years. The ARR thus provides a percentage figure that represents the average annual profitability of an investment relative to its initial cost. As such, a higher ARR is generally considered more favourable, as it indicates a higher return relative to the initial investment. However, the ARR has limitations which influence its use, such as not considering the time value of money, ignoring cash flows beyond accounting profits, and relying solely on accounting measures rather than on the actual cash flows. Therefore, while ARR can offer insights into profitability, it is important to use it alongside other metrics for a comprehensive evaluation of an investment.

As the analysis of these techniques show, highly qualified individuals, with ample details on an organisation's financial position are tasked with conducting investment appraisals and with making decisions based on their findings.

Conclusion

In this module, we focused on budgeting and investment appraisals, two significantly useful and strategically important financial management tools. We began by analysing what budgeting is, before examining budgeting in practice, both as an initial step by step flowchart and with a practical example of more complex budgeting. We then discussed the budgeting process and its cyclical nature, before moving on to examining what an investment appraisal is. We then moved on to discuss the differences between budgeting and investment appraisals; before, we examined investment appraisals in practice through the introduction of various investment appraisal techniques.

Course summary

In this course focusing on financial management of sports organisations, we cover a wide range of topics that can prepare somebody to be introduced into the world of financial management. We begin in module one by exploring the key financial concepts in the

financial management of sport organisations and clarifying some potential existing misconceptions.

Following this in our second module, we investigate the different financial systems and how they operate in relation to sport organisations. In module three, we focus on two fundamental practices within sports organisations, the one of accounting and the one of auditing. We therefore discuss the differences between those two and how they affect sports organisations. Finally, in our fourth module, we focus on two strategic financial management tools, budgeting and investment appraisals.

Through this course, the student is not only introduced to the fundamentals of financial management in sports organisations, but is also able to appreciate how an appropriate, strategic, and well-planned financial management of a sports organisation can be conducted.

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