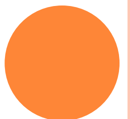
BSBFIM601
Manage finances

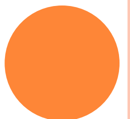
DESCRIBE RESPONSIBILITY ACCOUNTING

- The process of measuring and reporting operating data by areas of responsibility.



Which of the following statements relating to a budget is not true?

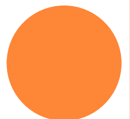
- It is a detailed plan
- It is a management tool
- It provides many of the performance targets used in responsibility accounting
- It is prepared on a historical basis
- It identifies certain financial and operating targets



DETAIL 4 DIFFERENT TYPES OF BUDGETS, AND THEIR PURPOSES.

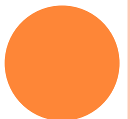
REVENUE BUDGETS

- The revenue budget is a forecast because it is based on projecting future sales. Managers must take into consideration their competitors, advertising budget, sales force effectiveness and other relevant factors, and they must make an estimate of sales volume. Then, based on estimates of demand at various prices, managers must select an appropriate sales price. The result is the revenue budget.



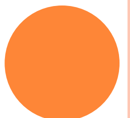
EXPENSE BUDGETS

- Found in all units within a firm and in not-for-profit and profit-making organisations alike. Expense budgets list the primary activities undertaken by a unit to achieve its goals and allocate a dollar amount to each. Managers give particular attention to those that remain relatively unchanged regardless of volume. As production drops, the variable expenses tend to control themselves because they fall with volume.



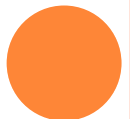
CASH BUDGETS

- Cash budgets are forecasts of how much cash the organisation will have on hand and how much it will need to meet expenses. This budget can reveal potential shortages or the availability of surplus cash for short-term investments.



CAPITAL EXPENDITURE BUDGETS

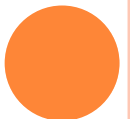
- Investments in property, buildings and major equipment are called capital expenditures. These are typically substantial expenditures both in terms of magnitude and duration. The magnitude and duration of these investments can justify the development of separate budgets for these expenditures. Such capital expenditure budgets allow management to forecast future capital requirements, to keep on top of important capital projects, and to ensure that adequate cash is available to meet these expenditures as they become due



INFORMATION WOULD YOU REQUIRE TO PLAN AND PREPARE A BUDGET FOR A NEW BUSINESS

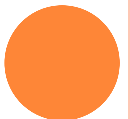
Identify

- what do we want to achieve?
- how will we go about it?
- what resources will we need?
- how many people?
- how much time?
- what rates of pay?
- what can go wrong and how can we plan for emergencies
- Talk with managers, supervisors, customers, banks, etc



EXTERNAL FACTORS

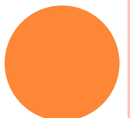
- Direct costs
- Salaries and Wages
- Contract Teaching
- Casual Staff Costs
- Overheads
- Consumables
- Other Contract & Consultants
- Non Capitalised Equipment
- Entertainment
- Scholarships
- Repairs & Maintenance
- Travel
- Other Direct Costs



TERMS

- CAPITAL INVESTMENT
- The initial capital and the long-term expenditures made to establish and maintain a business or investment property.

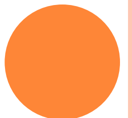
- CASH FLOW
- A measure of cash inflow and outflow from the business. Positive cash flow means more money is coming into the business than is leaving it. Negative cash flow is the converse.



Terms

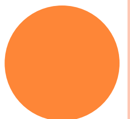
- BREAK EVEN
- Having income exactly equal to expenditure, thus showing neither profit nor loss

- RISK MANAGEMENT
- The strategy of monitoring and offsetting various risk factors in an business with the aim of stabilising investment returns.



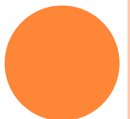
Financial reporting cycles relevant to your Industry

- BAS,
- Tax,
- Stock take,
- Payroll,
- Work cover, etc



2 DIFFERENT CAPITAL INVESTMENT EVALUATION TECHNIQUES

- Cash Flow Estimation Method
- or Net Present Value

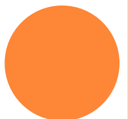


BENEFITS OF PARTICIPATIVE BUDGETING

- The process of involving people throughout an organization in the budgeting process.

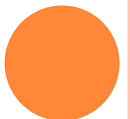
Discuss

- accountability,
- responsibility,
- increase of knowledge, etc



EFFECTIVELY IMPLEMENT THE BUDGET INTO A TEAM ENVIRONMENT

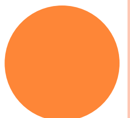
- Dissemination of information
- Team meetings
- Actioning as per action plan



TRADES PRACTICE ACT

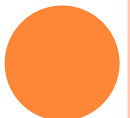
- The object of this Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection.

- The Trade Practices Act applies to just about every aspect of a business—for example, selling, advertising, retailing, and transactions with other businesses or consumers. Understanding the TPA reduces the risk of breaking the law and may actually improve performance by giving businesses a competitive edge. It can also strengthen consumer trust in a company.



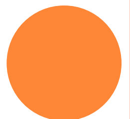
TRADES PRACTICE ACT

- Heavy penalties can apply for breaches of the Act. Most breaches of the Trade Practices Act are unintentional and could have been avoided through having a well structured TPA compliance program. A TPA compliance program is an important risk mitigation factor in any business and can also reduce the penalty associated with an unintentional breach of the Act.

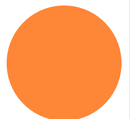


FINANCIAL PROBITY

- Financial probity is exploring the financial situation of a company or person. It normally includes:
- Ensuring that the fiscal and financial affairs are in good order, ethically sound, and fully compliant with the law and with good accounting practice
- Ensuring that any financial arrangements are on a sound footing, honest and open, and causing no conflict of interest
- Avoiding inappropriate financial gain or conflict of financial interest in the pursuit of business
- Understanding the business and managerial aspects of the business, such as sources of income and expenditure, use of premises, marketing, and the interpretation of accounts
- Demonstrating truthfulness and honesty when completing documents
- Ensuring that any research undertaken is done to the highest standards, as approved by are search ethical committee.
- Providing accurate, objective, honest and unbiased comments in references and including relevant important information, which might have a bearing on a colleague's competence, performance, reliability or conduct



- Consider the following information:
- As an accountant to a large production firm, John looks at a proposal to purchase a $900,000 stamping machine to increase output. He determines the following information:
- The new machine can do 100 more units per hour
- The 4 workers currently doing the stamping can be replaced
- The units will be higher quality because they are more uniform
- John calculates the selling price of the 100 units per hour multiplied by the number of production hours per month, plus adding the 3% that aren't rejected due to the increased quality of the machine output vs. manual stamping. He adds the monthly wages of the workers that are no longer required and in the end you have a healthy benefit calculated.
- John then calculates the monthly cost of the machine by dividing the purchase price by 12 months per year and divide that by 10 years the machine should last. The manufacturer's specs state the power consumption of the machine and John calculates the cost of that as well. He subtracts the total cost figure from the total benefit figure and this shows a healthy benefit calculated.
- Consider the above example of cost benefit analysis. Do you think John has done a good job in calculating the benefit of the machine? Has he used the information at his disposal correctly?



SOLUTION

- John has made several errors. Firstly, by using the selling price of the units he has introduced additional factors that will complicate the analysis, especially the profit margin. The activity based value of the units should be ascertained and used in his calculations instead.
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- John remembered to add the value of the increased quality by factorising the rejection rate; however he should have reduced it a little as even machines are not perfect.
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- When calculating the value of the employees in addition to their wages, John has not included other costs such as benefits etc which can add a lot also.
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- John should have also checked out the amortisation period – just because the machine may last 10 years doesn't mean the company will keep it for 10 years