NATIONAL CERTIFICATE IN WHOLESALE AND RETAIL OPERATIONS SUPERVISION, NQF Level 4, ID 49397

Stock Management

Aligned to unit standard: 242810

Learner Study Guide

Table of Contents

This Learner Study Guide articulates in the following programme and manner:

NATIONAL CERTIFICATE IN WHOLESALE AND RETAIL OPERATIONS SUPERVISION, NQF LEVEL 4, ID 49397

WHOLESALE AND RETAIL Learning Programme

Stock Management

Manage expenditure against a budget, US ID 242810

Introduction to this programme

Dear learner

Welcome to the learning programme – **Manage expenditure against a budget, US ID 242810**

The unit forms part of Stock Management for the NATIONAL CERTIFICATE in Wholesale and Retail Operations Supervision, which is registered with the WHOLESALE and RETAIL SETA.

Congratulations on choosing to upgrade your skills. We believe that this is one of many learning programmes that will develop and improve your skills.

Over the past couple of years, South Africa has made a significant shift from the old dispensation in education (where learners used to be bombarded with theory and very little practical work) to an outcomes-based education model (based on competency rather than on theory). The aim of the shift is to make the South African labour force more productive and show them how to apply the knowledge that they have gained from training programmes.

The learning programme you are about to start is outcomes-based and in line with the outcomes as stipulated in the applicable unit standard. The assessment is also in line with the assessment criteria as stipulated in the unit standard. Once you have been declared competent on the outcomes of this unit standard, you will receive **credits** towards a nationally recognised qualification.

You will be assessed formatively and summatively. The **formative** assessment will be conducted as you work through the lessons of this Study Guide and the **summative** assessment will be conducted when you have completed your training. Assessment can also be defined as the method that is used to determine whether you have mastered the skills that you will be taught during this learning programme. Assessment usually consists of two components, namely **instructional learning** (as conducted during this learning programme) and the **workplace assessment** – to determine your practical skills and your ability to implement what you have learnt.

The purpose with the Practical Guide Logbook (which will be handed to you by your assessor) will be to assess whether you can apply what you have learnt in the workplace.

Another added advantage to the new dispensation is the fact that recognition of prior learning is also considered and can count towards achieving credits towards a skills programme or qualification. Life experience, work experience and previous courses attended can be taken into consideration for recognition of prior learning purposes, should it relate to the specific learning programme or qualification you are working towards. This is merely a brief description to the new dispensation and barely covers what one can learn about this.

So, you will undergo theoretical training; receive your Practical Guide Logbook and Learner Assessment Guide & Portfolio of Evidence. At this point, you and your assessor will sign the Assessment Plan and your assessment will commence! You will be guided all the way.

We hope that this makes you as excited as it does us and it is a real privilege for us to be able to facilitate and assess you on the outcomes of the unit standard that we are about to start.

Please feel free to communicate any questions to your facilitator or to your assessor.

Remember, look out for the following icon in your Study Guide:

This icon indicates an activity that must be completed and placed in your Portfolio of Evidence (PoE).

Purpose of the learning programme

Purpose

The purpose of this unit standard is to enable learners to be provided with the knowledge and skills required to manage a budget within an organisation.

Critical cross-field outcomes

During the Lessons (and theoretical process), the practical component and the workplace experience you will complete during the course of this programme, there are also CCFO's that will be achieved.

These CCFO's are as follows:

CCFO	Details
Organize and manage oneself and one's activities effectively and responsibly	The ability to organize and manage oneself and one's activities when making decisions in determining the elements of a budget and in monitoring and controlling expenses.
Collect, analyse, organize and critically evaluate information	The ability to collect, analyse, organize and critically evaluate information to identify variances between actual expenditure and the actual budget
Communicate effectively	The ability to communicate effectively in identifying and substantiating the internal and external contents of a budget
Demonstrate an understanding of the world as a set of related systems	The ability to demonstrate an understanding of the world as a set of related systems when monitoring and controlling the actual expenses of a budget

Entry level requirements

Learners being registered against this learning programme, must **already demonstrate the following competence:**

- They must have competence in Communication at NQF Level 3
- They must have competence in Mathematical Literacy at NQF Level 3

Learning programme schedule

This Learning Programme carries a weight of 6 credits. These credits are converted into actual working hours which equate to a total of 60. This means it will take approximately 60 hours for you to undergo the training, assessment and all other requirements before you are found competent against this unit standard.

These 60 hours are broken up as follows:

30%

- Training Time
- Time to Complete Formative and Summative Assessments

70%

- Practical Workplace Experience

30% of 60 = 18 Hours

6 Hours (1 Day)

This time is for the actual training session. Here, you will be attending class or tuition with the rest of the learners. Learning will be based on the requirements of the unit standard.

12 Hours (2 Days)

During the training session, the facilitator will inform you of the assessment requirements for the unit standard – both Formative and Summative. During this time you will need to complete your Formative Assessments and also ensure that all required forms and preparation sheets are signed together with your Assessor for you to undergo the Summative Assessment requirements. These may include components of Knowledge, Practical and / or Case Studies or Projects.

During this time, you may also contact the Assessor for assistance on the requirements of the Assessments. The learning group may also make use of this time to self-help on the Assessments.

70% of 60 = 42 Hours

42 Hours (6 Days)

During these 6 days, you will need to be based at a workplace – assisted by the workplace mentor, coach or assessor to ensure that you achieve the specific outcomes and assessment criteria as detailed on the Practical Workplace Logbook. These will need to be signed off by the workplace mentor, coach or assessor and submitted as part of your PoE.

Any other activity (outside of the PWL) that will assist you in demonstrating competence on any of the specific outcomes should be included as evidence in your PoE.

Unit Standard

Unit Standard: 242810

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SOUTH AFRICAN QUALIFICATIONS AUTHORITY

REGISTERED UNIT STANDARD:

Manage Expenditure against a budget

SAQA US ID	UNIT STANDARD TITLE			
242810	Manage Expenditure against a budget			
ORIGINATOR				
SGB Generic Management				
PRIMARY OR DELEGATED QUALITY ASSURANCE FUNCTIONARY				
-				
FIELD			**SUBFIELD**	
Field 03 - Business, Commerce and Management Studies			Generic Management	
ABET BAND	**UNIT STANDARD TYPE**	**PRE-2009 NQF LEVEL**	**NQF LEVEL**	**CREDITS**
Undefined	Regular-Fundamental	Level 4	NQF Level 04	6
REGISTRATION STATUS		**REGISTRATION START DATE**	**REGISTRATION END DATE**	**SAQA DECISION NUMBER**
Reregistered		2015-07-01	2018-06-30	SAQA 10105/14
LAST DATE FOR ENROLMENT		**LAST DATE FOR ACHIEVEMENT**		
2019-06-30		2022-06-30		

In all of the tables in this document, both the pre-2009 NQF Level and the NQF Level is shown. In the text (purpose statements, qualification rules, etc), any references to NQF Levels are to the pre-2009 levels unless specifically stated otherwise.

This unit standard replaces:

US ID	Unit Standard Title	Pre-2009 NQF Level	NQF Level	Credits	Replacement Status

13941	Apply the budget function in a business unit	Level 4	NQF Level 04	5	Complete

PURPOSE OF THE UNIT STANDARD

This Unit Standard specifies the knowledge and skills required to manage a budget within the organisation. This Unit Standard is intended for junior managers of organisations.
The qualifying learner is capable of:
- Explaining the concept of budgeting pertinent to an area of responsibility.
- Determining the elements of a budget relevant to an area of responsibility.
- Monitoring and controlling actual expenses (and revenue), against projected budget.

LEARNING ASSUMED TO BE IN PLACE AND RECOGNITION OF PRIOR LEARNING

Learners should be competent in Communication and Mathematical Literacy at NQF Level 3.

UNIT STANDARD RANGE

- 'Revenue' includes, but is not limited to income from sales, services and fund-raising.
- 'Expenditure' includes, but is not limited to, expenses, operating expenses, production costs, inventory, consumables and materials.
- 'Budget' means either the complete budget, or part-budget for which the learner is responsible.
- 'Area of responsibility' includes, but is not limited to, cost centre, section, department or team.
- 'Junior managers' include, but are not limited to, team leaders, supervisors, foremen and section heads.
- 'Standard Operating Procedures' (SOPs) may comprise formal written documents or accepted practices in the organisation.
- 'Organisation' includes but is not limited to, workplace, work context, work unit, company, department or section.

<u>Specific Outcomes and Assessment Criteria:</u>

SPECIFIC OUTCOME 1

Explain the concept of budgeting pertinent to an area of responsibility.

ASSESSMENT CRITERIA

ASSESSMENT CRITERION 1

The concept of a budget is explained with reference to expenditure in an area of responsibility.

ASSESSMENT CRITERION 2

The budgeting technique employed is explained by means of worked examples.

ASSESSMENT CRITERION RANGE

Budgeting techniques may include, but are not limited to, forecasting based on historic data, and zero-based budgeting.

SPECIFIC OUTCOME 2

Determine the elements of a budget in an area of responsibility.

ASSESSMENT CRITERIA

ASSESSMENT CRITERION 1

The elements of the budget are identified for the resources required to meet the objectives.

ASSESSMENT CRITERION 2

Internal and external constraints on a budget are identified in terms of an own organisational context.

SPECIFIC OUTCOME 3

Monitor and control actual expenses against budget.

ASSESSMENT CRITERIA

ASSESSMENT CRITERION 1

Actual expenses are monitored according to Standard Operating Procedures.

ASSESSMENT CRITERION 2

Variances are identified and corrective measures are proposed and/or taken according to Standard Operating Procedures.

UNIT STANDARD ACCREDITATION AND MODERATION OPTIONS

- This Unit Standard will be assessed by an assessor and moderated by a moderator registered with the relevant accredited ETQA.
- Assessors should be in possession of a relevant qualification that is at least one level higher than the level of this unit standard.
- Training providers must be accredited by a relevant ETQA.
- Assessment should include both formative and summative assessment.

<u>Critical Cross-field Outcomes (CCFO):</u>

UNIT STANDARD CCFO ORGANISING

Learners are able to make decisions in determining the elements of a budget and in monitoring and controlling expenses.

UNIT STANDARD CCFO COLLECTING

Learners are able to identify variances between actual expenditure and the budget.

UNIT STANDARD CCFO COMMUNICATING

Learners are able to communicate effectively in identifying substantiating the internal and external contents of a budget.

UNIT STANDARD CCFO DEMONSTRATING

Learners are able to demonstrate an understanding of the world as a set of related systems when monitoring and controlling the actual expenses of a budget.

REREGISTRATION HISTORY

As per the SAQA Board decision/s at that time, this unit standard was Reregistered in 2012; 2015.

UNIT STANDARD NOTES

This unit standard replaces unit standard 13941, " Apply the budget function in a business unit ", Level 4, 5 credits.

Introduction to this Learning Programme

If you base the budget on the business plan, you will be creating a financial action plan. This can serve several useful functions, particularly if you review your budgets regularly as part of your annual planning cycle.

Your budget can serve as:

1 ➔ An indicator of the costs and revenues linked to each of your activities

2 ➔ A way of providing information and supporting management decisions throughout the year

3 ➔ A means of monitoring and controlling your business, particularly if you analyse the differences between your actual and budgeted income

Benchmarking performance

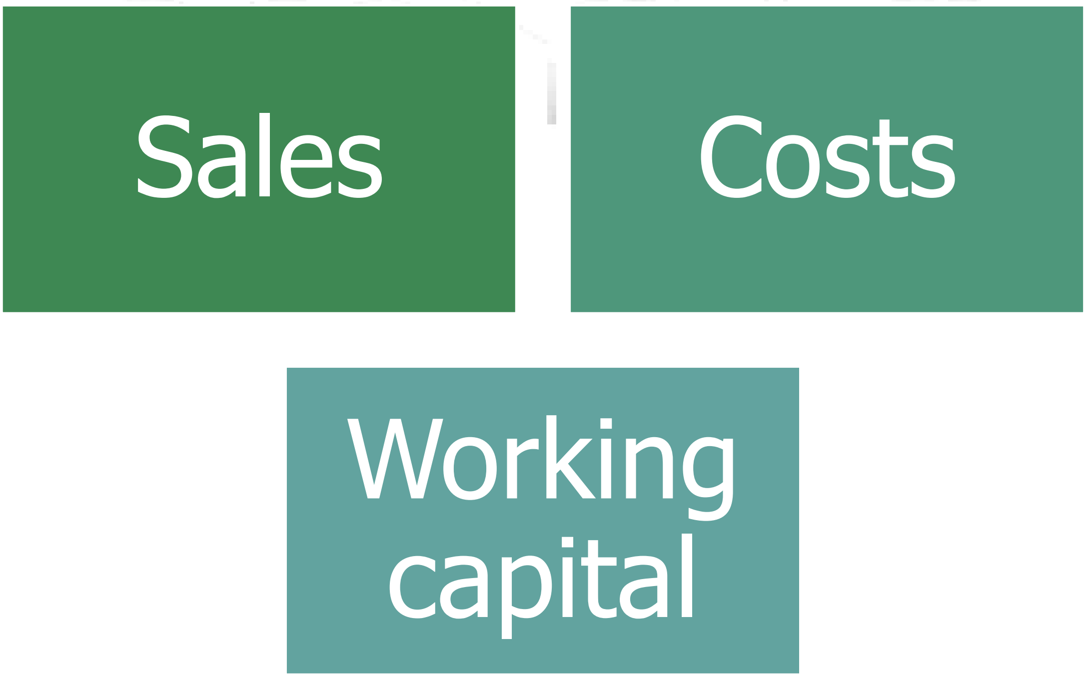
Comparing your budget year on year can be an excellent way of benchmarking your business' performance – you can compare your projected figures, for example, with previous years to measure your performance.

You can also compare your figures for projected margins and growth with those of other companies in the same business sector, or across different parts of your business.

Key performance indicators

To boost your business' performance, you need to understand and monitor the key drivers of your business – a driver is something that has a major impact on the business. There are many factors affecting every business' performance so it is important to focus on a handful of these and monitor them carefully.

The three key drivers for most businesses are:



Any trends towards cash flow problems or falling profitability will show up in these figures when measured against your budgets and forecasts. They can help you spot problems early on if they are calculated on a consistent basis.

Lesson 1

Budgeting

In order for you to demonstrate competence against the specific outcome indicated above, you will need to achieve the following:

> …the 3 main critical budgets in your business are to do with break even, profit and cash flow…

LO1 ➔ Explain the concept of budgeting

LO2 ➔ Explain how to employ budgeting techniques

A budget is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organisations, activities or events in measurable terms.

SECTION 1: Explain the concept of a budget

There are 3 main elements of a budget.

Sales revenue

This is the cornerstone of a budget. It is crucial to estimate future sales as accurately as possible because everything else in the budget revolves around these figures. Your estimates of future sales can be based on past sales figures and track record. Once you have your target sales in place you can calculate all the related expenses necessary to achieve those sales figures.

Total costs

Total costs include the main areas of fixed and variable. Fixed costs are the costs incurred whether or not the business turnover increases or decreases. Variable costs are the costs that vary with the level of business turnover. When you are estimating these costs you need to take into account the changes, which come about due to the various market forces, including inflation and rising prices.

Profit

Profit is the amount left over after all the costs have been deducted from the sales. Your profit should be sufficient to at least make a return on the investment you have put into the business. For example, if you can obtain a 10% interest on R50,000, you can invest outside of your business, then you should expect a similar return when investing that same R50,000 in equipment and other assets inside your business. When you are preparing your budget, add in an expected return on investment factor and then make the resulting figure the target profit.

There are 3 critical budgets that every business should have.

A break-even budget

This is where you work out the amount in rand sales that your business needs to make in order to stay in business, because it is the minimum you require to meet your costs and therefore *break even*.

A profit budget

This is the budget that estimates the sales and costs of the business and what is left over, which is your profit.

A cash flow budget

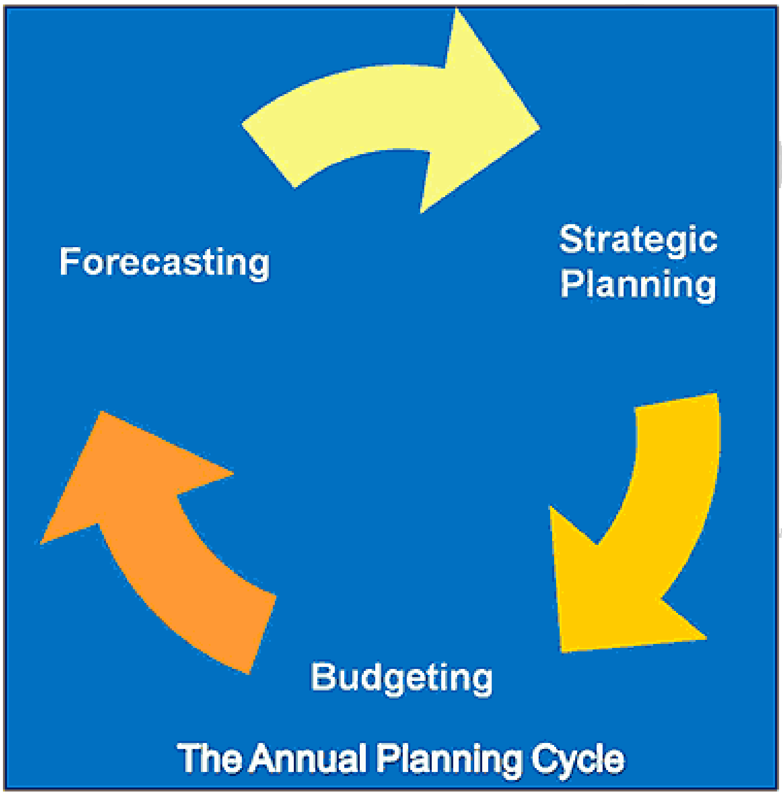
This budge monitors all the cash coming in and all the cash going out of the business and can highlight future cash requirements of your operation.

Main categories involved in budgeting

Your budget is only as good as the information you use to arrive at your figures. The numbers you take in need to reflect the past results your business has achieved, as well as account for the new levels you want to attain in your operation.

Every business budget will involve 3 main categories:

1. Revenue
2. Cost
3. Profit



To generate target numbers for each of these categories you need to look at the track record of the business and bring into account adjustments for the current trends and the new goals.

The budget will also pinpoint whether the profit is high enough to continue operations. In a worst case scenario, it may show that if you follow the path you are budgeting for, a loss will result. In this case you may have to make changes or else completely revamp your business operation because you don't want to end up with a loss, if the objective of your business is to make a profit.

Managing expenses is a priority for managers of any division, especially in these challenging economic times. Managing expenses also means that at times steps need to be taken to control costs.

In an effort to cut costs, examine each expense, no matter how small, and determine which items your team can do without. Do not hesitate to cut items that don't directly contribute to your bottom line.

Create reports every week to examine both your expenses and revenue. Make adjustments as needed, especially when you notice that you are spending more than the budgeted allocations. Areas important to the revenue of the business, such as production-related expenses and marketing, should be among the last items to cut.

When reviewing expenses, consider the following:

Inventory – review your inventory and determine which items are not selling as well as other products. Consider discounting products with slow turnover and only placing orders for products with committed orders.

Staff – if an employee leaves, consider keeping the position unfilled and either split the duties among other staff members or enlist the help of part-time, temporary or consulting services.

Office supplies – cancel unnecessary subscriptions and services. when re-ordering supplies, look for discounts and consider items that do the job without the frills. Perhaps you can reduce costs on items such as paper with the efficient use of email.

Space – this may be a good time to simplify and consolidate operations. Consider either leasing or sub-leasing unused office space, moving to a more affordance location or re-negotiating lease terms.

Travel – consider using mobile computing sources, web-meetings and other virtual collaborations to save on travel costs.

ACTIVITY 1

Activity 1

Please complete this activity in your Learner Assessment Guide and PoE.

This activity is aligned to SO1, AC1

The benefits

The key benefit for business planning is that it allows you to create a focus for the direction of the business and provides targets that will help the business grow. It will also give the business management team to stand back and review performance and identify factors affecting the business. Business planning can provide:

- A greater ability to make continuous improvements and anticipate problems
- Sound financial information on which to base decisions
- Improved clarity and focus
- A greater confidence in decision making

What to include in the annual plan

The main aim of the annual business plan is to set out the strategy and action plan for the business. This should include a clear financial picture of where you stand – and expect to stand – over the coming year. The annual business plan should include:

- An outline of changes that need to be made to the business

- Potential changes to the market, customers and competition
- The objectives and goals for the year
- The key performance indicators
- Any issues or problems
- Any operational changes
- Information about the management and people
- The financial performance and forecasts
- Details of investment in the business

Business planning is most effective when it's an ongoing process. This allows you to act quickly where necessary, rather than simply reacting to events after they have happened.

A typical business planning cycle

1. Review your current performance against last year / current year targets
2. Work out your opportunities and threats
3. Analyse your successes and failures during the previous year
4. Look at your key objectives for the coming year and change or re-establish your longer-term planning
5. Identify and refine the resource implications of your review and build a budget
6. Define the new financial year's profit and loss and balance sheet targets
7. Conclude the plan
8. Review it regularly – for example, on a monthly basis – by monitoring performance, reviewing progress and achieving objectives
9. Go back to point 1.

Budgets and business planning

Planning for the future of the business, means you will need to find these plans. Budgeting is the most effective way to control your cash flow, allowing you to invest in new opportunities at the appropriate time.

If your business is growing, you may not always to be able to be hands-on with every part of it. you may have to split your budget up between different areas such as sales, production, marketing, etc. You will find that money starts to move in many different directions through the organisation – budgets are a vital tool in ensuring that you stay in control of expenditure.

A budget is a plan to:

- Control your finances
- Ensure you can continue to fund your current commitments
- Enable you to make confident financial decisions and meet your objectives
- Ensure you have enough money for your future projects

It outlines what you will spend the money on and how that spending will be financed. However, it is not a forecast. A forecast is a prediction of the future whereas a budget is **planned outcome** of the future – defined by your plan that your business wants to achieve.

Benefits of a business budget

There are number of benefits of drawing up a business budget, including being better able to:

- Manage your money effectively
- Allocate appropriate resources to projects
- Monitor performance
- Meet your objectives
- Improve decision making
- Identify problems before they occur – such as the need to raise finance or cash flow difficulties
- Plan for the future
- Increase staff motivation

SECTION 2: Budgeting techniques

Budget forecasting is a critical part of planning the future of a business. Whether the budget is for the next month, year or decade, managers attempt to be as accurate as possible. The three main budgeting techniques include incremental budgeting, zero-based budgeting and flexed budgeting. Each of these has advantages and disadvantages.

Incremental budgeting

One technique for budgeting is the incremental approach. This method examines the previous accounting period and adds a percentage increase or decrease based on the assumptions of the manager or accountant. These are usually straightforward inflation, wage increase and business volume growth predictions.

A key drawback of this system is that percentages are added fairly indiscriminately for costs and may not be very detailed. The company may subsequently raise prices above the market and be uncompetitive.

Zero-based budgeting

In the zero-based budgeting approach, you begin with the assumption that every cost has a zero baseline. Next, work with the CFO, accountant or a senior manager to determine which costs are necessary and which costs can be adjusted. This way, all costs are justified from the beginning of the period. The main drawback of this procedure is that it takes a tremendous amount of time relative to the incremental budgeting approach.

Flexed budgeting

Flexed budgeting is a way to selectively moderate different budgeting items. This is similar to incremental budgeting but is conducted on a case by case basis. Flexed budgeting is likely to be more accurate than incremental budgeting because it takes a more detailed and nuanced approach to each item. Managers can also create different scenarios for positive, negative and neutral budget outlooks. The drawback is that it can create information overload with too many different possibilities.

Usefulness of budgets

Using these techniques, managers can better make risk and budgeting decisions. However, the techniques are only useful in that senior managers carefully follow and enforce their budgets. Without careful adherence to budgets by all parties, the company can easily miss profit margins.

Furthermore, they can affect long-term capital budget planning such as debt interest rates and equity offerings. They can also directly contribute to the return on investment of previous and future investors.

Competence check for Lesson 1

Now that you have completed Lesson 1, are you able to understand and demonstrate such understanding?

Make necessary comments in the appropriate column so you can check / follow up on later during the learning programme. Ensure that if you are unsure of the concept, note your comments / questions to discuss with your assessor.

Learning Outcome	Check / Comments / Questions
I can explain the concept of budgeting	
I can explain how to employ a budgeting technique	

Lesson 2

The elements of a budget

In order for you to demonstrate competence against the specific outcome indicated above, you will need to achieve the following:

LO1 ➔ Identify the elements of a budget

LO2 ➔ Identify internal and external constraints on a budget

SECTION 1: The elements of a budget

The following example shows some of the common elements of a budget.

Sample Company
Budget
January 1, xxxx to December 31, xxxx

Category	Actual	Budget	Difference
	Inflows		
Net Sales	385,400	300,000	85,400
Cost of Goods			
Merchandise Inventory, January 1	160,000	160,000	0
Purchases	120,000	90,000	30,000
Freight Charges	2,500	2,000	500
Total Merchandise Handled	282,500	252,000	30,500
Less Inventory, December 31	100,000	120,000	(20,000)
Cost of Goods Sold	182,500	132,000	50,500
Gross Profit	202,900	168,000	34,900
Interest Income	500	700	(200)
Total Income	**202,500**	**168,700**	**33,800**
	Expenses		
Salaries	68,250	45,000	23,250
Utilities	5,800	4,500	1,300
Rent	23,000	23,000	0

Office Supplies	2,250	3,000	(750)
Insurance	3,900	3,900	0
Advertising	8,650	9,000	(350)
Telephone	2,700	2,300	400
Travel and Entertainment	2,550	2,000	550
Dues & Subscriptions	1,100	1,000	100
Interest Paid	2,140	2,500	(360)
Repairs & Maintenance	1,250	1,000	250
Taxes & Licenses	11,700	10,000	1,700
Total Expenses	**133,290**	**106,850**	**26,440**
Net Income	**R69,210**	**R61,850**	**R7,360**

Creating a budget

Creating, monitoring and managing a budget is key to business success. It should help you allocate resources where they are needed, so that your business remains profitable and successful. It need not be complicated. You simply need to work out what you are likely to earn and spend in the budget period.

Begin by asking these questions:

- What are the PROJECTED SALES for the budget period? Be realistic, if you overestimate, it will cause you problems in the future.
- What are the DIRECT COSTS of sales, i.e. costs of materials, components or sub-contractors to make the product or supply the service?
- What are the FIXED COSTS or overheads?

You should break down the FIXED COSTS and OVERHEADS by type, e.g.:

- Cost of premises, including rent, municipal taxes and service charges
- Staff costs – e.g. wages, benefits, medical aid contributions, pension / provident fund contributions
- Utilities – e.g. heating, lighting, telephones
- Printing, postage and stationery
- Vehicle expenses
- Equipment costs
- Advertising and promotion
- Travel and subsistence expenses
- Legal and professional costs, including insurance

The business may have different types of expenses, and you may need to divide up the budget by department.

The business plan should help in establishing projected sales, cost of sales, fixed costs and overheads. Once you have figures for income and expenditure, you can work out how much money you are making. You can look at costs and work out ways to reduce them. You can see if you are likely to have cash flow problems, giving yourself time to do something about them.

Key steps in drawing up a budget

There are a number of key steps you need to follow to make sure the budgets and plans are as realistic and useful as possible.

Make time for budgeting

If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

Use last year's figures – but only as a guide

Collect historical information on sales and costs if they are available – these could give you a good indication of likely sales and costs. However, it is also essential what your sales plans are, how your sales resources will be used and any changes in the competitive environment.

Create realistic budgets

Use historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs.

It is useful to work out the relationship between variable costs and sales and then use your sales forecast to project variable costs. For example, if your department costs reduce by 10% for each additional 20% of sales, how much will your department costs decrease if you have a 33% rise in sales?

Make sure your budgets contain enough information for you to easily monitor to the key drivers of your business such as sales, costs and working capital.

Involve the right people

It is best to ask staff with financial responsibilities to provide you with estimates of figures for your budget, for example, sales targets, production costs or more specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also give them greater commitment to meeting the budget.

What the budget will need to include

Decide how many budgets you really need. Many small businesses have one overall operating budget which sets out how much money is needed to run the business over the coming period (usually a year). As the business grows, however, the total operating budget is likely to be made up of several individual budgets such as the marketing or sales budgets.

Projected cash flow

Your cash budget projects your future cash position on a month by month basis. Budgeting in this way is vital as it can pin-point any difficulties you might be having – especially if it is a small business. It should be reviewed at least monthly.

Costs

Typically the business will have three kinds of costs:

1. Fixed costs – items such as rent, salaries and financing costs
2. Variable costs – including raw materials and overtime
3. One-off capital costs – purchases of computer equipment or premises for example.

To forecast your costs, it can help to look at last year's records and contact your suppliers for quotes.

Revenues

Sales or revenue forecasts are typically based on a combination of your sales history and how effective you expect your future efforts to be.

Using your sales and expenditure forecasts, you can prepare projected profits for the next 12 months. This will enable you to analyse your margins and other key ratios such as your return on investment.

SECTION 2: Internal and external constraints

Every organisation has its own challenges – they may not be making the profits they planned for, or maybe there is an economic strain on the industry they operate in.

These challenges will affect the business budget.

ACTIVITY 2

Activity 2

Please complete this activity in your Learner Assessment Guide and PoE.

This activity is aligned to SO2, AC2

The budget is a critical planning tool for an organisation. When developing a budget, it is important to be as concrete and specific as possible about future income and expenditure. The budget must consider direct and indirect costs and enable the organisation to allocate and plan for the coming year. Budgets are prepared before the start of the fiscal year, so unknown factors need to be predicted. Budget analysts review historical trends as well as make assumptions about upcoming expenses to try and accurately predict the organisation's financial situation for the year ahead.

Revenue

Budget predictions are impacted when actual revenue received is not as much as originally anticipated. External factors negatively affecting assumed revenue might include an economic downturn, unexpected competition causing lowered sales or an inability to sustain the level of growth needed.

Internal factors such as inadequate collections and poor accounts receivable practices could also impact revenue. Aggressive projections that assume a high rate of growth or increased revenue have a much greater potential for inaccuracy than conservative estimates based on data from previous years.

Expenditure

Expenditure may be one of the most difficult areas of the budget to predict. Increases to medical aids, turnover levels and collective bargaining in unionised organisations can all change salary and benefits by a significant margin. In many industries, salary and benefits are more than 50% of the organisation's total expenses. Any variance to employee compensation will have a noticeable impact on budget predictions. Other unanticipated expenditures may include rent increases, a previously unforeseen need for overtime and financial audit fees and fines.

The economy and current market conditions can impact the financial forecast in several ways. Changes to the inflation rate and stock market conditions directly affect the organisation's net worth and its ability to generate funds or loans. If the company relies heavily on investments as a funding vehicle, then poor stock market performance will have a direct, negative effect on budget predictions. Likewise, if the rate of return on investments outperforms the prediction, then the budget will have a surplus.

Legislative changes

Certain legislative changes have a direct impact on budget projections. In most cases, businesses will be aware of pending legislation before it takes effect and can plan accordingly. Sometimes, just the introduction of future legislation, even if it has not taken effect will disrupt current budget predictions. An example of an immediate legislative change that impacts budget forecasts is a change to taxation.

Competence check for Lesson 2

Now that you have completed Lesson 2, are you able to understand and demonstrate such understanding?

Make necessary comments in the appropriate column so you can check / follow up on later during the learning programme. Ensure that if you are unsure of the concept, note your comments / questions to discuss with your assessor.

Learning Outcome	Check / Comments / Questions
I can identify the elements of a budget	
I can identify internal and external constraints on a budget	

Lesson 3

Monitor and control expenses against a budget

In order for you to demonstrate competence against the specific outcome indicated above, you will need to achieve the following:

LO1 ➔ Monitor actual expenses

LO2 ➔ Identify variances and take corrective action

When you are managing a business, it is easy to get bogged down in day to day problems and forget the bigger picture. Successful businesses invest time to create and manage budgets, prepare and review business plans and regularly monitor finance and performance.

Structured planning can make all the difference to the growth of the business. It will enable you to concentrate resources on improving profits, reducing costs and increasing returns on investment.

Many businesses carry out the majority of the activities associated with business planning, such as thinking about growth areas, competitors, cash flow and profit, without a formal process.

Converting this into a cohesive process to manage the business development does not have to be difficult or time consuming. The most important thing is that plans are made, they are dynamic and are communicated to everyone involved.

ACTIVITY 3

	**Activity 3** **Please complete this activity in your Learner Assessment Guide and PoE.** **This activity is aligned to SO3, AC1**

SECTION 1: Monitoring and controlling expenses

Use your budget to measure performance

If you base your budget on the business plan, you will be creating a financial action plan. This can serve several useful functions, particularly if you review your budgets regularly as part of your annual planning cycle.

Your budget can serve as:

- An indicator of the costs and revenues linked to each of your activities
- A way of providing information and supporting management decisions throughout the year

- A means of monitoring and controlling your business, particularly if you analyse the differences between your actual and budgeted income

Benchmarking performance

Comparing your budget year on year can be an excellent way of benchmarking your business performance – you can compare your projected figures, for example, with previous years to measure your performance.

You can also compare your figures for projected margins and growth with those of other companies in the same sector, or across different parts of the business.

Key performance indicators

To boost the business performance you need to understand and monitor the key drivers of the business – a driver is something that has a major impact on the business. There are many factors affecting every business' performance, so it is vital to focus on a handful of these and monitor them carefully.

The three key drivers for most businesses are:

1. Sales
2. Costs
3. Working capital

Any trends towards cash flow problems or falling profitability will show up in these figures when measured against your budgets and forecasts. They can help you spot problems early on if they are calculated on a consistent basis.

Revie the budget regularly

To use the budgets effectively, you will need to review and revise them frequently. This is particularly true if the business is growing and you are planning to move into new areas.

Using upto date budgets enables you to be flexible and also lets you manage your cash flow and identify what needs to be achieved in the next budgeting period.

Two main areas to consider:

Your actual income

Each month compare your actual income with your sales budget by:

- Analysing the reasons for any shortfall, for example lower sales volumes, flat markets and underperforming products
- Considering the reasons for a particularly high turnover, for example whether your targets were too low
- Comparing the timing of your income with your projections and checking that they fit

Analysing these variations will help you to set future budgets more accurately and also allow you to take action where needed.

Your actual expenditure

Regularly review your actual expenditure against the budget. This will help you to predict future costs with better reliability. You should:

- Look at how your fixed costs differed from your budget
- Check that your variable costs were in line with your budget – normally variable costs adjust in line with your sales volume
- Analyse any reasons for changes in the relationship between costs and turnover
- Analyse any differences in the timing of your expenditure, for example by checking supplier's payment terms

Competence check for Lesson 3

Now that you have completed Lesson 3, are you able to understand and demonstrate such understanding?

Make necessary comments in the appropriate column so you can check / follow up on later during the learning programme. Ensure that if you are unsure of the concept, note your comments / questions to discuss with your assessor.

Learning Outcome	Check / Comments / Questions
I can monitor actual expenses	
I can identify variances and take corrective action	

Summary

There are a number of key steps you should follow to make sure your budgets and plans are as realistic and useful as possible.

Make time for budgeting

If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

Collect historical information on sales and costs if they are available – these could give you a good indication of likely sales and costs. But it is also important to consider what your sales plans are, how your sales resources will be used and any changes in the competitive environment.

Create realistic budgets

Use historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs.

It is useful to work out the relationship between variable costs and sales and then use your sales forecast to project variable costs. For example, if your unit costs reduce by 10% for each additional 20% of sales, how much will your unit costs decrease if you have a 33% rise in sales?

Make sure your budgets contain enough information for you to easily monitor the key drivers of your business such as sales, costs and working capital. Accounting software can help you manage your accounts.

Involve the right people

It is best to ask staff with financial responsibilities to provide you with estimates of figures for your budget – for example: sales targets, production costs or specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also give them greater commitment to meeting the budget.

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