# Monitor and control finances

## Submission details

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| **Candidate’s name** | **Jasvir Kaur Mander** | **Phone no.** |  |
| **Assessor’s name** |  | **Phone no.** |  |
| **Assessment site** |  |
| **Assessment date/s** |  | **Time/s** |  |

The assessment task is due on the date specified by your assessor. Any variations to this arrangement must be approved in writing by your assessor.

Submit this document with any required evidence attached. See specifications below for details.

## Performance objective

The candidate will demonstrate the ability to monitor and control finances.

## Assessment description

In response to the scenario provided, you will create a simple spreadsheet budget to capture monitoring information. Using information provided to you by your assessor, you will then use the budget spreadsheet to produce a report on expenditure in accordance with organisational policies and procedures. You will also modify a contingency plan.

## Procedure

1. Read through the scenario provided in Appendix 1 to this assessment task and tasks A and B.
2. Design and develop a spreadsheet to capture budgeted and actual figures to produce a variance report.
3. Access actual budget figures from relevant managers and accounting systems (assessor).
4. Monitor and record actual figures.
5. Consider feedback from team members.
6. Produce a variance report as per organisational requirements.
7. Consider the scenario information and contingency plan provided and analyse the variance report.
8. Modify the contingency and implementation plans provided in the scenario to improve effectiveness.
9. Submit all documents required in the specifications below to your assessor. Ensure you keep a copy of all work submitted for your records.

## Specifications

You must provide:

* a budget variance report
* a modified contingency plan and modified implementation plan
* your notes on procedures.

Your assessor will be looking for:

* numeracy skills to read and understand a budget and to produce a variance report
* technology skills to use software associated with financial recordkeeping
* knowledge of basic accounting principles to identify and use account balances
* knowledge of organisational requirements related to financial management
* knowledge of organisational requirements for records and reports
* knowledge of principles and techniques involved in budgeting, profit and loss statements, electronic spreadsheets.

### Adjustment for distance-based learners

* No variation of the task is required.
* A follow-up interview may be required (at the discretion of the assessor).
* Documentation can be submitted electronically or posted in the mail.

## Appendix 1 – Scenario

Big Red Bicycle Pty Ltd is a bicycle manufacturer based in Bendigo, Victoria. The company produces bicycles which it sells to retailers in the domestic Australian market.

The senior management structure of the company appears below.

|  |  |
| --- | --- |
| Person  | Position |
| Michelle Yeo | Chief Executive Officer (CEO) |
| Tom Copeland | Managing Director |
| John Black | Chief Financial Officer (CFO) |
| Stuart LaRoux | Operations General Manager |
| Pat Roberts | Senior Accountant |
| Sam Gellar | Sales General Manager |
| Charles Pierce | Production Manager |
| Holly Burke | HR Manager |

According to company strategic plans, the company aims to achieve a net profit before tax of $1,000,000. The chief risks to this goal are:

* poor sales due to economic downturn
* increases in expenses such as wage expenses.

In addition to Australian operations, the company is considering manufacturing overseas to take advantage of reduced costs. The company is also considering diversifying its product range to reduce exposure to poor sales of one product.

### Role

You are the Senior Accountant at Big Red Bicycle. A major component of your role is setting budgets and monitoring budgetary performance for the organisation.

### Task A

The Managing Director, Tom Copeland, has asked you to implement a process to monitor expenditure and income. He has asked you to prepare a spreadsheet to capture and compare actual income and expenditure to budgeted figures. Your spreadsheet must contain columns for each of the four quarters of the financial year. You are required to gather data from the relevant managers (your assessor) to complete a budget variance report.

The report should conform to organisational requirements in policies and procedures
and contain:

* columns to show actual account values
* absolute variance
* percentage variance.

### Task B

It has come to the attention of the Managing Director, Tom Copeland, that due to the current economic climate, sales volume may be 20% below target this financial year. Tom is worried that this may severely impact profit projections. The company can accept as much as a 10% variance in profit projections; however, more than this could severely affect the company’s ability to pay obligations and invest. Reliable data to determine whether the risk has eventuated should be available by midway through the second quarter (Q2), when sales data for the company’s product are in.

Consider the contingency plan and the implementation plan for the contingency below. You have already implemented a portion of the contingency plan, namely the monitoring of budget performance in the variance report you have prepared. You should now analyse the report to determine the effectiveness of the contingency plan and its implementation.

You have received the following feedback from team members:

* Full-time workers and sales people are resentful of time wasting and distracting contract employees.
* Overtime not used but employees resentful of suggestion it might not be approved if needed.
* Training suited the needs of many sales team members but was not relevant to about half the team members.
* Sales team members were happy with the incentives program and tried hard to make sales in the third quarter (Q3); however, they were also resentful at the threatening tone of emails and soon lost enthusiasm.
* Effect of one-day training wearing off.
* Fifty percent of direct wages costs are attributable to short-term contract employees whose contracts have expired and who are no longer needed.
* Employees concerned about lack of attention paid to wastage: water; electricity: paper; raw materials.
* Employees feel left out of budgetary decision-making in general.

The Managing Director would like you to submit a revised contingency plan and contingency implementation plan to bring income and expenses under more
effective control.

#### Contingency plan for Task B

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| --- |
| Contingency Plan**Company name**: Big Red Bicycle Pty Ltd**Person developing the plan**:**Name** : Tom Copeland **Position:** Managing Director  |
| Risk identified: Profit for FY more than 10% less than budgeted |
| Strategies/activities to minimise the risk | By when | By whom |
| Produce quarterly variance reports to identify income/ expenditure and profit shortfalls over 10%. | Q2 | PR |
| Implement sales training/coaching. | Q2 | PR |
| Implement incentives program. | Q2 | PR |
| Reduce overtime. | Q2 | PR |

#### Contingency implementation plan for Task B

|  |
| --- |
| Risk identified: Profit for FY more than 10% less than budgeted |
| Activity | Monitoring activity and date | Person/s |
| Monitor variance. | Completion of variance report: Q2. | PR |
| Analysis of report to identify issues. | Management report: Q2. | PR |
| Email to warn employees of risk to jobs. | Monitoring of variance report results: Q4. | PR |
| Email to announce rise of commission from 2% to 2.5%. | Monitoring of variance report results: Q3. | PR |
| Email to inform employees that overtime will no longer be approved. | Monitoring of variance report results: Q3. | PR |
| Email to inform employees of mandatory sales skills training: set program. | Monitoring of variance report results: Q3. | PR |
| Mandatory training conducted. | Monitoring of variance report results: Q3. | PR |

## Appendix 2 – Budgeting and finance policy

### Budget preparations

* The business plan will set the key parameters for all financial budgeting.
* Variations to the business plan must be approved by the CEO and senior management strategic committee.
* Prior period results are to be analysed to identify the profit level of cost centres, identify correlations between financial statistics and to set key performance indicators and benchmarks for future budgets.
* The budget planning committee will meet prior to budgets being developed and agree on budget parameters. The committee will consist of all department managers plus the CEO and Chief Financial Officer.
* A CAPEX budget will be developed from the approved business plan.
* A detailed sales budget must be completed before completing the profit budget for the year.
* A cash-flow budget covering the first three months will be prepared after the profit budget is completed.
* A master budget including profit projections will be completed from which cost centre allocations will be made.
* Budget notes that contain all the assumptions used in the budgets should accompany the master budget or be made available on a separate document. Where possible, the notes should justify the basis on which the estimates were made.
* Overheads (non-direct expenses) will be apportioned across the cost centres equally. Exceptions need to be negotiated with relevant authorities.
* All expenses and income will be spread equally throughout the year unless otherwise required by business needs or business environment.
* The financial cycle for budgeting purposes will be yearly ending 30 June.

### Reporting requirements

Software applications to be used in reporting:

* Environment – MS Windows.
* Accounting information system – MYOB AccountRight.
* Data analysis – Microsoft Excel 2007.

Actual results will be produced monthly by the MYOB accounting system. Actual variances to budget will be produced using Excel with a report prepared for senior management for significant variances.

### Financial delegations

* Each manager is responsible for achieving the revenue budgets agreed to in the budget committee.
* Each manager is responsible to approve, by signing the necessary paperwork, all expenditures that fall within their area of responsibility.
* Expenditures must be within the budget guidelines for the individual departments.

### Format for budgets and reports

All budgets must include the:

* name of the person who prepared it
* cost centre (if applicable)
* name of the budget/report, i.e. sales, expenses, CAPEX, cash flow, budget
variance report
* period of the budget.

## Task – A

Master Budget Plan – 2018 – 2019

### Objective

The objective of the budget plan is to provide the planned budget vs. the actual amount taken up by the budget during the course of events. The plan also holds the variance in budget which is also calculated after comparison with the actual and planned results of the budget.

### Budget Variations

The budget variations have been approved by Michelle Yeo, the CEO of Big Red Bicycle Pvt. Ltd. and Tom Copeland, the Managing Director of Big Red Bicycle Pvt. Ltd.

### Proposed Cost

The cost proposed by the company for the Master Budget.

### Actual Cost

The real cost which is actually taken up by the company and different departments as proposed in the master budget (Horngren, 2009).

### Variance

The difference between the Actual Cost and Proposed Cost is known as Variance (Webb, 2002).

### Budget Plan

The budget plan is for the year 2018 – 2019 and contains the information regarding the costs and expenses along with the revenues which would be generated by the company during the entire year. It also holds the actual cost in comparison with the proposed costs for the Q1, Q2 and Q3 as they hold the same expenditure and costs taken up during this time and the budget for Q2 is separately provided being different than the rest of the year.

#### Budget Plan Q1, Q3, Q4:

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| --- |
| **Plan Prepared by: Pat Roberts Position: Senior Accountant** |
| **Big Red Bicycle Pty Ltd** |
| **Master Budget FY 2018/2019** |
|  | **Proposed for Q1, Q3 and Q4** | **Actual for Q1, Q3 and Q4** | **Absolute Variance for Q1, Q3 and Q4** | **Percentage Variance for Q1, Q3 and Q4** |
| **Revenue** |  |  |  |  |
| Commissions (2.5% sales) | 17,500 | 18,750 | 1,250 | 7.16% |
| Direct wages fixed | 75,000 | 70,000 | 5,000 | 7.5% |
| Sales | 700,000 | 750,000 | 50,000 | 6.65% |
| Cost of Goods Sold | 100,000 | 110,000 | 10,000 | -10% |
| Gross Profit | 507,500 | 551,250 | 43,750 | 8% |
| **Expenses** |  |  |  |  |
| General and Administrative Expenses |  |  |  |  |
| Accounting Fees | 5,000 | 5,500 | 500 | -10% |
| Legal Fes | 1,250 | 1125 | 125 | 10% |
| Bank Charges | 150 | 150 | 0 | 0% |
| Office Supplies | 750 | 825 | 75 | -10% |
| Postage and Printing | 100 | 115 | 15 | -15% |
| Dues and Subscriptions | 125 | 150 | 25 | -20% |
| Telephone | 2,250 | 2,925 | 675 | -30% |
| Repairs and Maintenance | 12,500 | 10,000 | 2,500 | 20% |
| Payroll Tax | 4,125 | 3,500 | 625 | 15% |
| *Marketing Expenses* |  |  |  |  |
| Advertising | 50,000 | 40,000 | 10,000 | 20% |
| *Employment Expenses* |  |  |  |  |
| Superannuation | 11,250 | 10,125 | 1,125 | 10% |
| Wages and Salaries | 125,000 | 125,000 | 0 | 0% |
| Staff amenities | 5,000 | 5,000 | 0 | 0% |
| Occupancy Costs |  |  |  |  |
| Electricity | 10,000 | 12,000 | 2,000 | -20% |
| Insurance | 25,000 | 25,000 | 0 | 0% |
| Rates | 25,000 | 25,000 | 0 | 0% |
| Rent | 50,000 | 50,000 | 0 | 0% |
| Water | 7,500 | 9,000 | 1,500 | -20% |
| Waste Removal | 12,500 | 12,500 | 0 | 0% |
| **Total Expenses** | 347,500 | 337,915 | 9,585 | 2.75% |
| **Net Profit (Before Interest and Tax)** | 160,000 | 213,335 | 53,335 | 33.33% |
| **Income Tax Expense (25% Net)** | 40,000 | 53,333.75 | 13,333.75 | -33.33% |
| **Net Profit After Tax** | 120,000 | 160,001.25 | 40,001.25 | 33.33% |

#### Budget Plan Q2:

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| **Plan Prepared by: Pat Roberts Position: Senior Accountant** |
| **Big Red Bicycle Pty Ltd** |
| **Master Budget FY 2018/2019** |
|  | **Proposed for Q2** | **Actual for Q2** | **Absolute Variance for Q2** | **Percentage Variance for Q2** |
| **Revenue** |  |  |  |  |
| Commissions (2.5% sales) | 25,000 | 30,000 | 5,000 | 16.7% |
| Direct wages fixed | 75,000 | 75,000 | 0 | 0% |
| Sales | 1,000,000 | 1,200,000 | 200,000 | 20% |
| Cost of Goods Sold | 100,000 | 130,000 | 30,000 | 30% |
| Gross Profit | 507,500 | 965,000 | 457,500 | 90.14% |
| **Expenses** |  |  |  |  |
| General and Administrative Expenses |  |  |  |  |
| Accounting Fees | 5,000 | 7,000 | 2,000 | -40% |
| Legal Fes | 1,250 | 1250 | 0 | 0% |
| Bank Charges | 150 | 200 | 50 | -33.33% |
| Office Supplies | 750 | 900 | 150 | -20% |
| Postage and Printing | 100 | 120 | 20 | -20% |
| Dues and Subscriptions | 125 | 150 | 25 | -20% |
| Telephone | 2,250 | 3,500 | 1,250 | -55.55% |
| Repairs and Maintenance | 12,500 | 12,500 | 0 | 0% |
| Payroll Tax | 4,625 | 5,250 | 625 | 13.51% |
| *Marketing Expenses* |  |  |  |  |
| Advertising | 50,000 | 40,000 | 10,000 | 20% |
| *Employment Expenses* |  |  |  |  |
| Superannuation | 11,250 | 11,250 | 0 | 0% |
| Wages and Salaries | 125,000 | 125,000 | 0 | 0% |
| Staff amenities | 5,000 | 5,000 | 0 | 0% |
| Occupancy Costs |  |  |  |  |
| Electricity | 10,000 | 14,000 | 4,000 | -40% |
| Insurance | 25,000 | 25,000 | 0 | 0% |
| Rates | 25,000 | 25,000 | 0 | 0% |
| Rent | 50,000 | 50,000 | 0 | 0% |
| Water | 7,500 | 10,000 | 2,500 | -33.33% |
| Waste Removal | 12,500 | 14,000 | 1,500 | -12% |
| **Total Expenses** | 347,500 | 350,120 | 2,620 | -0.75 |
| **Net Profit (Before Interest and Tax)** | 160,000 | 614,880 | 454.880 | 284.33% |
| **Income Tax Expense (25% Net)** | 40,000 | 153,720 | 113,720 | -284.3% |
| **Net Profit After Tax** | 120,000 | 461,160 | 341,160 | 284.33% |

#### Note

The negative sign in the percentage variance section of the budget proposal means that the company would be losing money at that point.

## Task – B

#### Analysis

There must be policies against the permanent employees to make sure they don’t cause any trouble for the employees on contract.

The overtime should be approved if the sales team performs well.

A survey must be conducted about the relevance of field and then the training shall be conducted.

Only emails of high importance should be sent to the team members.

Training to be conducted must be of high quality and must be provided for a week and conducting tests to make sure employees learn it by heart.

Wages costs must be reviewed immediately

More attention and budget to be allocated to the services employees are concerned about i.e. water, electricity, waste material disposal, raw material.

A representative from the employees must be taken up to the budget making committee to represent the concerns of the employees.

#### Contingency plan for Task – B:

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| --- |
| Contingency Plan**Company name**: Big Red Bicycle Pty Ltd**Person developing the plan**:**Name**: Jasvir Kaur Mander **Position:** Senior Accountant  |
| Risk identified: Profit for FY more than 10% less than budgeted |
| Strategies for minimizing the risks | From when | By whom |
| Identify the expenses in each quarterly report to get a better idea of how to reduce expenses and increase the profits. | Q1 | Senior Accountant and Managing Director |
| Coaching and training sessions for the employees. | Q1 | CEO |
| Incentives to be given to the employees exceeding the sales of about $5,000 in a month. | Q1 | CEO |
| Reducing overtime which would save the company money for electricity and other costs. | Q1 | Managing Director |

#### Contingency Implementation Plan for Task B

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| --- |
| Risk identified: Profit for FY more than 10% less than budgeted |
| Activity | Monitoring activity and date | Person/s |
| Monitoring variance from the beginning of each year. | Completion of variance report: Q1, Q2, Q3 and Q4. | Senior Accountant |
| Analysing the report for better understanding of the cost and expenses during each quarter. | Management report: Q1 – Q4. | Senior Accountant |
| Employees not performing well would be given a warning and meeting with the employee to discuss if the employee is facing with some personal issue. | Monitoring the variance report of each quarter. | Senior Accountant |
| Have a meeting session with the employees to inform them of the increase in commission and other policies related to deductions. | Monitoring the variance report of each quarter. | Managing Director |
| Informing the employees in the meeting that the rate for overtime would be reduced. | Monitoring the variance report of each quarter. | Managing Director |
| Asking for suggestions about the suitable type of training in the form of a survey sent via email. | Monitoring the variance report of each quarter. | HR Manager |
| Mandatory training conducted. | Monitoring the variance report of each quarter. | HR Manager and CEO |

## References

Horngren, C. T. (2009). *Cost accounting: A managerial emphasis, 13/e*. Pearson Education India.

Webb, R. A. (2002). The impact of reputation and variance investigations on the creation of budget slack. *Accounting, Organizations and Society*, *27*(4–5), 361–378.