# Plan financial management approaches

## 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 plan financial management approaches.

## Assessment description

In response to the scenario provided, you will clarify budget plans with your manager and negotiate changes to the budget. You will then identify and analyse a risk to the budget and prepare a contingency plan to prevent or minimise the risk.

## Procedure

1. Read the scenario provided in Appendix 1 to this assessment task and tasks A
and B.
2. Prepare to meet with your manager (assessor) to clarify budget and negotiate changes:
	1. identify areas of the budget that are not achievable, inaccurate or unclear
	2. prepare to negotiate necessary changes to the budget
	3. set up a time with your manager to meet.
3. Meet with your manager (assessor) to clarify budget and negotiate changes:
	1. identify at least two issues for clarification
	2. negotiate at least two changes
	3. include discussion of basic accounting principles
	4. refer to relevant legislation and ATO requirements
	5. refer to principles and techniques of managing budget items
	6. take and keep notes of agreed changes.
4. Use the template provided in Appendix 3 to this assessment task to prepare a contingency plan document for persistent risks after budget changes
5. 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:

* meet with your assessor to clarify budget and negotiate changes
* provide a contingency plan
* submit your notes.

Your assessor will be looking for:

* numeracy skills to read and understand a budget and negotiate budget re-allocations
* knowledge of basic accounting principles to identify and use account balances
* knowledge organisational requirements related to financial management such as contained in organisational policies and procedures
* knowledge of principles and techniques involved in budgeting.

### Adjustment for distance-based learners

* No variation of the task is required.
* 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 manager of Sales Centre A, based in Adelaide. The centre has achieved great success over the last year and consistently outsells other sales centres. In fact, due to the large number of accounts managed by your sales team and larger staff, your centre is expected to sell as much volume as the other two sales centres put together. Naturally, you expect cost allocations to reflect the both the needs and importance to the business of Cost Centre A.

### Task A

The Sales General Manager, Sam Gellar, has asked you to review the master budget and cost centre budgets prepared by the Senior Accountant. She would like you to meet with her to discuss the whether the budget projections are achievable, accurate, understandable and fair.

She would like you to look closely at the budget for your cost centre, note any changes you think are necessary, develop an argument for the changes and negotiate those changes with her.

Information you are aware of includes:

* Sales in the first quarter (Q1), third quarter (Q3), and the fourth quarter (Q4) are generally 30% less than the second quarter (Q2).
* Sales in Q2 depend on completion of 90% of repair and maintenance.
* Sales for Q2 have been estimated to be $1,000,000.
* Commission negotiated with members of the sales team is now at 2.5%.

### 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 mid Q2, when sales data for the company’s product are in.

As a special project, the Managing Director has asked you to perform a risk assessment and develop a contingency plan to manage the risk of sales falling 20%.

As per organisational policy you should use the contingency plan template provided.

## 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 CFO.
* 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 as 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.

### Financial delegations

* Each manager is responsible for achieving the revenue budgets agreed to by 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 following details:

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

## Appendix 3 – Budgets and templates

### Master budget with profit projections

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| **Big Red Bicycle Pty Ltd** |
| **Master Budget FY 2011/2012**  |
|  | **FY** | **Q1** | **Q2** | **Q3** | **Q4** |
| **REVENUE** |  |  |  |  |  |
|  | Commissions (2% sales) | 60,000 | 15,000 | 15,000 | 15,000 | 15,000 |
|  | Direct wages fixed | 200,000 | 50,000 | 50,000 | 50,000 | 50,000 |
|  | Sales | 3,000,000 | 750,000 | 750,000 | 750,000 | 750,000 |
|  | Cost of Goods Sold | 400,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Gross Profit |  2,340,000  | 585,000 | 585,000 | 585,000 | 585,000 |
| **EXPENSES** |  |  |  |  |  |
| *General & Administrative Expenses* |  |  |  |  |  |
|  | Accounting fees | 20,000 | 5,000 | 5,000 | 5,000 | 5,000 |
|  | Legal fees | 5,000 | 1,250 | 1,250 | 1,250 | 1,250 |
|  | Bank charges | 600 | 150 | 150 | 150 | 150 |
|  | Office supplies | 5,000 | 1,250 | 1,250 | 1,250 | 1,250 |
|  | Postage & printing | 400 | 100 | 100 | 100 | 100 |
|  | Dues & subscriptions | 500 | 125 | 125 | 125 | 125 |
|  | Telephone | 10,000 | 2,500 | 2,500 | 2,500 | 2,500 |
|  | Repairs & maintenance | 50,000 | 12,500 | 12,500 | 12,500 | 12,500 |
|  | Payroll tax | 25,000 | 6,250 | 6,250 | 6,250 | 6,250 |
| *Marketing Expenses* |  |  |  |  |  |
|  | Advertising | 200,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| *Employment Expenses* |  |  |  |  |  |
|  | Superannuation | 45,000 | 11,250 | 11,250 | 11,250 | 11,250 |
|  | Wages & salaries | 500,000 | 125,000 | 125,000 | 125,000 | 125,000 |
|  | Staff amenities | 20,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| *Occupancy Costs* |  |  |  |  |  |
|  | Electricity | 40,000 | 10,000 | 10,000 | 10,000 | 10,000 |
|  | Insurance | 100,000 | 25,000 | 25,000 | 25,000 | 25,000 |
|  | Rates | 100,000 | 25,000 | 25,000 | 25,000 | 25,000 |
|  | Rent | 200,000 | 50,000 | 50,000 | 50,000 | 50,000 |
|  | Water | 30,000 | 7,500 | 7,500 | 7,500 | 7,500 |
|  | Waste removal | 50,000 | 12,500 | 12,500 | 12,500 | 12,500 |
| TOTAL EXPENSES | 1,401,500  | 350,375  | 350,375  | 350,375  | 350,375  |
| NET PROFIT (BEFORE INTEREST & TAX) | 938,500  | 234,625  | 234,625  | 234,625  | 234,625  |
| Income Tax Expense (25%Net) | 234,625  | 58,656  | 58,656  | 58,656  | 58,656  |
| NET PROFIT AFTER TAX | 703,875  | 175,969  | 175,969  | 175,969  | 175,969  |

### Sales cost centre expense budget

|  |  |  |  |
| --- | --- | --- | --- |
|  | Sales Centre A | Sales Centre B | Sales Centre C |
| **Commissions** | $20,000 | $20,000 | $20,000 |
| **Wages** | $100,000 | $100,000 | $100,000 |
| **Telephone** | $3,000 | $3,000 | $3,000 |
| **Office supplies** | $1,000 | $1,000 | $1,000 |

### Contingency plan template

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| **Contingency Plan****Company name**: Big Red Bicycle Pty Ltd**Person developing the plan**:**Name:** **Position**: |
| **Risk identified:**  |
| **Strategies/activities to minimise the risk** | **By when** | **By whom** |
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### Task A

The budget proposal sent by me has a few mistakes I would like to clear up based on the information provided to me. I am aware of the facts that:

* Sales in the first quarter (Q1), third quarter (Q3), and the fourth quarter (Q4) are generally 30% less than the second quarter (Q2).
* Sales in Q2 depend on completion of 90% of repair and maintenance.
* Sales for Q2 have been estimated to be $1,000,000.
* Commission negotiated with members of the sales team is now at 2.5%.

The corrections to be made in the budget include,

**Correction#1:**

On the budget, it is mentioned that the sales for Q1, Q2, Q3 and Q4 are $750,000. According to the information, this needs to be changed. The sales from Q2 must be $1,000,000 and sales for Q1, Q3 and Q4 is generally to 30% of the sales made in Q2. This makes the sales required for Q1, Q3 and Q4 to be $700,000. These changes are essential and must be made as they would produce changes to the entire budget.

**Correction#2:**

The changes to be made in the sales (mentioned above) would also require changes in the commission given to the members of the sales team which has already been negotiated at about 2.5%. With respect to the Q1, Q3 and Q4, the members of the sales team would have to be paid about $7,500 with respect to the 2.5% of $300,000. Similarly for Q2, the amount to be paid to the members of the sales team would be $25,000 with respect to 2.5% of $1,000,000 sales made in Q2.

**Correction#3:**

The expenses for the telephone have been calculated for all the sales centers combined to be $3,000 while mentioned in the master budget is $2,500. This must be changed to $3,000 for the budget to be on par with the expenses of the sales centers.

The changed budget would come out to be,

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| **Changes Prepared By: Jasvir Kaur Mander Position: Manager – Service Centre A** |
| **Big Red Bicycle Pty Ltd** |
| **Master Budget FY 2011/2012**  |
|  | **FY** | **Q1** | **Q2** | **Q3** | **Q4** |
| **REVENUE** |  |  |  |  |  |
|  | Commissions (2.5% sales) | 77,500 | 17,500 | 25,000 | 17,500 | 17,500 |
|  | Direct wages fixed | 300,000 | 75,000 | 75,000 | 75,000 | 75,000 |
|  | Sales | 3,100,000 | 700,000 | 1,000,000 | 700,000 | 700,000 |
|  | Cost of Goods Sold | 400,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Gross Profit |  2,322,500  | 507,500 | 800,000 | 507,500 | 507,500 |
| **EXPENSES** |  |  |  |  |  |
| *General & Administrative Expenses* |  |  |  |  |  |
|  | Accounting fees | 20,000 | 5,000 | 5,000 | 5,000 | 5,000 |
|  | Legal fees | 5,000 | 1,250 | 1,250 | 1,250 | 1,250 |
|  | Bank charges | 600 | 150 | 150 | 150 | 150 |
|  | Office supplies | 3,000 | 750 | 750 | 750 | 750 |
|  | Postage & printing | 400 | 100 | 100 | 100 | 100 |
|  | Dues & subscriptions | 500 | 125 | 125 | 125 | 125 |
|  | Telephone | 9,000 | 2,250 | 2,250 | 2,250 | 2,250 |
|  | Repairs & maintenance | 50,000 | 12,500 | 12,500 | 12,500 | 12,500 |
|  | Payroll tax | 16,500 | 4,125 | 4,125 | 4,125 | 4,125 |
| *Marketing Expenses* |  |  |  |  |  |
|  | Advertising | 200,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| *Employment Expenses* |  |  |  |  |  |
|  | Superannuation | 45,000 | 11,250 | 11,250 | 11,250 | 11,250 |
|  | Wages & salaries | 500,000 | 125,000 | 125,000 | 125,000 | 125,000 |
|  | Staff amenities | 20,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| *Occupancy Costs* |  |  |  |  |  |
|  | Electricity | 40,000 | 10,000 | 10,000 | 10,000 | 10,000 |
|  | Insurance | 100,000 | 25,000 | 25,000 | 25,000 | 25,000 |
|  | Rates | 100,000 | 25,000 | 25,000 | 25,000 | 25,000 |
|  | Rent | 200,000 | 50,000 | 50,000 | 50,000 | 50,000 |
|  | Water | 30,000 | 7,500 | 7,500 | 7,500 | 7,500 |
|  | Waste removal | 50,000 | 12,500 | 12,500 | 12,500 | 12,500 |
| TOTAL EXPENSES | 1,390,000  | 347,500  | 347,500  | 347,500  | 347,500  |
| NET PROFIT (BEFORE INTEREST & TAX) | 932,500  | 160,000  | 452,500 | 160,000  | 160,000  |
| Income Tax Expense (25%Net) | 233,125 | 40,000 | 113,125 | 40,000 | 40,000 |
| NET PROFIT AFTER TAX | 699,375  | 120,000 | 339,375 | 120,000 | 120,000 |

It can be seen in the master plan above that the net profit before the deduction of income tax comes out to be $932,500 which is closer to $1,000,000 i.e. only $67,500 less than the company’s desired target. To reach the target, I propose that changes be made in the **grey highlighted part** of the master budget provided above, which include:

Electricity

Rent

Waste Removal

Cost of the Goods Sold

By reducing the cost of electricity, rent and waste removal by one third of their present costs, the target of $1,000,000 is achievable. Along with this, if the cost of goods produced is reduced to about one third of its total amount, it will add about $100,000 to the bucket, achieving the desired target set by the company as well. Payroll tax has been calculated as the 5% of the wages collected by the employees as per the Australian Rules and Regulations for the payroll tax (*About Payroll Tax, n.d*).

**Proposed changes in Budget:**

It can be seen that the sales made by sales centre during Q2 depend mainly on the repair and maintenance carried out and I believe it is better if we raise the budget of the repair and maintenance required by the company to make sure sales do not drop during this time period of the year. It has been highlighted in bright green in the master budget.

**Proposed Changes with respect to the Sales Centres:**

With respect to the data provided for every sales centre, it is visible that the Sales Centre A (managed by me) generates revenue which is equal to the revenue generated by both Centres B and C combined. This requires that there must be an extra bonus for the team or their wages must be raised at the rate of about $10,000, so they can feel that they are rewarded due to the efforts they put in their work. This would boost their morale and I am sure this will be essential in digging out the best from the teams working in Sales Centres B and C. If the wage is increased at about $10,000, there will be no massive effect at the target revenue to be generated by the company if the above proposed changes are taken into consideration.

### Task B

If the sales are projected to be less than the current rate, as mentioned in Task A, this means that there will be an effect on the overall revenue generated that year. For the identified risk, it is considered that the financial target or profit to be achieved must show no variation which should be more than 10% of the projected target this year. The profit for this year (before income tax) has been calculated to be about $932.500. For the sales to drop by 20% of the present value, the sales would drop from the present value i.e. $3,100,000 with a loss of 620,000 to about $2,480,000. Subtracting the loss i.e. $620,000 from the net profit (before tax), the net profit comes out to be $312,500. It would be a massive blow to the financial targets set by the company, as this set back would reduce the profits generated by the company at about 60%.

There is a desperate need for the contingency plan. It would hold different risks the company might face which would hinder the rate of profits generated by the company (Payne, 1999). The contingency plan is provided below,

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| **Contingency Plan****Company name**: Big Red Bicycle Pty Ltd**Person developing the plan**: **Name:** Jasvir Kaur mander **Position**: Manager – Service Centre A |
| **Risk identified:** Due to the current economic climate, sales volume may be 20% below target this financial year with net profits going as low as 60%. |
| **Strategies/activities to minimise the risk** | **By when** | **By whom** |
| Blend up the sales centre B and C, by shifting the team of sales centre B to C or vice versa, to minimize the cost utilized by electricity, rent, water, waste disposal. | As soon as the sales volume begins to go down | Michelle Yeo |
| Reduce the incentives provided to the employees. | Immediately | Tom Copeland |
| Reduce the budget utilized by the office supplies; making sure the employee breaking something pays for it. | Immediately | John Black |
| Increase the budget for advertising. | As soon as the sales volume goes down | Stuart LaRoux |
| Decrease the rate of commission for the employees.  | As soon as the sales volume goes down. | Sam Geller |

## References

*About Payroll Tax* (n.d). Available at: https://www.finance.wa.gov.au/cms/State\_Revenue/Payroll\_Tax/About\_Payroll\_Tax.aspx (Accessed: 25 January 2019).

Payne, C. F. (1999) ‘Contingency plan exercises’, *Disaster Prevention and Management: An International Journal*, 8(2), pp. 111–117. doi: 10.1108/09653569910266157.