



FNS50215 - Diploma of Accounting



FNSACC503 Manage budgets and forecasts

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LEARNER GUIDE

Description:

FNSACC503 – Manage budgets and forecasts

This unit describes the performance outcomes, skills and knowledge required to prepare, document and manage budgets and forecasts and encompasses forecasting estimates and monitoring budgeted outcomes.

About this Unit of Study Introduction.

qualification has application to job roles that have responsibility for managing budgets and forecasts such as accountants and chief financial controllers.

This Learning Guide Covers:

The budgeting process
Types of budgets
Forecasting
Operating budgets
Cash Budgets
Master Budgets
Performance reports
Flexible budgets
Variances
Budgeting behaviour

Learning Program:

As you progress through this unit of study you will develop skills in locating and understanding an organisations policies and procedures. You will build up a sound knowledge of the industry standards within which organisations must operate. You will become more aware of the effect that your own skills in dealing with people has on your success or otherwise in the workplace. Knowledge of your skills and capabilities will help you make informed choices about your further study and career options.

Additional Learning Support

To obtain additional support you may:

- search for other resources in the student portal. You may find books, journals, videos and other materials which provide additional information about topics in this unit.
- search for other resources in your local library. Most libraries keep information about government departments and other organisations, services and programs. The librarian should be able to help you locate such resources.
- contact information services such as Infolink, Equal Opportunity Commission, Commissioner of Workplace Agreements, Union organisations, and public relations

and information services provided by various government departments. Many of these services are listed in the telephone directory.

- contact your facilitator by telephone 1800 506 509 or through the portal messaging service.

Facilitation

Your training organisation will provide you with a flexible learning facilitator. Your facilitator will play an active role in supporting your learning. Your facilitator will help you any time during working hours to assist with:

- how and when to make contact,
- what you need to do to complete this unit of study, and
- what support will be provided.

Here are some of the things your facilitator may do to make your study easier:

- Give you a clear visual timetable of events for the semester or term in which you are enrolled, including any deadlines for assessments.
- Provide you with online webinar times and availability.
- Use 'action sheets' to remind you about tasks you need to complete, and updates on websites.
- Make themselves available by telephone for support discussion and provide you with industry updates by e-mail where applicable.
- Keep in touch with you by e-mail or portal message during your studies.
- Forums.

Flexible Learning

Studying to become a competent worker is an interesting and exciting thing to do. You will learn about current issues in this area. You will establish relationships with other students, fellow workers, and clients. You will learn about your own ideas, attitudes and values. You will also have fun. (Most of the time!)

At other times, study can seem overwhelming and impossibly demanding, particularly when you have an assignment to do and you aren't sure how to tackle it ... and your family and friends want you to spend time with them...and a movie you want to see is on television...

Sometimes being a student can be hard.

Here are some ideas to help you through the hard times. To study effectively, you need space, resources and time.

1. THE FUNDAMENTALS OF BUDGETING

1.1. What is a budget?

A budget is a financial document that expresses a future plan or expectation which contributes to the operation or control of an organisation. A budget may set out expected cash flows, sales quantities or revenues for a future period. Most students will have some idea of what a budget is as they will have been involved in creating their own budgets to monitor household expenditure (Clowes & Scriven, 2011 p.4).

Budgets assist management to:

- control finances;
- meet current commitments;
- provide funding for future ventures;
- make financial decisions to attain organisational goals (Banks & Gillberti, 2010 p.2).

Annual budgets are brought down by both state and federal governments and set out the financial plan for the states and the commonwealth for the next twelve (12) months.

1.2. The budgeting process

Budgeting involves developing and implementing a plan for an organisation's activities and comparing the plan against actual performance. The activities involved in budgeting include:

- estimating and forecasting;
- planning;
- preparation of the budget documents;
- distribution of budget documents and implementing the budget;
- review of budget expectations against actual performance (Clowes & Scrivan, 2011 p.4).

1.3. Benefits of budgeting

Budgeting provides a systematic way of reviewing objectives, coordinating future activities and setting realistic targets. It is an effective management tool and benefits include.

- providing a set of standards against which performance can be measured;
- **each staff member's specific role is clearly defined and understood;**
- identifies potential trouble spots e.g. cash flow shortages;
- builds good relationships and develops morale in the workplace;
- develops a system to provide regular feedback on performance;
- identifies variances between budgets and actual results (Clowes & Scrivan, 2011 p.6).

1.4. Limitations of budgeting

The main limitations of budgeting are as follows:

- the budget is only as good as the assumptions or estimates on which it has been based. There is always uncertainty with predicting future events and the quality of the estimates will be critical to the use of the budget as a control document;
- the budget process may be expensive initially and during its operation with respect to both monetary costs and staff time. Management will need to monitor the situation to ensure the benefits exceed the costs of installing a budgetary system;
- preparation of the budget is no guarantee of success. Other factors include the performance of staff members and management, the operating and economic environment;
- the budget must be delivered in a timely manner to the relevant people in order for appropriate action can be taken;
- variances between budget and actual figures need to be identified and addressed and improvements implemented in a timely manner;
- the targets should not be too challenging e.g. setting high or unrealistic figures.

The budget process should be clearly communicated to all staff members and used as a motivating tool to boost morale and commitment in the organisation (Clowes & Scrivan, 2011 pp.6-7).

Activity 1:

1. With respect to the budgeting process, answer true or false to the following statements:
 - (a) budgets enable management to predict the future;
 - (b) it can co-ordinate different sections of the organisation;
 - (c) it provides realistic performance targets.
2. List three (3) benefits and three (3) limitations of budgeting.

2. TYPES OF BUDGETS

2.1. The planning process

Planning is primarily the responsibility of management and can be defined as “the set of actions taken to formulate the scope and direction of future activities and operations”. Strategic planning takes into account:

- the reason why the business operates;
- the type of business;
- the processes to develop the business;
- methods to develop the business more effectively and efficiently;
- the location of this business.

Once the strategic direction is finalised and agreed, targets and objectives for each department can be set and quantified in financial terms by implementing budgets.

Set out below is a cash budget for a small regional retail store for the quarter ended 31 March. The figures include GST and represent anticipated cash received and paid for the operations of the business during the quarter.

Cash budget for three (3) months ending 31 March.

	January	February	March	Total
Cash from operations				
Cash from sales	\$150,000	\$165,000	\$170,000	\$485,000
Cash for operations				
Cash for purchases	\$55,000	\$62,000	\$70,000	\$187,000
Wages	\$40,000	\$43,000	\$50,000	\$133,000
Services - electricity and telephone expenses	\$11,000	\$13,000	\$14,000	\$38,000
Rent	\$15,000	\$15,000	\$15,000	\$45,000
Miscellaneous costs	\$3,000	\$4,000	\$5,000	\$12,000
Advertising	\$5,000	\$5,000	\$5,000	\$15,000
Total cash for operations	\$129,000	\$142,000	\$159,000	\$430,000
Net surplus/deficit	\$21,000	\$23,000	\$11,000	\$55,000
Opening cash at bank	\$25,000	\$46,000	\$69,000	\$25,000
Closing cash at bank	\$46,000	\$69,000	\$80,000	\$80,000

5.4. Cash payments

When determining a budget for cash payments many of the cash payment figures will be fixed costs. Other payments can be determined as a percentage of sales revenue.

Example:

Based on our previous example Marshall Vacuum Cleaners has estimated purchases and payments for the quarter to be as follows:

- purchase of inventories is estimated as 25% of sales e.g. 25% of estimated sales figures for January February and March.
- marketing is estimated as 10% of sales figures
- miscellaneous expenses are fixed at \$5,000 per month
- rent of premises is fixed at \$10,000 per month
- salaries are fixed at \$10,000 per month (GST free).
- Sales are estimated at \$170,000 (January), \$180,000 (February) and \$190,000 (March) and the business makes all payments in the month they fall due.

	Jan \$	Feb \$	Mar \$	Qtr \$
Cash payments subject to GST				
Purchases	42,500	45,000	47,500	135,000
Marketing	17,000	18,000	19,000	54,000
Miscellaneous expenses	5,000	5,000	5,000	15,000
Rent	10,000	10,000	10,000	30,000
Total	74,500	78,000	81,500	234,000
Add GST 10%	7,450	7,800	8,150	23,400
Total payments subject to GST	81,950	85,800	89,650	257,400
Cash payments not subject to GST				
Salaries	10,000	10,000	10,000	30,000
Total payments	91,950	95,800	99,650	287,400

From the schedule above a cash payments budget can be prepared for the quarter as follows:

	Jan \$	Feb \$	Mar \$	Qtr \$
Total payments	91,950	95,800	99,650	287,400

6. MASTER BUDGETS

6.1. Preparation of a master budget for a trading industry

The master budget includes the integration of a group of budgets which may be prepared on a monthly basis. The aim of preparing a master budget is to provide a “roadmap” for achieving the goals of the organisation.

The budgets which form the master budget are set out below:

- sales budget;
- cost of goods sold budget;
- purchases budget;
- operating expenses budget including administration, selling and financial expenses budgets;
- cash budget;
- income statement budget;
- balance sheet budget.

The following example illustrates the integration of the budgets listed above to form the master budget:

Example:

Plassimo Trading Services has the following ledger account balances as at 30 June.

Cash	\$25,000
Non-current assets	\$200,000
Capital	\$225,000

The following data is provided for 1 July.

Expected sales	\$260,000
COGS (20% of sales)	
Purchases	\$58,000
Administration expenses (subject to GST)	\$22,000
Selling expenses (subject to GST)	\$18,000
Financial expenses (interest and bad debts)	\$10,000
Administrative salaries	\$55,000
New computer equipment (subject to GST)	\$12,000

NB: Sales and purchases are subject to GST in the cash budget.

The following budgets have been prepared from the above data:

Sales budget

Expected Sales	\$260,000
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Purchases budget

Purchases	\$58,000
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COGS budget

COGS	\$52,000
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NB: The purchases budget exceeds the COGS budget by \$6,000. As no opening stock is recorded, closing stock must equal \$6,000 as at 30 June.

Administrative expenses budget

Expenses (subject to GST)	\$22,000	
Administrative salaries	\$55,000	\$77,000

Selling expenses budget

Expenses (subject to GST)	\$18,000	
Sales salaries	\$60,000	\$78,000

Financial expenses budget

Interest and bad debts	\$10,000	\$10,000
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The following is the worksheet for the cash budget.

	\$
Receipts subject to GST	
Sales	260,000
Plus GST	26,000
Total receipts	286,000
Payments subject to GST	
Purchases	58,000
Administration expenses	22,000
Selling expenses	18,000
New computer equipment	12,000
Total payments for GST	110,000
Plus GST	11,000
	121,000
Payments not subject to GST	
Financial expenses	10,000
Administrative salaries	55,000
Sales salaries	60,000
Total payments not subject to GST	125,000
Total payments	246,000

Cash budget

	\$
Cash receipts	286,000
Less cash payments	246,000
	40,000
Add cash on hand at 30 June	25,000
Total	\$65,000

9. VARIANCES

9.1. Analysing the variance

There are two (2) main causes for variances between the original budget and the actual results:

- the volume or activity is different;
- spending or prices are different (Clowes & Scrivan, 2011 p.289).

Example:

A firm of accountants produces the following performance report information for the quarter ended 31 March.

	Master Budget \$	Actual Results \$	Variance \$
Fees received	80,000	91,500	11,500 F
Salaries variable per hour	38,000	40,000	2,000 U
Motor vehicle expenses – fixed	600	750	150U
Motor vehicle expenses – variable	700	720	20U
Advertising – fixed	1,500	1,400	100F
Advertising – variable	2,200	2,500	300U
Office expenses – fixed	22,000	24,000	2,000U
Total expenses	65,000	69,370	4,370U
Net profit	15,000	22,130	7,130F

This report shows a favourable variance of \$7,130 due to increased fees which have been offset by an increase in expenditure in some cases. The budget needs to be reworked to show what the expenses should have been, based on actual results e.g. the income of \$91,500.

The variable expenses are calculated as a proportion of total fees received (based on a flexible budget approach). The budgeted variable costs based on actual total fees received are calculated as follows:

$$\frac{\text{Variable costs}}{\text{Total Budgeted fees}} \times \text{Total Actual fees received}$$

$$\text{Salaries paid} = \$38,000 / \$80,000 \times \$91,500 = \$43,463$$

Motor vehicle expenses = $\$600/\$80,000 \times \$91,500 = \686

Advertising expenses = $\$2,200/\$80,000 \times \$91,500 = \$2,516$

The reworked performance report for the quarter ended 31 March is as follows:

	Master Budget \$	Activity volume variance \$	Flexible budget	Actual Results \$	Flexible budget variance
Fees received	80,000	11,500 F	91,500	91,500	
Less variable expenses					
Salaries	38,000	5,463U	43,463	40,000	3,463F
Motor vehicle expenses	700	14F	686	720	34U
Advertising	2,200	316U	2,516	2,500	16F
Total variable expenses	40,900	5,765U	46,665	43,220	3,445F
Contribution margin	39,100	5,735F	44,835	48,280	3,445F
Less fixed expenses					
Motor vehicle expenses – fixed	600		600	750	150U
Advertising – fixed	1,500		1,500	1,400	100F
Office expenses	22,000		22,000	24,000	2,000U
Total fixed expenses	24,100		24,100	26,150	2,050U
Net profit	15,000	5,735F	20,735	22,130	1,395F

9.2. The causes of variances

The purpose of calculating variances and presenting performance reports is a control function of the budgeting process and is performed to identify and investigate any deviations. Actual figures should be checked initially to ensure there are no accounting errors.

Variances in the following variables costs can be linked to the purchasing, production and human resource departments. A materials price variance is the responsibility of the purchasing manager. Unit costs may vary because:

- suppliers have updated their price lists;
- changes in the exchange rate e.g. imported goods;
- seasonal conditions affecting supply e.g. agricultural products;
- the purchase of substitute materials;

6. CONCLUSION

6.1. What have we learned?

Congratulations, you're reached the end of the FNSACC503 Manage budgets and forecasts learner guide!

To summarise what you have learnt in this unit:

1. The Fundamentals of Budgeting
2. Types of Budgets
3. Forecasting
4. Operating Budgets
5. Cash Budgets
6. Master Budgets
7. Performance Reports
8. Flexible Budgets
9. Variances
10. Budgeting Behaviour

Please review any of the above areas that you are still not familiar with.

6.2. What next?

Now that you have completed the learner guide, you are now ready to commence working through the Workbook associated with this unit.

When you have completed the workbook, you may progress to the next unit as designated in your welcome pack.

Good luck with your assessment!

FEEDBACK

Well done for finishing this workbook. We hope that what you learn will open up new path ways of success in your life. At Compliant Learning Resources we continually strive to improve our workbooks and heighten the learning experience for you. One way we do this is by seeking feedback. Your experience is important to us and we are very keen to hear any suggestions or complaints you may have. Click on the button below to let us know what you think of us and our learning resources.



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