Contents

Financial budgets

Financial budgets are also called financial plans. They are focused on obtaining funds (cash) and the use of those funds for the advantage of the organisation. These budgets include the cost of finance in relation to the cost of obtaining capital through borrowing or other mechanisms; for example, capital raising through the sale of shares.

Understand financial plans

It is your job to access and familiarise yourself with the following financial plans so you can explain them to members of your work team. In this way, they can understand the goals and objectives they are expected to achieve and the financial boundaries within which the team must operate. Make sure you are familiar with, and can clarify with team members, relevant terminology such as cashflow, profit and loss, balance sheet, financial statement, capital expenditure, assets and liabilities, depreciation and lease versus purchase.

The types of financial plans and budgets utilised depend on the size and nature of the business. Below are some definitions and explanations of budgets, plans and projections.

Strategic long-term budgets/plans	Long-term budgets and plans are closely allied to an organisation's strategic goals and objectives. They are generally developed for a five- to ten-year period.
Short-term and operational budgets/plans	Operational plans relate to the ongoing day-to-day and weekly activities of an organisation. They are focused on the operational side of a business in terms of achieving short-term goals and objectives associated with the expected expenditure and income of the organisation's goods and services. Operational plans are short-term plans that generally relate to an organisation's financial year. A significant part of this process is managing the budget on a day-to-day basis.
Cash budget or cashflow projections	Cash budgets detail the expected cash/funds coming in and cash/funds going out for payments over time. A negative position indicates cash is not available to pay accounts and thus additional monies may be required or action taken to delay some payments.
Spreadsheet-based financial projections	In developing inputs, parameters for operational and financial budget spreadsheet models are often developed to provide a picture of the expected sales and expenditure for various departments or entities of an organisation. They can be used to set targets that are required in meeting sales objectives, expected expenditure and, therefore, profit. By using the 'what-if' approach in changing various parameters, such projections can be useful in providing guidance on the position of the organisation at some future point in time.

1C Negotiate any changes required to plans

You may believe that a budget is not achievable without further financial resources being made available, or that allocations need to be altered to provide a better balance. In such situations you need to negotiate with others to change part of the budget to ensure you and your team can achieve designated targets. Final approval for your budget remains with the financial manager.

Consultation is a key component of the process in developing accurate and achievable budgets within an organisation.

Budget changes

Changes may need to occur for many reasons, some of which may be out of your control. Often budgets and financial plans span more than one area and the responsibilities for the budgets sit with more than one person. External decisions can impact an organisation and, consequently, its total budget. In many cases organisations have a contingency fund for adjusting budgets when necessary.

Below are a number of reasons why budgets may have to be changed after they are put together.

Making changes to a budget
• Initial costings have proven inadequate or inaccurate. • A new staff member is required but not included in the budget. • The time allocated to tasks is unrealistic. • Wage rises dictated by government or union action have increased staffing costs. • There is a corporate directive to reduce expenditure in all areas. • There have been significant increases in supplier costs. • A new, compulsory initiative that has not been budgeted for has to be implemented.

1D Prepare contingency plans in the event that initial plans need to be varied

All budgets and financial plans are designed to be a framework within which the organisation works, so when you identify that they are no longer working or you are unable to achieve them, you need to vary or adjust them to meet the new circumstances.

It is good business practice to identify potential risks faced by your area/department in achieving organisational plans; perform a risk analysis and have contingency plans that can be actioned if and when a change occurs. A proactive approach is to incorporate risk management into the planning processes of the organisation and to have options readily available.

Manage risk

The first step in financial risk management is to identify the financial risks that the organisation can face and how these would impact the budget. Then you can identify possible contingencies.

The organisation should undertake a risk assessment and effectively rank each identified risk. Each manager should be part of this process. Commencing with the major risk issue, review the current processes in place for managing that risk to determine if it is appropriately managed. This may involve consultation across a broad range of areas within and external to your organisation. Plans should be prepared to manage or control the risk by reducing its likelihood, or reducing the risk and the impact if it does occur. This information in turn impacts the organisation's budgets and financial plans. Possible risks and risk control measures are outlined in this table.

Risk	Example	Risk control
Equipment failure	Regular breakdowns add to the maintenance budget.	Lease equipment
Delayed input supplies	Materials not arriving or being held up at customs halt production and impact on cashflow.	Hold greater quantities at an increase in inventory costs
Price and cost changes	Increased costs of inputs and unexpected salary increases add to the labour and production and thus cashflow.	Hold greater quantities of inputs or have firmer contractual arrangements in place
Staff shortages	Sudden illness or departure impacts on labour costs; you may need to pay other staff overtime to meet production schedules.	Increase in casual/flexible labour
Security breaches	Breaches of confidentiality or privacy of clients reduces confidence in the company and reduces demands for goods and services.	Tighter security and confidentiality control measures in place
Financial loss	Mismanagement of resources, theft or fraud adds to costs and impacts on cashflow.	Increased security measures

continued ...

6. Read the case study, then complete the tasks that follow.

Case study

Hasan works for a company that manufactures shower screens. He is the cost centre manager for the production area. For the four products they manufacture, sales at the end of February are in the table below.

Product	Unit	Value ($)
Basic	150	37,500 (250 per unit)
Standard plus	250	125,000 (500 per unit)
Deluxe	200	150,000 (750 per unit)
Super deluxe	100	100,000 (1000 per unit)

The above production is standard from month to month and the costs involved are below.

Product	Labour per unit (hours)	Material cost per unit ($)	Overhead contribution per unit ($)
Basic	2.0	100	10
Standard plus	3.0	250	20
Deluxe	4.0	480	34
Super deluxe	5.0	600	43

Labour is costed at $50 per hour and includes contributions to leave entitlements and superannuation. Material costs are fixed with a supply contract for the standard quantities required each month.

Hasan is advised that the company has just won an extra special order for the supply of shower screens for a refit of a hotel, and the products are required by the end of March. The quantities and agreed per unit price are below.

Product	Required units	Price agreed per unit ($)
Basic	30	275
Standard plus	50	550
Deluxe	10	750
Super deluxe	5	900

Formal meetings

Where the recipients are identified and presented with specific information relevant to their roles and responsibilities.

Group meetings/sessions

Where a specific focus is required and those attending have a common area or linked activities.

Written communication

Where the information is sent via written memorandum, letter or report.

Face-to-face presentations

Where an audience can be selected (this can include such technologies as videoconferencing and teleconferencing).

Electronic communication

Where emails are sent to individuals or groups, or documentation is made available on the intranet.

Timing and format

Budget plans and information should be disseminated in a timely fashion so that there is sufficient lead-time for the recipients to make adjustments, if necessary, to the way they and their teams operate. People should have sufficient time to study the plans and note whether any points they had brought up in the developmental phase have been addressed.

The format for presenting the budget may vary depending on the information being delivered; for example, the information may be presented verbally as well as in written, numerical (spreadsheet or tables) or graphical form.

The format may also vary depending on the level of budget information being disseminated and the nature of the recipients as shown below.

Senior management

Senior management of a medium to large organisation might provide information to employees in a total staff presentation using a graphical overview of expected income and expenditure for the next year against projections based on historical data, plus any indications of impacts of potential global economic changes or other scenarios.

Adjustments

Up to the trial balance stage, it is assumed that the expenses paid during an accounting period correspond exactly to the amounts due to be paid during that period. For example, if the profit is being calculated for the year ended 30 June 2016, it is assumed that the rent paid and recorded in the rent account is exactly the amount that was due for that period. However, in reality it is likely that some of the rent will have been paid in advance for the next period. Other expenses, such as wages and electricity, may have been incurred but may not be paid until after the end of the current accounting period.

Accountants assume that a business is a profitable concern. In the absence of clear evidence to the contrary, the business will continue operating beyond the end of the accounting period. Because of this, certain transactions of the business may overlap accounting periods.

Therefore, revenue and expenses received or paid within a period may not necessarily relate to that particular accounting period. All or part may apply to the accounting period before, or after, the period in which it was actually received or paid.

While accrual accounting provides an accurate picture of profitability, the accuracy depends on certain adjustments being made prior to the preparation of the financial statements. These adjustments are referred to as balance-day adjustments.

Balance-day adjustments

The balance day adjustments which are required to be performed are described below.

Accrued expenses

Accrued expenses are those that have been incurred in the current accounting period but not paid by the end of the accounting period. For example, salaries and wages are an expense often incurred but not paid as of balance day, because the end of the accounting period may fall midway through a pay period.

Prepaid expenses

Prepaid expenses are expenses that have been paid in the current accounting period but relate to the next financial year. This results in an overstatement of expenses for the current period as the payment of the expenses will be recorded in the current period. For example, insurance is an expense that is often paid in advance.

The capital cost of an asset

The total capital cost of an asset includes the purchase price of the asset plus any additional costs associated with preparing the asset for use in the business. Additional costs include:

- installation
- delivery
- modifications required by the business
- stamp duty
- customs duty.

The capital cost of an asset does not include any goods and services tax (GST) paid, as this is claimed back by the business from the Australian Taxation Office (ATO) as an input tax credit (if the business is registered for GST).

Recurring costs associated with an asset are also not included in the capital cost. Recurring costs are those costs associated with the ongoing use of an asset. These include annual insurance, registration, repairs and maintenance.

Depreciation

There are a number of methods a business may use to calculate depreciation of an asset. The two most commonly used methods are described below.

Straight-line depreciation

Also known as prime-cost depreciation or on-cost depreciation, this method allocates the total capital cost of the asset evenly over the asset's estimated useful life, meaning that the annual depreciation is the same amount each year.

Reducing-balance depreciation

Reducing-balance depreciation is also known as written-down-value depreciation or diminishing-value depreciation. This method calculates depreciation based on the written-down value of the asset each year.

The written-down value is equal to the cost price of the asset less the accumulated depreciation charged against the asset. The written-down value can also be referred to as the book value or the carrying cost.

The effect of using the reducing-balance depreciation method is higher annual depreciation in the early years of the asset's estimated useful life than in the later years.

Financial statement (budget)
Financial statements are documents (budgets) that reflect the gross and net profit on goods sold. A balance sheet (statement of financial position) can be developed as a budget to reflect the expected position of an organisation at the budgeting period; for example, end of financial year.

Targets and key performance indicators

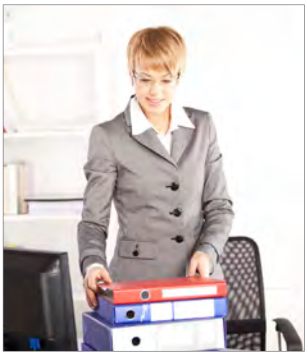
Targets or key performance indicators (KPIs) are developed to measure business performance and progress towards the objectives of the organisation. They are designed to ensure that the day-to-day activities are being achieved and are contributing to the organisation's goals.

KPIs are often based on the expected outcomes detailed in the budgets; for example, cashflow projections are based on expected sales, which in turn set a target or KPI for the sales personnel to achieve a certain level of sales.

Organisations generally set targets or KPIs and record the outcomes for:

- production
- productivity
- resource utilisation and wastage
- sales
- income, expenditure and profitability
- performance and attitude of employees and performance improvement of managers
- public and environmental responsibility.

Access budgets/plans and financial information



Organisational and team budgets are developed by senior management then disseminated to team members through their manager for discussion. You need to know where these budgets and financial plans are kept so they can be easily accessed when needed. In some circumstances, sensitive financial plans may be confidential and only available to senior staff, so be aware of the type of information you can discuss with your team.

Operational budgets are usually kept by the manager and shared with team members so they can set relevant targets or KPIs to be achieved and discuss the team's responsibilities in meeting the budget.

You may like to read a comprehensive book on budgeting:

Shim JK & Siegel JG 2012, *Budgeting basics and beyond*, 4th edn, John Wiley & Sons, New Jersey, USA.

Regulatory requirements for organisations in Australia
• Reporting of GST and other taxation-related issues on the business activity statement • Administering and reporting the superannuation guarantee levy • Complying with the capital gains tax and fringe benefits tax regulations • Compliance with the *Income Tax Assessment Act 1997* (Cth) (for organisations registered as companies) • Compliance with the Corporations Law • Compliance with the Australian Accounting Standards

The main regulatory bodies

The main bodies regulating the reporting of the financial affairs of an organisation in the public arena are outlined here.

ASIC

Australian Securities and Investments Commission (ASIC)

ASIC is the chief regulatory agency of all incorporated entities (public and private) and fund managers within Australia. ASIC has responsibility for the administration and enforcement of the *Corporations Act 2001* (Cth), *Australian Securities and Investments Commission Act 2007* (Cth), *Insurance Contracts Act 1984* (Cth), *Superannuation (Resolution of Complaints) Act 1993* (Cth), *Superannuation Industry (Supervision) Act 1993* (Cth), *Retirement Savings Account Act 1997* (Cth), *Life Insurance Act 1995* (Cth) and the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003* (Cth). ASIC is responsible for protecting investors and consumers in the Australian financial system.

Incorporated entities can take the form of companies, incorporated associations (including not-for-profit entities) and trusts. All entities covered by ASIC must submit an annual return by January each year noting changes to address, incorporation and directors' details. All incorporated bodies must also submit a copy of their annual accounts.

For public companies, those accounts must be presented in accordance with the Australian Accounting Standards and must be audited. In addition, public companies must also disclose a summarised half-yearly result, showing income, expenditure and profit, balance sheet and cashflow.

For private companies the requirements are not as stringent. Private companies can report their financial affairs with less formality and disclosure and their accounts do not need to be audited.

Other regulators outline the required formats, frequency of reporting and due dates in an initial bulletin and simply expect compliance thereafter. Regulators are also responsible for communicating any changes to requirements and the dates from which they take effect.

Calculate taxation liabilities

An important part of the organisation meeting its statutory reporting requirements is the calculation and submission of taxation liability. It may be your responsibility to gather data that is used by the regulatory bodies to calculate your organisation's taxation liabilities.

The Australian federal government, through the Australian Accounting Standards Board, is responsible for developing and issuing accounting standards that comply with the accounting standards used internationally.

These accounting standards must be followed by all Australian reporting organisations. To keep abreast of the development of these accounting standards towards international compliance, refer to the website of the Australian Accounting Standards Board at: www.aasb.gov.au

Accounting standards

There are two accounting standards that are directly relevant to gathering revenue data for statutory recording and reporting. These are described below.

AASB 101 – Presentation of financial statements

AASB 101 requires accrual accounting concepts to be adopted and that all information (data), when recorded in source documents and carried through to the accounting records, be:

- relevant, in terms of the size and nature of the transaction
- reliable, in that it faithfully conveys the nature of the underlying transactions
- able to show the economic impact on the business of the transaction, i.e. increasing sales, increasing expense levels, increasing asset or liability levels within the organisation; the recording must be at an adequate level of detail
- treated consistently over time so that information is understandable and comparable over different aspects of the business and over different periods of time.

AASB 118 – Revenue

AASB 118 stipulates that the treatment of income (termed in the standard as revenue) must have these same characteristics, but also prescribes those items that can generally be treated as revenue.

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PAYG instalments
PAYG instalments is a system where organisations pay tax instalments on their business and investment income, allowing them to pay their tax obligations 'as they go' rather than being required to pay a lump sum amount of tax at the end of the financial year. The ATO advises each organisation as to whether they are required to pay PAYG instalments and issues the organisation with a PAYG instalment tax rate. Payments are shown and remitted with the business activity statement. At the end of the financial year, the organisation lodges an annual income tax return. Any PAYG instalments paid during the year are credited against the total tax liability calculated from the income tax assessment.

Fringe Benefits Tax (FBT)
Organisations that provide employees with payments in the form of non-cash benefits may be required to register for and remit FBT at the rate equal to the top prevailing marginal rate of personal taxation plus the Medicare levy. This is because the benefit is deemed to be made as a substitute for taxable income. The applicable rate is currently 48.5 per cent. It should be noted that the tax year for FBT differs to the normal financial year and runs between 1 April and 31 March. Some benefits that are generally subject to fringe benefits tax include: • Cars: a car fringe benefit arises when a car owned or leased by an employer is made available for the private use of the employee. • Loans: a loan fringe benefit arises when an employer provides a loan to an employee either interest free or at an interest rate that is less than the statutory interest rate. • Housing: a housing fringe benefit arises when an employer provides accommodation to an employee rent free or at a reduced rental and it is the employee's usual place of residence. • Airline transport: an airline transport fringe benefit arises when an employer provides airline transport (for-non-work-related travel) to an employee for free or at a discounted rate. Employers are required to calculate the amount of fringe benefits provided to employees during the fringe benefits year, calculate the amount of FBT payable, and complete a fringe benefits tax return form. Amounts are recorded as liabilities in the general ledger. The timing of the payment of the fringe benefits tax is determined by the total amount that is payable and whether the employer has previously lodged a fringe benefits tax return.

Superannuation guarantee levy
All employers are required to contribute to a complying superannuation fund for all eligible employees (currently 9.5 per cent of gross ordinary income). This is known as the superannuation guarantee levy. When a company fails to make these contributions, the government effectively fines the business an equivalent amount and holds it on behalf of the employees until the organisation makes arrangements with a complying fund. The government also charges interest on the amount involved and an administrative fee per employee. This is a significant incentive to make organisations put in place their own arrangements with complying superannuation funds.

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Documentation of procedures

All financial procedures should be clearly documented in an organisation's policies and procedures manual. They should be easily accessible. You may wish to prepare simple overview sheets or flow charts to describe a particular function, or develop a series of checklists so that each step is ticked off when following the procedure. This is especially useful if a staff member needs additional help with understanding.

Methods of documenting and disseminating information are summarised below.

Intranet-based information

- Depending on the size of the organisation, placing information on the intranet may be an efficient way of disseminating material. An intranet can be used to provide access to organisational information to support employees. Information related to financial management can include budgets and plans, procedures for performing specific tasks and relevant records. Access to specific files can be protected via security access using a password or security access procedure; for example, a fingerprint reader. Some organisations use the intranet as a training environment with particular courses listed.

Information briefings or sessions

- Informal briefings or meetings can take place where relevant issues are discussed between colleagues or between an employee and supervisor.
- Sessions can be formal or informal. Formal meetings or briefings with set agendas can be used to provide financial managers and people with budgetary responsibilities with key information relating to their roles, or as opportunities to discuss particular issues. A formal meeting can also take place where a supervisor informs employees on specific matters through face-to-face, teleconferencing or videoconferencing options. Team meetings are an efficient way of providing support as each member can contribute in a non-threatening environment.

Help desk or internal experts

- Help desks are used as the first point of contact when an employee needs advice. 'IT Help Desks' are commonplace in many organisations and may provide support on hardware, software and internet problems.
- Organisations can recognise people with exceptional skills and knowledge, and designate them as 'internal experts' to provide advice on issues within their knowledge and skill set.

Access to specialist advice

- Specialist advice may be provided in-house from experienced, senior staff involved in financial management. An organisation might also take advantage of professional advice and training from external consultants for structured training sessions, or to gain a second opinion on an accounting standard or legal matter. Be prepared with a list of reputable experts in financial matters within your local area.

Variance analysis is commonly reported on a monthly basis. Care should also be taken to ensure that annual expenditure patterns are taken into account; for example, if insurance is budgeted at $2,400 for the year, then the expected monthly expenditure would be listed as $200 per month. Therefore, if insurance is paid annually in August (the second month of the financial year), the budgeted amount could read $400 but the actual amount would show $2,400; this would suppose an unfavourable position, but in reality it is acceptable as you have paid the insurance for the whole year. Barring any changes in premiums or additional insurance costs, the end result is on budget.

You may like to read a book that offers a detailed overview of methods for assessing business performance:

Helfert, E. A. (2001), *Financial analysis tools and techniques – a guide for managers*, McGraw-Hill, New York, pp. 95–160.

Reasons for variances

It is important to determine the reason for the variances. You may have to put controls in place to ensure budgeted costs are maintained.

When considering the variations look for an explanation and determine if action needs to be taken. Simply shifting savings (low expenditure – money not spent) or additional income (excessive income – extra money received) to overruns on costs or to offset a lower-than-expected income area is not addressing the cause and has the potential to mask the true position which, if left unaddressed, may get worse. Managers must be able to monitor and present financial data using electronic spreadsheets and other software associated with financial record keeping.

Some examples of variances, whether they are favourable or not and suggestions about their cause are presented here.

Low sales income (unfavourable)

Does it suggest a trend and the potential that you won't shift products at current prices? Or is there a seasonal impact to consider; (for example, overcoats won't sell much in summer)?

Excessive expenditure (unfavourable)

Is there a seasonal issue? Has the organisation bought resources in bulk and thus have them in stock or has the input price risen?

Low expenditure (favourable)

Are there seasonal or irregular patterns of expenditure involved? Has there been a reduction in the price of the inputs or is less of the input required due to some other factor?

Excessive sales income (favourable)

Does it suggest that demand is up and that you may need to increase production, since stocks of finished products for sale are getting low?

Practice task 9

Insert the missing values in this variance table.

Item	Budget ($)	Actual ($)	Variance result
Income – Sales			
Product A	400,000	350,000	
Product B	125,000		(5,000) U
Product C		80,000	20,000 F
Costs – Sales			
Material X	60,000	56,000	
Material Y	45,000		(3,000) U
Material Z		30,000	1,000 F
Direct labour	100,000	105,000	
Overheads		7,525	125 F

Example: implement contingency plans in response to a sales decline

Isabel is the manager of the sales department in Direct Meats, a small food-processing manufacturing plant. There has been a recent drop in sales as a competitor has introduced the same product. The budget variance reports indicate that Direct Meats is not going to achieve the targets for the year. Furthermore, there is an excess of the product in the warehouse. The first contingency plan implemented by Isabel is to increase marketing strategies for the product and have sales representatives promote it heavily to customers. After two weeks there is no significant increase in the orders.

The second contingency plan implemented is to again promote the product but at a discounted price, in an attempt to increase orders and therefore boost sales and reduce waste. Sales representatives contact the buyers with the offer. Sales increase and the impact of the competing product lessens. However, contingency plans need to be reviewed and updated as the situation with the competitor is monitored.

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Practice task 10

Think of an example where it would be necessary to implement a contingency plan in relation to budget management. Provide brief details for each of the following.

1. What led to the identification of the issue and what objectives were not going to be achieved

2. The details of contingency plan that could be implemented

continued ...

Tips for preparing a report

A report should be prepared and planned with a clear objective in mind and knowledge of the reader. Some tips for writing reports are shown below.

Characteristics of good reports

- Well-structured according to requirements; for example, a title; executive summary (if appropriate) with an overview of the area, analysis undertaken with findings and recommendations; introduction; body; conclusion; reference list and appendix if required.
- Accurate and complete – it provides a full view and is not focused on one perspective; it includes all information required to make a decision or move forward.
- Genuine – data is from a trustworthy and honest source.
- Targeted and mindful of the reader – it is written in understandable language with the appropriate use of diagrams and graphs so it can be understood.
- Positive and proactive – it is concerned with the future and leads in that direction.
- Well-timed – it is appropriate to the time when decisions need to be made.

Things to avoid

- Inaccurate or conflicting information and comments
- Outdated or irrelevant data
- Facts and opinions intermixed
- Conclusions and recommendations not supported
- Poor presentation, spelling and grammatical errors
- Fancy visual appearance and lack of attention to content

Example: prepare appropriate reports within deadlines

Sanjit is the budget manager for a cost centre that has a turnover of over $10 million a year in an organisation that turns over more than $120 million a year. He prepares a monthly variance analysis with a report on any variations to his supervisor, the cost centre manager.

Sanjit provides a comment against any variation in the report and, where significant variations are observed, he researches the situation and makes recommendations on contingency plans that could be considered.

Sanjit also undertakes a trend analysis so he can consider the income and expenditure over the preceding months to determine if there is a trend developing. He also compares each month's position against the position at the same time in the preceding year if appropriate.

The report has to be with his supervisor one week after the release of the variance reports so Sanjit makes sure this is entered into his diary so he can complete the report on time.

Topic 4
Review and evaluate financial management processes

The activities of an organisation must be documented to provide a record of the operation of the business. The data and records kept are analysed to monitor, control and determine the performance and effectiveness of the systems the organisation has in place. Records are also kept in accordance with legislative requirements and can be used to reconcile various accounts, investigate anomalies, provide information to regulatory bodies and provide evidence at audit time. Processes must continue to be reviewed and analysed for an organisation to remain competitive and profitable. Improvements to existing processes need to be identified, implemented and monitored to ensure the organisation continues to achieve its financial objectives.

In this topic you will learn how to:

4A Collect and collate data for analysis

4B Identify the effectiveness of financial management processes

4C Implement and monitor agreed improvements

Circumstances responsible for budget variations

If current data is not entered on the system in a timely manner, you may find a report is based on out-of-date information that consequently provides an inaccurate picture. If actual expenditure is lagging as a result of slow data entry then expenditure shown on the end-of-month report may appear to be better (less) than it really is. Similarly if all the income received is not entered in time for the running of the end-of-month variance reports for a cost centre, the picture appears worse than it should be.

Source documentation can also provide an insight into circumstances that have changed and that directly impact on the budget as shown below.

Source documentation may assist with identifying reasons for budget variations

1. **Standing orders**
   Standing orders such as the weekly supply of inputs often occur without weekly approval and cost increases in these inputs may not have been brought to the manager's attention.

2. **Job costings**
   Incorrectly estimated job costings resulting in cost overruns and lower-than-appropriate charges to customers.

3. **Labour costs**
   Changes in labour costs due to changes in personnel, resulting in variations to salary and wages that are different to the budgeted amounts.

4. **Cost of supplies**
   Increases in the cost of supplies due to price rises from the supplier.

5. **Overtime costs**
   Increased overtime costs that can be attributable to absences due to illness or increased demand for products and services.

6. **Data processing**
   Delayed processing of source data onto the financial system resulting in incorrect reports.

Monitoring implementation

Monitoring the implementation of the improvement itself against defined targets by checking that staff understand their new responsibilities, appropriate physical, human and financial resources are allocated and time lines are met.

Monitoring post improvement

Monitoring the situation after the improvement by obtaining feedback, analysing reports and identifying whether there are any favourable variations between budgeted and actual targets.

Example: improve a process that contributes to an organisation meeting financial objectives

Grace works in the accounts department of a large plumbing business and is responsible for issuing invoices to customers. When the plumbers are out on the road doing jobs for customers, they purchase parts from the nearest plumbing supplies store or hardware store if they do not have the materials on their truck. The plumbers use a company credit card to purchase these materials. The process of tracking the purchases and allocating the costs to the correct job is breaking down and so is the ability to accurately assess the productivity of individual jobs.

Grace suggests that the plumbers should have a simple form that can be used to record the date, place of purchase and job number on a sheet; they attach the docket from the supplier. These sheets are to be given to Grace on the last day of each week when the plumbers have to come via the office to collect the job details and any supplies from stores for the following week. The senior manager discusses the proposal with the plumbers and supervisors and it is agreed.

Grace is now able to provide accurate invoices to the customers and accurate reports on the profitability of each job.

Example: improve timing of expenditure reports

Martina is the head of the finance department of a company that provides IT consultancy services and systems installations. She is frustrated that the paperwork from the consultants on expenses being incurred is constantly late. The current process is for consultants out at sites to use their own resources to purchase needed items on site and complete paperwork as an expense claim later.

Martina's target is to have the relevant reports compiled and distributed not more than eight working days after the end of the month. The reports being generated are not accurate as they do not contain all expenditure for the preceding month, because consultants are not sending it in on time and often have difficulty as they are interstate.

On discussing the situation with the general manager and with the consultants, it is agreed that each consultant is issued with a corporate credit card so that the expenses can be recorded on the credit card statement, and therefore taken into account when producing the monthly performance reports.

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