





Chapter 28

BUDGETS

SdP

Lesson Objectives:

- Know why businesses use budgets.
- Understand the importance of setting budgets.
- Know the advantages of budgets

PAUSE FOR AN EXERCISE

In a short paragraph, you will write how you would plan your day if you only had 250k in your pocket. Would you spend it wisely? What do you want it for in your plan?

By 11:59 on 10/11/2020 at 11:59:00 AM

HOMEWORK

Activity Sheet, Chapter 28

Let's review some key terms

Revenue	Income from sales
Profit	Money received by the business
Trading costs	Costs associated with running a business
Overhead	Money paid out, an overhead cost
Profit	Money after costs and revenue
Expenditure	Money spent by a business

WHAT IS A BUDGET?

A budget is a financial plan for the future operations of the business. Budgets are used to set targets, to monitor performance and control operations.

Know how much money a business, or a department, plans to spend or receive in a future time period.

Budgets are usually prepared on a regular basis, such as monthly, and monitored closely.

Budgets are normally prepared in a table using a spreadsheet. Each column represents a month or period in the financial plan.

WHAT IS A BUDGET?

Write a few ideas:



ACTIVITY

MEET AN ALEXA STUDENT WHO WORKS PART TIME IN A CLOTHES STORE. HE WANTS TO GO ON HOLIDAY IN AUGUST WITH HIS FRIENDS. TO DO THIS HE NEEDS TO SAVE SOME. CALCULATE MEET'S BUDGET FROM THE FOLLOWING INFORMATION TO SEE IF HE CAN AFFORD HIS HOLIDAY.



MOTIVATION

Budgeting should act as a motivator to the workforce. It provides workers with targets and standards.

Improving on the budget promotes an indication of success. Not all failing to reach budgeted targets may make staff work harder.

EFFICIENCY

One of the main reasons why budgets are used is to keep costs down.

Budgets often mean that budget holders have to justify expenditure.

This means that money is not wasted and efficiency improves.

ADVANTAGES OF BUDGETS

PLANNING

Budgeting forces management to think ahead.

Budgets help to anticipate problems and develop solutions in advance.

REDUCE FRAUD

All spending in a business has to be authorised by budget holders.

This stops staff from spending money fraudulently, such as buying things for themselves.

CONTROL AND MONITORING

Managers can keep control of a business by setting objectives and targets, represented by budgets.

Success in achieving these targets can be found by comparing the actual results with the budget.

TYPES OF BUDGETS

SALES BUDGETS

What a business sells determines how much it needs to produce. Sales are the main areas of generating cash inflows. Sales budgets are affected by consumer tastes.

Year	2020	2021	2022
Q1	100	120	150
Q2	120	140	180
Q3	150	180	220
Q4	180	220	280
Total	550	660	830

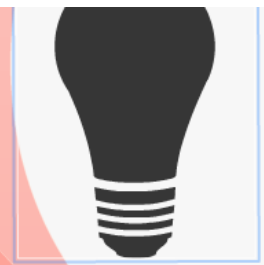
PRODUCTION BUDGETS

A production budget sets out how many units need to be made for a specific future period. They are influenced by the sales. Too few customers? Too many goods?

Year	2020	2021	2022
Q1	100	120	150
Q2	120	140	180
Q3	150	180	220
Q4	180	220	280
Total	550	660	830

MARKETING BUDGETS

Often used to help control costs in the marketing department. It may show how the money allocated to the marketing department is spent.



Chapter 28

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Lesson Objectives:

- Know why businesses use budgets.
- Understand the importance of setting budgets.
- Know the advantages of budgets

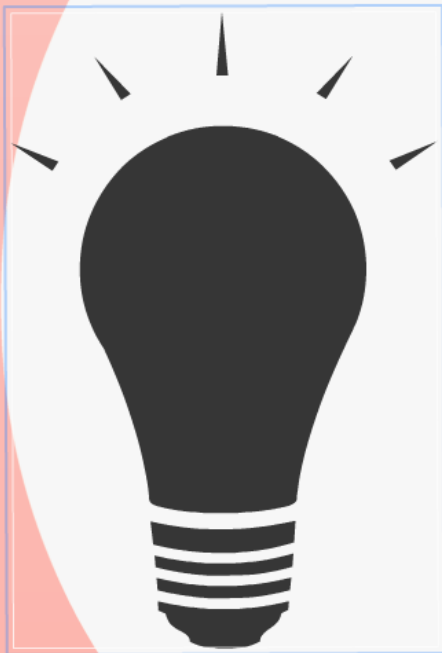
ADVANTAGES

TYPE

Let's review some key terms

Revenue	Income from sales
Inflow	Money received by the business
Startup costs	Costs associated with starting a business
Outflow	Money paid out; an amount spent
Profit	Money after costs and revenue
Expenditure	Money spent by a business

WHAT IS A BUDGET?



Write a few ideas:

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WHAT IS A BUDGET?

A budget is a **financial plan** for the future operations of the business. Budgets are used to set targets, to monitor performance and control operations.

Shows how much money a business, or a department plans to spend or receive in a **future time period**.

Budgets are usually produced to forecast every 6 or 12 months, and monitored monthly.

Budgets are normally presented in a table using a spreadsheet. Each column represents monthly expenditure or income plans.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue	1000	1100	1200	1300	1400	1500	1600	1700	1800	1900	2000	2100	18000
Cost of Sales	600	660	720	780	840	900	960	1020	1080	1140	1200	1260	10800
Gross Profit	400	440	480	520	560	600	640	680	720	760	800	840	7200
Operating Expenses	200	210	220	230	240	250	260	270	280	290	300	310	2700
Operating Profit	200	230	260	290	320	350	380	410	440	470	500	530	4500
Finance Costs	50	50	50	50	50	50	50	50	50	50	50	50	600
Profit Before Tax	150	180	210	240	270	300	330	360	390	420	450	480	3900
Income Tax	30	36	42	48	54	60	66	72	78	84	90	96	840
Profit After Tax	120	144	168	192	216	240	264	288	312	336	360	384	3060

Nial Satis
Cash Budget for January to April

	Jan	Feb	March	April	May	June
	£	£	£	£	£	£
Opening Balance	1,000	- 4,680	- 3,160	- 1,540	180	1,650
Income						
Cash sales	4,000	3,700	3,900	3,800	4,000	4,200
Credit sales		1,700	1,900	1,800	1,400	1,500
Loan	7,000					
Total income	11,000	5,400	5,800	5,600	5,400	5,700
Expenditure						
rent	800	800	800	800	800	800
electricity	80	80	80	80	30	30
purchases	5,600	1,900	2,000	1,800	1,900	1,800
wages	1,200	1,100	1,300	1,200	1,200	1,200
equipment	9,000					
Total expenditure	16,680	3,880	4,180	3,880	3,930	3,830
Net Cashflow	- 5,680	1,520	1,620	1,720	1,470	1,870
Closing Balance	- 4,680	- 3,160	- 1,540	180	1,650	1,870



ACTIVITY

BERT IS AN A LEVEL STUDENT WHO WORKS PART TIME IN A DVD RENTAL STORE. HE WANTS TO GO ON HOLIDAY IN AUGUST WITH HIS FRIENDS. TO DO THIS HE NEEDS TO SAVE £300. CALCULATE BERT'S BUDGET FROM THE FOLLOWING INFORMATION TO SEE WHETHER HE WILL BE ABLE TO SAVE ENOUGH MONEY FOR HIS HOLIDAY.



Sales are the primary source of revenue for a company. Generating cash flow is essential for a company's survival. Budgets are a tool used by management to plan and control the company's financial performance. They are also used to communicate the company's financial goals and objectives to the employees. Budgets are also used to measure the company's performance against its goals and objectives.

The Pickup Trucks Co.
31, 20X1

	Quarter
Units	15,000
Selling Price	\$15
Total Sales	\$225,000

TYPES OF BUDGETS

PRODUCTION BUDGET

A production budget is a budget that shows the number of units of a product that a company must produce to meet its sales and inventory requirements.

SALES BUDGETS

What a business sells determines how much it needs to produce. Sales are the main areas of generating cash inflows. Sales budgets are affected by consumer tastes.

The Pickup Trucks Company Sales Budget For the Year Ended December 31, 20X1

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Units	15,000	17,000	28,000	40,000	100,000
Selling Price	\$15	\$15	\$15	\$15	\$15
Total Sales	\$225,000	\$255,000	\$420,000	\$600,000	\$1,500,000

The Pickup Trucks Company Sales Budget For the Year Ended December 31, 20X1

	<i>Quarter 1</i>	<i>Quarter 2</i>	<i>Quarter 3</i>	<i>Quarter 4</i>	<i>Total</i>
Units	15,000	17,000	28,000	40,000	100,000
Selling Price	<u>\$15</u>	<u>\$15</u>	<u>\$15</u>	<u>\$15</u>	<u>\$15</u>
Total Sales	<u>\$225,000</u>	<u>\$255,000</u>	<u>\$420,000</u>	<u>\$600,000</u>	<u>\$1,500,000</u>

PRODUCTION BUDGETS

A production budget sets out how many units need to be made for a specific future period. They are influenced by the sales. Too few customers? Too many goods?

Production Budget					
For the Year ended December 31, 2018					
	Quarter				Year as a Whole
	1	2	3	4	
Planned sales (Schedule 1)	1,000	1,800	2,000	1,200	6,000
Desired ending inventory*	180	200	120	200 [†]	200
Total needs	1,180	2,000	2,120	1,500	6,300
Less: Beginning inventory	200 [‡]	180 [‡]	200	120	200
Units to be produced	<u>980</u>	<u>1,820</u>	<u>1,920</u>	<u>1,380</u>	<u>6,100</u>

*10 percent of the next quarter's sales (for example, $180 = 10\% \times 1,800$).

[‡]Given.

[†]The same as the previous quarter's ending inventory.

Production Budget

For the Year Ended December 31, 20B

	<i>Quarter</i>				Year as a Whole
	1	2	3	4	
Planned sales (Schedule 1)	1,000	1,800	2,000	1,200	6,000
Desired ending inventory [*]	180	200	120	<u>300</u> [†]	<u>300</u>
Total needs	1,180	2,000	2,120	1,500	6,300
Less: Beginning inventory	<u>200</u> [‡]	<u>180</u> [‡]	<u>200</u>	<u>120</u>	<u>200</u>
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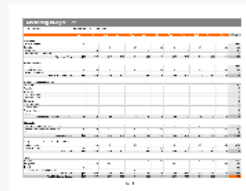
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MARKETING BUDGETS

Often used to help control costs in the marketing department. It may show how the money allocated to the marketing department is spent.

A small, low-resolution image of a marketing budget spreadsheet. It shows a grid with multiple columns and rows, likely representing different marketing activities and their associated costs. The text is too small to read, but the layout suggests a detailed financial plan.

Marketing Budget Plan

Last updated:

<enter date of last update here>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Personnel													
Salaries, wages	10										10		\$20
Benefits			10		10		10	10		10		10	60
Payroll taxes		10		10		10			10				40
Commissions and bonuses													0
Personnel Total	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$120
Market Research													
Primary research				10							10		\$20
Secondary research	10	10	10		10	10	10	10	10	10		10	100
Library management													0
Market Research Total	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$120
Marketing Communications													
Branding													\$0
Advertising													0
Web sites													0
Direct marketing													0
Internet marketing													0
Collateral													0
Press relations													0
Public relations													0
Analyst relations													0
Events													0
Marketing Communications Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Channels													
Channel communications and training								10		10			\$20
Channel promotions and incentives	10	10	10	10	10	10	10		10		10	10	100
Channel commissions/bonuses													0
Channels Total	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$120
Customer Acquisition & Retention (CAR)													
Lead generation		10	10	10	10			10		10		10	\$70
Customer loyalty	10					10	10		10		10		50
CAR Total	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$120
Other													
Postage						10	10			10	10		\$40
Telephone		10	10	10				10				10	50
Travel	10								10				20
Computers and office equipment					10								10
Other Total	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$120
Total Marketing Budget	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600

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**ANY
QUESTION?**

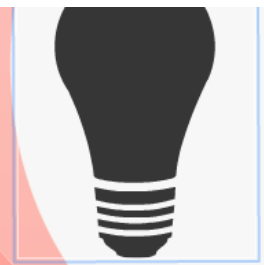
PAUSE FOR AN EXERCISE

In a short paragraph, you will write how you would plan your day if you only had 75QR in your pocket. Would you spend it wisely? Would you save? What is your plan?

Ex: I would spend 20QR on the bus, 15QR for lunch, etc.

HOMEWORK

Activity Sheet, Chapter 28



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