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Liunarto Chin
398 Pitt Street
233 Miranmar
Sydney NSW 2000
Australia

FINANCIAL ASSESSMENTS

Executive summary

In this study, the administrative tools for measurement of budget are interpretation of data, estimation of monthly cost, and estimation of organizational objectives, extracting internal and external factors of a budget plan. An identification and interpretation of data is required to fulfill the purpose of budget plan. Identification and utilization about the knowledge of communication development, legislative measurement, and participation of stakeholders are external factors of a budget plan. Overall budget plan stand on two major factors such as income and expenses. Thus, negotiation of a budget plan must be contained with these two major factors of budget plan. Influence of internal and external factors related to budget plan are also discussed in this study.

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Introduction

A budget plan is an estimation of cost, resources, revenue for a specific period of time that helps to reflect future financial goal of an organization. The administrative tools for measurement of budget are interpretation of data, estimation of monthly cost, and estimation of organizational objectives, extracting internal and external factors of a budget plan.

VIT CAFE, Australia has been chosen to fulfill purpose of this report. Each of the budget factors has analysed individually with the help of financial calculation. Organizational objectives has also fulfilled with the help of preparation and implementation of a successful budget plan.

Findings and analysis

Assessment 1

Part A

i) Identification and interpretation of data for budget preparation

On the basis of the given data in the case study of VIT cafe, a budget plan has been prepared by the managers of this company. An identification and interpretation of data is required to fulfill the purpose of budget plan. This cafe is operating for past 3 years and preparing for 3rd year operational activities. This company has a turnover of \$5, 00,000. Moreover, preparation of budget plan must be prepared in such a way that the expenses must be adjusted with in this amount (based on case study)

ii) Estimation of monthly income and expenditure

On the basis of given estimates possible amount of income and expenses are given below

| Hospitality outgoings | |
|------------------------------|--------|
| Sales revenue | 500000 |

| | |
|--------------------------|--------|
| Cost of goods sold (30%) | 150000 |
| Wages (25%) | 125000 |
| Expenses (25%) | 125000 |
| Income | 100000 |

Table 1: Income and expenses

(Source: Excel sheet)

From the given presentation, it can be determined that estimated monthly income is \$125000 and estimated monthly expenditure is \$125000 (taken from excel sheet calculation).

iii) Organizational objectives

On the basis of the given information it can be determined that the main organizational objective of VIT cafe is profit maximization. Apart from this, another objective of this organization is to run operational activities successfully.

iv) Discussion on internal and external factors of budget plan

The most important internal objective of a budget plan is to build a dedicated process that helps in enhancing efficiency for utilization of resources. As per the comments of Lüttgens *et al.* (2014), a firm's internal organizational structure determines the information about the human resource capacity, total number of staff members within the organization, total amount of capital investment in the beginning, technical enhancement in the organization.

Identification and utilization about the knowledge of communication development, legislative measurement, and participation of stakeholders are external factors of a budget plan (Lüttgens *et al.* 2014). Discourser of the sensitive information and acquisition information about primary needs of the customer is one of the biggest external requirements of budget plan.

v) List the people to consult about budget plan

In order to ensure objectivity and achievement about the quality evaluation, consulting of budget plan with the responsible person of organization is essential. As opined by Lüttgens *et al.* (2014), the first most important person to consult about is process promoter of the budget plan. The next person is shareholder because they are investors of the overall budget plan. Consulting with

board of directors after preparation of budget plan is required because only BOD can suggest the modification areas of budget plan (Business.gov.au, 2018).

Part B: Preparation of draft budget

| VIT café PROJECTED SALES BUDGET 2018 | |
|---------------------------------------------|--------------|
| MONTH | SALES |
| JANUARY | 41666.66667 |
| FEBRUARY | 41666.66667 |
| MARCH | 41666.66667 |
| APRIL | 41666.66667 |
| MAY | 41666.66667 |
| JUNE | 41666.66667 |
| JULY | 41666.66667 |
| AUGUST | 41666.66667 |
| SEPTEMBER | 41666.66667 |
| OCTOBER | 41666.66667 |
| NOVEMBER | 41666.66667 |
| DECEMBER | 41666.66667 |
| TOTAL INCOME | 500000 |

| | |
|--------------------------------|---------------|
| LESS COGS (Cost Of GOODS Sold) | 150000 |
| Gross profit | 350000 |

Table 2: Sales Budget 2018

(Source: taken from spreadsheet calculation)

| VIT café PROJECTED ANNUAL EXPENSES BUDGET 2018 | |
|-----------------------------------------------------------|---------------|
| Gross profit | 350000 |
| WAGES | 125000 |
| PERMITS/LICENSES | 2000 |
| RENT | 6000 |
| INSURANCE | 2000 |
| MARKETING/WEBSITE | 8,000 |
| ELECTRICITY | 24000 |
| GAS | 12000 |
| WATER | 4000 |
| RATES | 4000 |
| PHONE | 50000 |
| INTERNET CLEARING | 13000 |
| TOTAL EXPENSES | 250000 |

| | |
|------------|--------|
| NET PROFIT | 100000 |
|------------|--------|

Table 3: Annual Expense Budget 2018

(Source: on the basis of excel calculation)

Assessment 2

Part A: Present budget Draft

Presentation of budget and negotiation for approval

A meeting has arranged in order to present the budget plan in front of the assessor of VIT cafe to discuss the factors of drafted budget. On the basis of the statement of Legacy *et al.* (2015), it can be stated that negotiation and approval of a budget plan depends on the managerial performance because it the one of the major factor that can improve in the performance of organization effectiveness. A managerial performance can be termed as the achievement level of an organization in order to meet the expectation of organization. Furthermore, it can be stated that budget plan of VIT cafe must support managerial need to seek approval of the assessor (Cafevit.com.au, 2018)

Discussion on changes with income and expenditure requirements

Overall budget plan stand on two major factors such as income and expenses. Thus, negotiation of of a budget plan must be contained with these two major factors of budget plan. As per the definition of Daley and Wood (2015), it can be determined that one of the key factor in the profit maximizing area of a budget plan is maximization of income and minimization of expenses. As per the presented budget plan total expense of VIT cafe is \$250000 and net income of the company is \$100000 (Cafevit.com.au, 2018). This figure has derived on the basis of given adjustment because expense percentage is 25%. If the expense can reduce by 55 minimum then the net profit of the company can be enhanced.

Comparison on the basis of changes

After consulting about the budget plan with the managers the main negotiable areas are changes in the variable cost. As per the statement of Rokhman (2017), it can be derived that fixed expenses of a budget a plan cannot be reduced, thus, variable expenses needs to be revises.

Part B: Final Budget

Modification of budget plan

After the end of the meeting with the assessor a final budget has to be prepared by outlining the ramification areas of the overall budget plan. As per the suggestion of the assessor the areas need to be revised in the budget plan are, present marketing cost as per the budget plan is \$8000, this can be reduced by adoption of a modified sales strategy (Tsohou *et al.* 2015). With a less consumption of electricity, this cost can be revised. Cost of gas, phone and internet clearing bill is much higher. Therefore, these costs need a reduction in the revised budget plan.

Allocation of fund as outlined in budget

Budgetary allocation so one of the most important integral part of budget plan because it helps to indicate level of resources within an organization. A budget allocation is a financial plan that helps in determination of revenue and expenditure for a particular period of time. As mentioned by Andonov *et al.* (2017), allocation of asset depends on liability discount rate of the organization. This risk has taken into consideration especially for allocation of risky asset that means liquidity rate of that asset is comparatively lower than others. In order to manage allocation of asset discount rate of liability has to change. According to Gupta *et al.* (2016), a larger allocation to the risky asset mainly allows the fund to get a higher amount of return in future. On the basis of this concept budget plan of VIT has prepared for a 12 month period. The first determination factor of a budget plan is revenue. Revenue has been allocated on an equal basis in each of 12 months, thus revue amount in each month is 41667 approximately. Cost of goods sold or cost of sales has been allocated on 305 basis and other expenses are allocated on 215% basis.

Information about budget plan to stakeholders and colleagues

Preparation of a successful budget plan is not enough for an organization. Apart from preparation of budget plan stakeholders and colleagues must be aware about the budget plan to achieve the organizational goal. Promotion of awareness about the changes of budget plan is mandatory as per the organization culture. According to Tsohou *et al.* (2015), standards and best practices for disclosure of information security awareness programmed mainly focuses on the content of the budget plan and overall budget programmed procedure. Security awareness programmed is required in order to keep inform about the changes in the budget plan to the stakeholders and

colleagues. This security programmed also builds up communication plan of organization. The communication modes can be used in this purpose are arrangement of meeting apart from annual general meeting, maintenance of memo and also informed stakeholders via email.

Maintenance of record

For allocation of resources to prepare the final budget plan, recording of journal entry is essential because all the financial events of an organization have recorded in journal entries. The first step of maintenance of record is collection all the information about income and expenses. The next step is distribution of resources under required sub heads (Himmelbauer *et al.* 2017).

Assessment 3: case study Monitoring and review budget

Preparation of Profit and loss statement

| VIT CAFÉ PROFIT AND LOSS STATEMENT YEAR 3 | | | | | |
|--------------------------------------------------|--------------------|--------------------|----------------------|--------------------------|--------------------------|
| INCOME | BUDGET (\$) | ACTUAL (\$) | VARIANC E(\$) | YEAR 4 BUDGET(\$) | year 5 BUDGET(\$) |
| SALES | 560000 | 480000 | 80000 | 552000 | 662400 |
| STOCK COSTS | 160000 | 182000 | -22000 | | |
| | | | | | |
| GROSS PROFIT | 400000 | 298000 | 102000 | | |
| | | | | | |
| EXPENSES | | | | | |
| LOAN REPAYMENTS | | | | | |
| LABOUR COSTS | 125000 | 160000 | -35000 | | |

| | | | | | |
|----------------|--------|--------|--------|-------|-------|
| RATES | 3000 | 2500 | 500 | | |
| RENT | 25000 | 25000 | 0 | 27500 | 30250 |
| GAS | 2000 | 2200 | -200 | | |
| ELECTRICITY | 2400 | 2900 | -500 | | |
| WATER | 1200 | 1500 | -300 | | |
| INSURANCE | 4000 | 3800 | 200 | | |
| PHONE | 1200 | 1500 | -300 | | |
| CLEARING | 1000 | 1200 | -200 | | |
| PEST CONTROL | 400 | 600 | -200 | | |
| ADVERTISING | 5000 | 8000 | -3000 | | |
| LICENSES | 2500 | 2500 | 0 | | |
| RUBBISH | 1800 | 1850 | -50 | | |
| GREASE TRAPS | 600 | 1600 | -1000 | | |
| TOTAL EXPENSES | 175100 | 215150 | -40050 | | |

Table 4: Profit and loss statement

(Source: extracted from spreadsheet calculation)

Task

12) Role and purpose of budget and the assistant person

The main purpose of preparation of a budget plan is to forecast on income and expenditure and moreover on the profitability of the organization. As opined by Abbott *et al.* (2016), it is one of

the important tasks for the managers to determine whether a business is profitable or not because of that preparation of budget plan is mandatory because only a budget plan can determine this. Thus, the purpose of a budget plan is to prepare a model that will speak about the financial position. Preparation of a budget plan helps to generate tools for making relevant decision for company. This can provide a financial framework to the managers. It also helps to monitor business performance of an organization.

In this purpose, the person can assist in the budget plan are financial managers, board of directors of the company and shareholders.

13) Describe following budgets

Revenue budget: A revenue budget is the total amount of money that has been allocated for maintenance and growth purpose of a business. As per the comments of Fu *et al.* (2014), it can be said that preparation of a revenue budget is essential for the management and also helps to forecast on sales revenue and capital expenditure as well.

Expense budget: An expense budget helps to disclose capital and revenue distribution to the various departments in order to focus on detailed analysis of various types of expenditure (Fu *et al.* 2014).

Cash budget: A cash budget is an estimation of cash inflows and cash outflows of a business for a specific period of time. As per Fu *et al.* (2014), preparation of cash budget by the financial manager of an organization is important because it helps to disclose whether the company has sufficient fund to continue operational activities or not. Thus, companies mainly use production and sales forecast to prepare cash budget.

Capital expenditure budget: Capital expenditure is such amount of funds that has been used by a company to upgrade, acquire and maintain tangible asset of an organization. This type of budget plan has been prepared by an organization to maintain or increase in the operational scope of the organization (Lüttgens *et al.* 2014).

14) Describe 6 main pieces of information

The main 6 pieces information are required in order to prepare a project budget are name of the consumer because budget plan will be prepared under the name of the project head. The next essential criteria are proper address of the property because it must be registered under a valid address for a government recognition. A social security is also required to prepare a project budget plan. An estimation of value of the property is also required for a valid project plan.

15) What is performance reporting and importance of this

A performance reporting is an important activity that is involved with the disseminating information that is related to the project. A performance reporting is mainly involved with the progress of the project, full utilization of resources, forecasting on the future aspects and management of resource planning.

The importance of preparation of performance reporting is it helps to forecast on the fundamental performance of an organization. As stated by Himmelbauer *et al.* (2017), this is essential for preparation of status report, trend report with the help of graphs and charts, progress report with valid score card, forecast and variance report.

16) 4 different reporting cycle and its impact on budget and cash flow

4 types of reporting cycles are income statement, balance sheet statement, cash flow statement and changes in equity statement. Preparation of financial report helps to reveal financial performance of an organization for the whole accounting period. A presentation of balance sheet report helps in classification of asset. A cash flow statement report represents all the cash inflow and cash outflows with in an accounting period. An equity statement documents all the relevant changes in the equity within a particular reporting period (taking ideas from Daley and Wood, 2015).

17) Name of two accounting package in hospitality sector

Two major accounting package used in hospitality industry are cloud based accounting software and Maestro PMS accounting software.

18) Role of acting software to monitor budget

Separate budget preparation software has been installed from the beginning in order to monitor and preparation of budget plan. The cloud based software is very much efficient that it can detect required items to be recorded in the budget plan from the financial events automatically.

19) Name of 3-4 potential external factors

The potential external factors of a successful budget plan that must be taken into consideration are competition, international relationships, political and economical situation, scientific and technological progress and social segment. Improvement in the external factors can improve an organization from industrial purpose, improvement in the human resources and technical enhancement in the automation and also in corporate information system.

20) Name of 6 internal factors

The main six internal factors of an organization are industrial improvement, technological factor is one of the major internal factors, and next important internal factor is organizational factors, human resources, automation and corporate information system.

Each of the internal budget factors has a strong impact on the budget plan because it helps to improve managerial efficiency of an organization.

21) 7 steps of budget plan

Following are the major steps for preparation of an authentic budget plan

The first step is setting of realistic goals for organization; this is required for identification of spending choices

Second step of budget plan is identification of income and expenditure

The next step is separation of needs and wants

The fourth step is design of overall budget plan

Fifth step is put the plan into action

Sixth step of the budget plan is identification of seasonal expenditure

Seventh and final step is looking ahead on the overall plan

22) Impact of internal and external factors

Growth or decline in economic conditions: Growth or decline in economic factors can leads to change in the demand and supply of the product.

Human resource requirement: A lower human resource can leads to lower production in future.

New legislation or regulation: A new implementation of government legislation can change in payment of tax, VAT, GST.

Organizational and management restructure: This can change in the operational activities

Organizational objectives: Change in the organizational objective can change in the ultimate goal of the organization

Shift in market trends: Shift in market trend is responsible for change in the economic condition of an organization.

Significance price movements for certain commodities or items: Price movement of a commodity can affect positively or negatively. Higher price can leads to lower demand of a product.

Supplier availability or cost: Availability of supplier is responsible for higher production

23) Sources of data and impact on budget

Grant funding guidelines: Grant funding Guidelines are some aspects that help and support nonprofit organizations for development. The respective organization may get the help of the guideline while allocation justified cost in different fields.

Management policies and procedures: Management policies and procedures help to operate proper operation and there should be a perfect collaboration with cost and operations.

Organizational budget preparation guidelines: Organizational budget preparation includes allocation of resource as per capacity. A respective project may include extensive operation and cost, but it is important to allocate as per available resource that assure successful completion.

Competitor research: A new idea can be adopted from the competitor in the same industry.

Customer or supplier research: Customer research can leads to enhancement in item variation

Demand commitments: Increase in demand leads to increase in revenue earning

Financial information from suppliers: Financial information from supplier is important to record financial information about ordered goods

Financial proposal from key stakeholders: Disclosure of financial information is important for investment decision

Income and expenditure for previous period: Information about previous period helps to improve in current financial performance

Departmental event or project budget: Selection of budget plan for each department is important for master budget

Management policies: Budget plan must be prepared by following management policies

Organizational guideline for budget: Organizational guidelines must be followed for budget plan

Performance information: Performance information of budget must be recorded

24) What is regression analysis?

Regression analysis is a set of statistical data for estimation relationship in variables. It is required to understand individual variables in a budget plan.

25) 9 different revenue and expenditure item for budget

Revenue and expenditure for budget are income from sales, travel expense, training fees, rent, utilities, gas, electricity, printing, postage, equipment.

26) 3 factors of sales

Three main factors of sales are competitors, quality service and customer.

27) Comparison on forecasting technique

Time series forecast: This technique focus on the change in the economic changes with the change of time

The Delphi method: Delphi method depend on the questionnaire of panel experts

Executive operation forecasting: This technique forecast on the senior executives of the organization

28) 3 common features and assumption for forecasting on budget

The common features are the pattern of preparation of budget plan is same, analysis of budget has been done in similar way and transactions have been recorded similarly.

Conclusion

From the overall study, it can be concluded that preparation of budget is important and that has been projected with the help of VIT cafe. Budget draft has been prepared to forecast on the changes in the overall budget plan. From the results if financial calculation it can be concluded that it has a profitable condition. Improvement areas are also been identified in this report. Impact of internal external factors has also analyzed in this report. Selling factors and performance analysis has been also presented in this study. Influence of internal and external factors related to budget plan are also discussed in this study.

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