

# UNIT 2

# MANAGING FINANCIAL RESOURCES AND DECISIONS

Unit Code: H/601/0548

Credit Value: 15

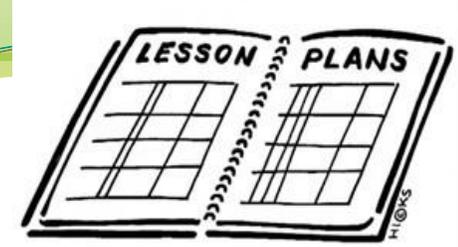


# MANAGING FINANCIAL RESOURCES AND DECISIONS



- **LO 3: Be able to make financial decision's based on financial information**

# THE BASIC SYLLABUS



- Understand the sources of finance available to business.
- Understand the implications of finance as a resource within a business
- Be able to make financial decision's based on financial information
- Be able to evaluate the financial performance of a business.

# LEARNING OBJECTIVE



- At the end of the class students should be able to:



- AC 3.1: Analyze budgets and make appropriate decisions



# OVERVIEW

- Budgeting is a key aspect of Management Accounting and particularly impacts on the areas of planning, control and performance management.
- A budget is a quantitative plan prepared for a specific time period. It is normally expressed in financial terms and prepared for one year.



# TYPES OF BUDGETS

- There are many types of budgets. They may be classified into several basic types. Most organizations develop and make use of three different types of budgets: *operating budgets*, *capital expenditures budgets*, and *financial budgets*.



# OPERATING BUDGETS

- An operating budget is a statement that presents the financial plan for each responsibility centre during the budget period and reflects operating activities involving revenues and expenses. The most common types of operating budgets are *expense, revenue, and profit budgets*.



# CAPITAL EXPENDITURE BUDGETS

- These are investment in property, buildings and major equipment are called capital expenditure. Such capital expenditure budgets allow management to forecast capital requirements, to on top of important capital projects, and to ensure the adequate cash is available to meet these expenditures as they come due.



# FINANCIAL BUDGETS

- Financial budgets are financial plans that are structured to detail projections on incomes and expenses on both a long-term and a short-term basis. Budgets of this type normally incorporate aspects of other types of budgeting strategies, including the preparation of a detailed budgeted balance sheet, a section that functions as a cash flow budget and addresses the receipt of income and the flow of expenses on an annual, semi-annual, and a monthly basis.



# FINANCIAL BUDGETS

- It typically covers a period of at least one year, although it is not unusual for some organizations to prepare this kind of budget to cover anywhere from two to five years at a time.
- Financial Budgets outline how an organization is going to acquire its cash and how it intends to use the cash. Three important financial budgets are the *cash budget*, *capital expenditure budget* and the *balance sheet budget*.



# CASH BUDGET

- A cash budget is important for a variety of reasons. For one, it allows you to make management decisions regarding your cash position (or cash reserve). Without the type of monitoring imposed by the budgeting process, you may be unaware of the cash flow through your business. At the end of a year or a business cycle, a series of monthly cash budgets will show you just how much cash is coming into your company and the way it is being used. Seasonal fluctuations will be made clear.

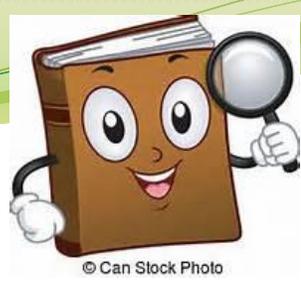


# CASH BUDGET

- A cash budget also allows you to evaluate and plan for your capital needs. The cash budget will help you assess whether there are periods during your operations cycle when you might need short-term borrowing.
- It will also help you assess any long-term borrowing needs. Basically, a cash budget is a planning tool for management decisions.

# Please use the budget below to Answer A.C 3.1

				<b>Little Company Annual Budget vs Actual Report for the year ended December 31 ,2015</b>			
				<b>Budget</b>	<b>Actual</b>		
				<b>\$</b>	<b>\$</b>		
<b>Cash Balances</b>				80,000.00	80,000.00		
<b>Cash Receipts</b>							
Cash sales				30,000.00	35,000.00		
Collection from Debtors				20,000.00	18,500.00		
Other Income				-	-		
<b>Total Cash</b>				<b>130,000.00</b>	<b>133,500.00</b>		
<b>Expected Payments :</b>							
Raw Materials				20,000.00	20,000.00		
Wages and Salaries				10,500.00	16,500.00		
Other Direct Expenses				20,000.00	20,000.00		
Public Relations				25,000.00	40,000.00		
Selling and Admin Expenses				15,000.00	14,500.00		
Purchase of Plant and Equipment				30,000.00	40,000.00		
Other Payments				-	-		
<b>Total Payments</b>				<b>120,500.00</b>	<b>151,000.00</b>		
<b>Ending Cash Balances</b>				<b>9,500.00</b>	<b>- 17,500.00</b>		



# REFERENCES

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