

# UNIT 2

## MANAGING FINANCIAL RESOURCES AND DECISIONS

Unit Code: H/601/0548

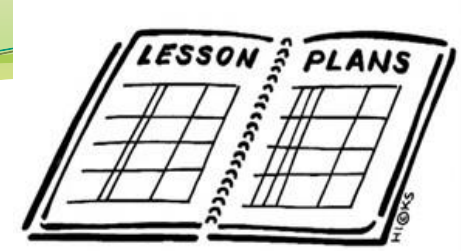
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# MANAGING FINANCIAL RESOURCES AND DECISIONS



- **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 3.2: Explain the calculation of unit costs and make pricing decisions using relevant information



# OVERVIEW

- Understanding the behavior of costs is of vital importance to managers. Understanding how costs behave, whether costs are relevant to specific decisions, and how costs are affected by income taxes allows managers to determine the impact of changing costs and other factors on a variety of decisions.



# UNIT COSTS

- When your company produces large numbers of identical goods, you can calculate the unit cost to track your manufacturing expenses. The total amount of your fixed and variable costs makes up the total manufacturing costs. These costs are accounted for as your products move through the manufacturing process.



# UNIT COSTS

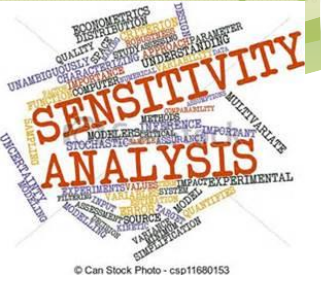
- At the end of the production run, you can use the total fixed and variable costs to calculate your unit production costs. By comparing the unit costs for similar production runs, you can determine if the current costs exceed your budgeted costs.

# UNIT COST USE WITHIN PRICING DECISIONS



- There is a big difference between costs and price. Costs are the expenses of a firm. Price is the amount customers are charged for items. Firms think very carefully about the price to charge for their products. A business can make a profit only if the price charged eventually covers the costs of making an item. One way to try to ensure a profit is to use cost plus pricing. For example, adding a 50% mark up to a sandwich that costs \$2 to make means setting the price at \$3. The drawback of cost plus pricing is that it may not be competitive.
- There are times when businesses are willing to set price below unit cost.





# SENSITIVITY ANALYSIS

- A sensitivity analysis is a technique used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that depend on one or more input variables, such as the effect that changes in cost will have on the final price charged to the customer for the product.



# SENSITIVITY ANALYSIS

- Assume Sue, a sales manager, wants to understand the impact of customer traffic on total sales. She determines that sales are a function of price and transaction volume. The price of a widget is \$1,000 and Sue sold 100 last year for total sales of \$100,000. Sue also determines that a 10% increase in customer traffic increases transaction volume by 5%, which allows her to build a financial model and sensitivity analysis around this equation based on what-if statements.



- It can tell her what happens to sales if customer traffic increases by 10%, 50% or 100%. Based on 100 transactions today, a 10%, 50% or 100% increase in customer traffic equates to an increase in transactions by 5, 25 or 50. The sensitivity analysis demonstrates that sales are highly sensitive to changes in customer traffic.



# REFERENCES

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