

Introduction

For my assignment I have been asked to demonstrate competence in handling key business calculation and basically demonstrate my understandings of the relevant financial flows. I am able to choose my own business, provided with information needed. For my chosen business I need to do the following:

Task 1:

I have been asked to explain how business may calculate break even in order to indicate profitable activity levels, to adapt break-even calculations for selected business in the light of changing cost and sale price data, then to recommend appropriate courses of action for a selected loss making business.

Task 2:

In task 2 I have been asked to explain the meaning of cashflow with reference to a spreadsheet containing at least six sets of monthly data, to explain how a profitable business could go bankrupt due to cash flow problems and to recommend ways in which a selected business might control its cash flow most effectively.

Task 3:

In this section I have been asked to explain how a budget might be used to monitor expenditure for one cost centre for my selected business, explain the importance of budget variance information to managers of my selected business and to recommend ways in which managers might deal with a cost centre that consistently records an unfavourable budget variance in the case of my selected business.

Task 4:

In task 4 I have been asked to explain simple ways of recording transactions for my selected business, to explain how fraud can take place in the process of recording transactions for my selected business and recommend simple fraud detection and prevention measures for a small business.

Unit 3 Investigating Financial Control

Task 1,

a) P1

In this task I have been asked to explain how a business may calculate their break even. Break even is a calculation of profit and loss in the year. Break even is very important for any type of company, because all the types of companies need to found out where their incomes and losses meet.

I own a sandwich bar company and I have to found out how could I break-even with my losses and incomings. My start up cost is around £100,000 but that has nothing to do with on working out my break-even.

To break-even I need to know my running cost, which splits in to fixed costs and variable costs. Fixed cost is a cost of my phone bills, gas bills, electricity bills, if I would be renting the property the rent cost would also be included in the fixed cost and also the tax to the government is needed to be included in the fixed cost, employment wages is a fixed cost, advertising, the amount of money I will be loosing will be always the same every month. The total fixed cost is £550 per month. Variable cost is a cost that usually changes every month, it increases every time my sales incre ase, so if I am selling more preoducts it means I will be loosing out on more money. In my company the running costs are employment wage bonuses, petrol cost, raw food products (bread, butter, cheese, tikka masala, etc.). The total fixed cost is £550 per month. To break even I have to do a break-even analysis first. Break-even analysis is calculation board of all the incomings and outgoings throughout the year, and it lets you know in what month you have break even and what month you have started to make pr ofit.

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Break Even Analysis					
Business: Paul's Paradise Sandwiches					
Units Sold	Fixed Cost £	Variable Cost £	Total Cost £	Sales Revenue £	Loss/Profit £
0	550	0	550	0	-950
100	550	150	700	300	-400
200	550	300	850	600	-250
300	550	450	1000	900	-100
400	550	600	1150	1,200	50
500	550	750	1300	1,500	200
600	550	900	1450	1,800	350
700	550	1050	1600	2,100	500
800	550	1200	1750	2,400	650
900	550	1350	1900	2,700	800
1,000	550	1500	2050	3,000	950

The chart shows that my break-even is between selling 300 to 400 sandwiches but it does not show me exactly how many sandwiches I have to sell to get break -even, but I have a formula to show exactly how many sandwiches I have to sell to break-even to one penny.

This is the formula to brake even:

$$\frac{\text{Fixed Cost}}{\text{Sales} - \text{Variable Cost}} = \frac{\text{£550}}{(\text{£3} - \text{£1.50})} = \text{£1.50} \quad 550 / 1.50 = \underline{367}$$

The formula shows that I need to sell 367 sandwiches to break -even.

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Task 2,

a) P2

Here I am going to explain what is the meaning of cash flow. Cash flow forecast is a spreadsheet table of all my incomings and outgoings in last six months, Cashflow is to help you to know where your business is standing in financially.

Cash Flow Forecast							
Name of the organisation: Paul's Paradise Sandwiches							
Period: January-July							
Months	January	February	April	May	June	July	TOTAL
	£	£	£	£	£	£	£
RECEIPTS							
Sales of Products	6,500	6,500	6,200	6,000	6,500	6,500	38,200
Capital	1000						1000
Loan	106,000						106,000
Grant							
TOTAL RECEIPTS	113,500	6,500	6,200	6,000	6,500	6,500	145,200
PAYMENTS							
Purchase of the premises	95,000						95,000
Product purchases	900	900	780	700	900	900	5,080
Shop Equipment	12,000	0	0	0	0	0	12,000
Marketing	700	200	200	200	200	200	1,700
Telephone Bills	150	150	140	100	150	150	840
Gas Bills	200	200	170	130	200	200	1,100
Electricity Bills	120	120	100	80	120	120	660
Loan repayments							
Total Payments	109,070	1,570	1,390	1,210	1,570	1,570	116,380
Opening Bank	0	4,430	9,360	14,170	18,960	23,890	0
Receipts	113,500	6,500	6,200	6,000	6,500	6,500	145,200
Payments	109,070	1,570	1,390	1,210	1,570	1,570	116,380
Closing Bank	4,430	9,360	14,170	18,960	23,890	28,820	28,820

This is my closing bank at the beginning of the year.

This is my closing bank in 6 months, it shows that I have made profit £28,820 in June.

Unit 3 Investigating Financial Control

Task 3,

a) P3

For my business to run successfully I must have a good income in the future I have to do the planning of the future of my business. In this task I have to explain what is budgeting and how I should use it in my business. There are three types of budgeting: Sales budget, production budget and departmental budget.

Sales budget is a plan of how many products will I sale and how much money I will be making.

Production Budget is a plan of how many products I need to buy from my suppliers and wholesalers and how much money would it cost me.

Departmental budget is a plan of my running cost and where will my running cost go.

All three of these budgets will link one main budget, which is cash budget. Cash budget is a plan where you will know how much money is coming in and going out of your bank account throughout the whole year. Cash budget is also called Cash Flow Forecast which I explain the meaning of it in Task 2 a.

The most important think top do for my business budget is to monitor them. In monitoring my budgets I have to compare my estimated my sales figures with the real actual sales figures and take action to get better in my cash flow (getting more incomings then outgoings).

Sales Budget Report							
Advertising	January	February	March	April	May	June	Total
Budget	£400	£400	£400	£400	£400	£400	£2,400
Actual	£600	£600	£600	£600	£400	£400	£3,200
Variance	-£200	-£200	-£200	-£200	£0	£0	-£800

How much money I planned to spend in six months.

How much money I have spent in six months.

How much money I have lost in six months.

Now I have realised I am losing a lot of money, £200 a month and I need to take some actions, like make a meeting with my accountant to see what I can do about it.

My actions for my plan to work out the way I want it to be is to cut down the cost of my product and attract more customers to buy my products so I can make more profit.

Or I can find myself a new and cheaper supplier.

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Task 4,

a) P4

In this task I have to describe simple transactions in the business and how they are being recorded.

There are many ways you can do your financial transaction. My business is a Sandwich Bar, so my suppliers will be meat markets vegetable markets and bakery markets. To buy my supplies from the suppliers I have to send them my PURCHASE ORDER with all the supplies I require and the prices they each cost.

Then I will be sent an INVOICE and DELIVERY NOTE. The INVOICE is needed to confirm and make the payment that is stated on the INVOICE, DELIVERY NOTE is needed to confirm the delivery date and to make sure that the supplies get delivered on the address that it suppose to be.

Then I will send the INVOICE back to my suppliers with a CHEQUE that has the exact amount of money stated that is required for.

CHEQUE is peace of document that comes with your bankcard when you open your bank account, it is used to buy goods with as you can do with bankcard. What I have to do with CHEQUE is to write down the companies name that I am paying to the amount of money they require for, the date when is the CHEQUE is being send and my personal signature as the proof that the CHEQUE is coming from me.

If the delivery does not turn up on the date that is stated on the delivery note I will be forced to send document to my supplier called CREDIT NOTE. CREDIT NOTE is for the suppliers to know that I did not get my goods delivered to me and I require for some actions to be taken from my suppliers.

When the goods arrive at my premises I will also get a CASH SALE RECEIPT to proof that I have received my goods stating the goods that I have meant to get.

If I am a regular customer at the store I will be send a STATEMENT OF ACCOUNT at the end of the month, which states what I have purchased from the company and how much money I have spend on the products in the past month.