



higher education  
& training

Department:  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA



# **SUBJECT: Financial Management**

**LEVEL: 4**

**Date: 28/07/2020**

**MODULE NAME:** Monitor and control actual expenses and revenue against projected expenses and revenue.

**UNIT 4**

Date: 28/07/2020

**After completing this topic, you will be able to:**

- Use an existing system to ensure budget items are recorded correctly and accurately.
- Analyse a variance report
- Recommend corrective measures to address the situation.
- Provide feedback on budgetary situation of the business with reference to the variances, action to be taken in order to correct the variances.
- Project future activities and make changes to a current budget, using past experience relating to income and costs.
- Recommend control systems to monitor and control revenue and expenses

# TOPIC

## Content

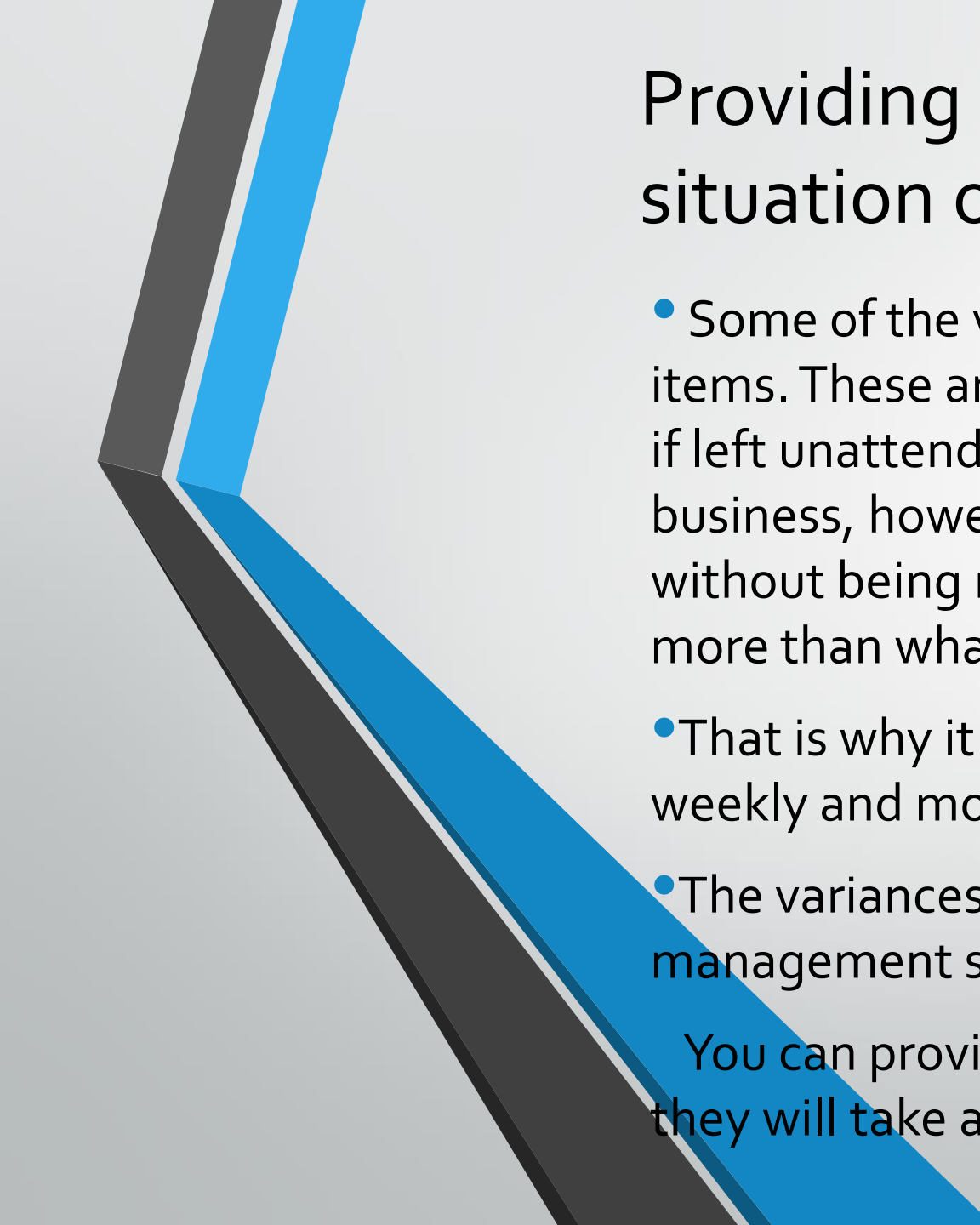
- Unit 4: Monitor and control actual expenses and revenue against projected expenses and revenue

# Unit 4. Recommending corrective measures to address the situation

- It is a fact, budgets needs to be reviewed on regular basis. These reviews are necessitated by a number of factors. Depending on the type of business you are running. As an example, COVID 19 came unannounced and Companies did not plan having it in mind. Targets were set for a normal business life.
- Changes in prices of items means that business under-budgeted their item and therefore must review their budgets.

# To monitor budgets efficiently, the following process can be followed

- Review budgets monthly.
- Investigate and identify variance immediately.
- Implement immediate actions to correct variances.
- Adapt plans for achieving goals and objectives to compensate for change in external factors
- Amend the budget to compensate for significant variances that will seriously affect future business performance.
- Go through the Case Study in page 229-230 in your textbook.
- NOTE: For every variance identified you must know WHY it happened and HOW to correct or remedy the situation.



# Providing feedback on a budgetary situation of a business

- Some of the variances are identified on crucial business items. These are items which impact the business negatively if left unattended. E.g Labour is directly involved in any business, however, it must also be monitored as it goes without being monitored, the business might end up paying more than what it suppose to pay.
- That is why it crucial to monitor all the variances on daily, weekly and monthly basis.
- The variances must be reported to the relevant management structure responsible for taking decisions.

You can provide recommendations to management and they will take a decision to implement or not to implement.

# How to project future activities and make changes to a current budget, using past experience relating to income and costs.

- The budget estimates are not cast in stone.
- The estimated budget can be reviewed at anytime, depending on the circumstances/factors that exist at the time.
- The following factors might necessitate a review of budget
  1. Changes in external factors such as changes in the interest rates and the emergence of COVID 19.
  2. Changes in the internal factors such as agreeing to a union demand for new working environment.
  3. Implementing a new project to support business growth.
- When a substantial and lasting change occurs, it is important to revise the budget to eliminate unexpected costs.
- As an example, the business might be struggling with Sales and the problem might be either enough marketing was not done or staff need more training on how to close the sale.
- Therefore the business will be required to either increase their advertising or marketing budget or look into training their staff on how to sell the products to customers. ( That is called Up selling or Cross selling)
- Changes in the budget would sure affect the following budgets: Sales Budget, Purchasing Budget, Budgeted Income and Expenditure Statement and Budgeted Balance Sheet.
- Go through the Case Study on pages 232-235.

# Control systems to monitor and control revenue and expenses

- When budget has been finalised and approved by the management team of the business is not the end of the process.
  - Budget are reviewed regularly and more especially if there are external factors such as economic recession. E.g. The exponential increase in the price of petrol, will affect other industries and suppliers. Therefore, that will require the business to review the initially budgeted amounts to accommodate the changes in the price of fuel. This is called monitoring a budget.
  - To monitor, control and review the budget in your business, you can use the following Guidelines.
    1. Review budgets on a monthly basis.
    2. Quickly identify any variances that occur.
    3. Address variances by:
      - Adapting budgets to compensate for external factors and
      - Taking actions to correct variances due to internal factors.
    4. Adapt plans for achieving goals and objectives and to compensate for the change in the business.
- Go through the Case Study on pages 236-238 and do the Activity on pg 238.