**Budgets**

You are the owners of a business which manufactures seasonal decorations and party products to supply to a range of independent and high street shops. Your main product ranges are: Christmas, Easter, Halloween and Bonfire night.

You need to carry out the process of setting budgets for the coming year. Complete the following tasks to help you understand how you might go about doing this.

1. **The Process of Setting budgets**

Below are a series of stages in the budget setting process written out in a random order. As a group decide the correct order for this process and write it in the blank table.

|  |
| --- |
| Summarise the detailed budgets in the master budget |
| Create an overall profit budget |
| Carry out research into costs |
| Construct the expenditure budget |
| Set objectives |
| Carry out market research |
| Draw up divisional or departmental budgets |
| Complete the sales budget |

The Budgeting Process

1. **Methods of setting budgets**

As a group, you need to decide how you will go about setting your budgets. Below are some common methods. You need to research and discuss each method, its strengths and its weaknesses.

Group decisions – which methods have you decided to use and why? – You may choose one method or a combination of any of the above but you must be able to justify your choices.

|  |  |  |
| --- | --- | --- |
| Method chosen | Justification | Possible problems with the method. |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

1. **Reasons for setting budgets**

As a group you must be very clear about the reasons for setting budgets. Discuss what these might be then complete the diagram below:

1. **Problems of setting budgets**

You also need to make sure that you are aware of the possible problems associated with setting budgets.

1. **Setting your budgets:**

The data below shows your sale targets of decorations for your business for the coming year:

|  |  |
| --- | --- |
| **Christmas line** | **60000 Units at a price of £1.50 each** |
| **Easter line** | **8000 Units at a price of £2.30 each** |
| **Halloween line** | **25000 Units at a price of £1.75 each** |
| **Bonfire night line** | **12000 Units at a price of £1.50 each** |

**Draw up a sales budget for these product lines:**

|  |  |
| --- | --- |
| **Source of Income** | **Income (£)** |
| Christmas line |  |
| Easter line |  |
| Halloween line |  |
| Bonfire night line |  |
| **Total Income** |  |

Here are the predicted costs for the next year:

* **Raw materials are budgeted at 50% of the selling price for each product.**
* **Labour costs 20 pence per product – regardless of which product line is involved.**
* **Marketing costs are £6500**
* **Administration will cost £3600**
* **Rent is £10500 per year**

**Now draw up an expenditure budget for the next year:**

|  |  |
| --- | --- |
| **Item Of expenditure** | **Income (£)** |
| **Raw materials** |  |
| Labour |  |
| Marketing |  |
| Administration |  |
| Rent |  |
| **Total Expenditure** |  |

**Now draw up a Profit budget using the figures form your income and expenditure budgets:**

|  |  |
| --- | --- |
| **Item of income/ Expenditure** | **£** |
| Total Income |  |
| Total Expenditure |  |
| **Budgeted profit** |  |

1. **Amending Budgets**

Recent market research suggests that given the current economic climate your original sales predictions are somewhat optimistic. You have decided to alter these and also to undertake a cost cutting exercise.

Here are the changes:

* Halloween and Bonfire night sales both decrease by 25%
* Christmas sales decrease by 10%
* New premises lead a decrease in rent to £9000 per year
* Marketing budgets are slashed by 25%

**Use these new figures to draw up three new budgets for Income, Expenditure and Profit.**