ACCT 11059 : Accounting, Learning and Online Communication

# Assessment 2

# Step 5

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Who would have thought there were so many reasons for a firm to budget, other than to simply allocate a predetermined amount of funds to a particular activity. Short-term planning was the only obvious reason to me to have a budget before reading the remainder of the section in the study guide. When I consider short-term planning, I think of goal setting in relation to SMART goals; specific, measurable, achievable, relevant and time-bound. A firm sets budgets to achieve targets that align with the overall goals of the firm. In my job at Domino’s I had to roster effectively. I needed to consider the day of the week and the amount of sales we were expecting. On average we had to stick to a 20% labour cost which we could monitor as the day went on and make adjustments to our staffing levels to reduce the cost and therefore achieve our daily labour target. I am surprised that budgeting can be linked to so many personnel activities within a firm. I am struggling to understand at this point in time, how can budgets be words as well as numbers?

Communication across departments is paramount in a business, especially in a fast food environment. Communication starts from the top and filters down through the ranks. I was lucky to be able to attend a rally event while I worked at Domino’s, which was a conference type event. At this event the CEO, Don Meij, communicated his goals for the Domino’s business for the next year. Obviously, these goals included some financial growth aspirations, but overall it was how we could provide more efficient service to our customers. Being inspired through these presentations, I set my own targets for my store, as soon as I was back at work I began to communicate these goals to the rest of the management team and key team members. As I read this section, I am beginning to realise that I can answer my own question posed in the previous paragraph, budgets can indeed be words as well as numbers!

Motivation is a reason to act in a particular way. My personal motivation is to keep pressing on with my studies and perform well in my assessment tasks, although now we are approaching the end of term, motivation is somewhat lacking! The anecdote about the baggage handlers at Heathrow airport reminded me of the competitive nature between the two Domino’s stores my franchisee owned in Cairns. We had a trophy for the record holder for the quickest EDT (estimated delivery time) for the week between the two stores. If you held the record and the other store beat you, the store manager had to do the walk of shame into the other store and deliver the trophy. We were definitely motivated to perform better than the other store, although I think they were just as motivated. This competitiveness led to some cheating, through signing the delivery drivers back into the store before their arrival to improve the EDT, much like with the baggage handlers at the airport, this most likely skewed the results slightly. I feel like this is a good example of how you can motivate your team to perform better than competitors (without the cheating of course!) and to execute results how you expect them to as a manager. It makes me ponder my firm and how they may motivate their employees to perform well.

A master budget could be considered to be management’s strategic plan for the future, each separate aspect of operations is examined and predictions made about the future performance. A master budget contains a cash budget, a budgeted income statement and a budgeted balance sheet. A cash budget is the projected cash inflows and outflows for a business over a period of time. While it is simple to understand the cash sales, the credit sales part had me confused! I could not figure out where it was being added to when the cash was received, until I watched the lecture, then it was one of those light bulb moments! A budgeted income statement and budgeted balance sheet contain the same items as in non-budgeted financial statements, but the figures are projections or estimates of future activity. Can a master budget be created for other activities within a firm such as a production budget, ie how much of each product to manufacture? Is producing a master budget commonplace in firms? Is a master budget a helpful tool in deciding whether to merge or demerge with a subsidiary company? While I have no experience with a master budget or its usefulness, I can imagine that it could be a helpful tool to use in CCA. This concept is easy to understand but it has raised many questions.

Reading on through the section on sales and production budgets, it seems as though I will answer some of my questions again! I understand a sales budget to be the projected amount of products sold along with the expected revenue to be generated by selling those products. While a production budget estimates how many products will need to be produced in the future based on the projections of future product sales. In a sense, Domino’s would use systems such as the sales and product budgets, when completing the rosters. The program would display the projected sales and pizza count for each half hour period based on the previous 4 weeks sales. We could monitor these budgets in real time also and compare to the prior week’s numbers. This idea is pretty straight forward, one estimates the revenue and the other estimates the products. This is a good concept to see how important the communication is within the firm.

During a PASS session we had an activity where we needed to link the explanation with the term. A balanced scorecard came up as one of the terms, through a process of elimination we figured out what it was but it took a while! When introduced to the concept in the session, it was confusing. While we had matched the correct explanation, it didn’t really make sense. So after that session (since I am still running behind after moving) I thought I better do a KCQ on the balanced scorecard. There are four elements to a balanced scorecard, all measured in a different way. Learning and growth is measured through employees, business processes are measured through operational management, customer perspectives are measured through customer satisfaction and financial data is measured through sales and additional accounting processes. Are all of these elements considered equal? I can see how they can all be related, if the employees aren’t happy, the operations of the business will not perform which in turn will lead to unsatisfied customers and reduced revenue. Domino’s mantra is sell more pizza, have more fun. For me, it was really important in the workplace to foster a fun environment while still producing the results expected which led to happy employees who wanted to come to work. We could measure the business processes through various average time taken to complete tasks such as the EDT (estimated delivery time) and the make time (average time across the day to make a pizza). When a customer placed an order online, after they had collected their order they had the opportunity to rate the product and service they had received, we could monitor this score to ensure customer satisfaction. We could monitor the financial data simply by monitoring the sales earned throughout the day and our FLM (food, labour, mileage) percentage.

I understand a responsibility centre to be a bit like a cost object, except it’s for responsibilities. The manager of a responsibility centre is responsible for the activities involved in that centre. If you consider a Harvey Norman store for example, a sales person within the computer section is responsible for earning sales in that department, whereas a bedding sales person’s responsibility is with bedding. Do all firm’s run this way? I imagine that the responsibility centres for CCA would be quite extensive, with the number of countries that CCA have operations, as well as their subsidiary companies. How do firms measure performance within a responsibility centre if the firm’s financial performance is measured together?

I found this chapter to be the easiest to read so far. It really made me consider the purpose of budgets and how they connect to the realities of a firm. I have been continually surprised at how much of my prior experiences I can apply to accounting concepts. I look forward to the final chapter and making some decisions for my firm.