

# **Effective budgeting tool and performance evaluation for a private trader**

Simone Marinucci



<b>Author</b> Simone Marinucci	
<b>Degree programme</b> International Business (Financial Management)	
<b>Report/thesis title</b> Effective budgeting tool and performance evaluation for a private trader	<b>Number of pages and appendix pages</b> 25 + 17
<p>This project research thesis designed an effective budgeting tool for a private trader as a commissioning company. The budgeting tool consisted of a master budget that is based on an operating budget and financial budget. Previously, the commissioning company never had a real budget structure, so this thesis provided a perfect opportunity to optimise the company's processes and design one. Nowadays having a budget in a company's organisation is becoming essential, and technology has made the process easier compared to how budgeting was handled years ago.</p> <p>This thesis applied project research method and had 4 tasks to achieve the main target. Theoretical framework was investigated to identify appropriate structure for the thesis and definitions of key concepts used in budgets. Literature review focused on the theory and concepts behind budgeting. Budgeting tool was designed with Microsoft Excel and consisted of sales budget, expense budget, income statement budget, and cash budget, as well as performance analysis in order to understand whether the actuals are in accordance with budgeted figures.</p> <p>The thesis started in February 2021 at the beginning of the first quarter and is about to end in the beginning of November. Because of this long timeline, the thesis has been able to show how budget corresponds the real facts. The variances between actual data and projected data are the main numerical findings. The variances are expressed in a numerical form in euro and also in percentages.</p> <p>This thesis is meant to help the entrepreneur, who is also the author of this thesis, by building an effective master budget. This budgeting tool increases the quality and gives a better understanding of the company's daily operations, and improves decision-making based on knowledge. When the budgeting tool is updated regularly, the data is modified accordingly. In conclusion, the budgeting tool presented in the excel tables shall be reviewed and updated if the underlying data or preconditions change and always for the next financial year.</p>	
<b>Keywords</b> Budgeting tool, variances, master budget, performance evaluation.	

## Table of contents

1	Introduction .....	1
1.1	Product Objective and product tasks.....	2
1.2	Demarcation .....	2
1.3	Case Company .....	3
1.4	Key concepts .....	3
1.5	Thesis Structure.....	4
2	Theoretical framework.....	5
2.1	Budgeting.....	5
2.2	Master budget.....	8
2.2.1	Operating budget .....	9
2.2.2	Financial budget.....	9
2.3	Performance evaluation .....	10
2.3.1	Budgeting variance .....	10
2.3.2	Financial analysis.....	10
3	Design Budgeting tool .....	13
3.1	Operating budget .....	13
3.1.1	Sales budget.....	13
3.1.2	Expense budget.....	14
3.1.3	Income statement budget.....	15
3.2	Financial Budget .....	17
3.2.1	Cash budget.....	17
3.3	Performance evaluation .....	17
3.3.1	Budgeting variance .....	18
3.3.2	Financial analysis.....	19
4	Conclusions .....	20
4.1	Main results .....	20
4.2	Further development.....	22
4.3	Personal learning and evaluation .....	22
5	References.....	24
6	Appendices .....	26
6.1	Appendix 1 – Price list.....	26
6.2	Appendix 2 – Sales budget, total and by quarter .....	27
6.3	Appendix 3 – Expense budget, total and by quarter .....	31
6.4	Appendix 4 – Income statement budget, total and by quarter.....	36
6.5	Appendix 5 – Cash budget.....	41
6.6	Appendix 6 – Budgeting Variance .....	42

# 1 Introduction

This is a project research thesis that has been prepared during the academic year 2021, in the Autumn term. The commissioning company is Italian Food Club Helsinki, that has been established by the author during the last quarter in 2018 in Helsinki and that has operations mainly focused in the Helsinki area. The company has already managed to make some revenue to cover expenses.

During the studies in Haaga-Helia, the author was introduced to the StartUp School, which has given a major help in establishing, planning and controlling the commissioning company. During the StartUp School journey, the company was seen to have a future in the industry of importing of goods, so the author managed to get a coach that was able to provide valuable advises on many aspects on how to run a company.

Even though there is no right formula for the success of a company, there are always facts that can increase the probabilities of success. During 2019, the company seemed to be going in the right direction, its relationships to key suppliers were getting stronger and network of possible future customers were increasing. Turnover was increasing overtime and was almost reaching EUR 50,000 at the end of the previous financial year 2019.

Advice from the coach from the StartUp School also helped to save costs, choose a proper tool to manage finances, and run reports like internal managerial accounting to be able to accomplish tax related tasks. The accounting tool chosen is Holvi, is a private banking company that focuses mainly on small entrepreneurs.

In the spring 2020, the COVID-19 pandemic caused a huge humanitarian and economic crisis all over the world and, at the same time, caused material adverse effects to many business operations, also to the company. The government's actions due to the pandemic forced many restaurants to close their doors, so for two quarters of 2020 the company's operations basically stopped since all the customers were either closed or running only very small-scale operations. During that time, at the beginning of the third quarter, the entrepreneur and the coach came up with a new revenue stream by means of an online shop dedicated for consumers.

In 2021, the company managed to avoid closing its operations and slowly get back to business by seeking to implement new smart ways to run the operations. In order to build up a strategy and set up a clear goal, this thesis first focuses on simple financial analysis which provides an understanding of the size and the profitability of the company, and then

designs a single year budgeting tool in order to simplify monitoring development of the company's financials and understand whether the main goal has been achieved or not. It also gives a better conception of the future financial operations of the company. Monitoring is conducted by calculating variances and evaluating the variances between actuals and projected revenues to help to understand to what extent the company is reaching its goals.

### **1.1 Product Objective and product tasks**

The main objective of this project research thesis is to design a budgeting tool that will help to estimate and monitor the financial performance of the company. The benefit of a budget is to translate strategy into tangible clear goals. Another benefit of a master budget is to understand whether the company is reaching its targets and expectations, and it can also help to avoid unnecessary risks and obstacles that are always imminent in all business operations.

1 (PT1) Product task 1. Establishing the basis of theoretical framework for the master budget.

2 (PT2) Product task 2. Defining the budget process, including its elements and contents.

3 (PT3) Product task 3. Designing the master budget.

4 (PT4) Product task 4. Formulating the results and conclusions.

With respect to the product tasks, the first two product tasks (PT1 and PT2) are devoted to analysing literature and investigating reference material. This enables the author to get a better understanding of what budgeting consists of, its methods and components. Third product task designs a master budget to analyse the financials of the commissioning company in order to predict future activities. Performance evaluations gives a clearer understanding of what is the current status of the company, as well as its future plans, targets and strategies. The fourth task presents the results and conclusions and ideas for further development.

### **1.2 Demarcation**

Demarcation processes defines what will not be included in the thesis. In Chapter 2.3.2 on financial analysis, financial ratios are not included because financial ratios are mainly used in medium to big size type of companies and rarely in SMEs. In Chapter 3.2 on the

financial budget, balance sheet budget and capital expenditure budget are not included because there is not enough relevant data in the company's operations to analyse. These exclusions have been made, as the main target of the thesis is to design and build up a budgeting tool for the commissioning company, that will help in the planning of its future and monitoring development of the company's financial results. Demarcation processes ensure that the topic of the project research thesis will be optimal to its own purpose.

### 1.3 Case Company

Italian Food Club is a private trader established by the author in 2018. It is specialised in importing quality food products made in Italy. During past years it has focused on b2b sales in the restaurant industry, identifying pizzerias as principal target customers. The company is located in Helsinki, Finland, but the warehouse where all the inventory is held is located in Tuusula. The Company's owner runs the company himself, even though the company can outsource delivery to third parties and still provide efficient delivery schedules to its customers. The company's opening hours are from Monday to Friday from 8 a.m. to 3 pm., during which time the entrepreneur conducts daily tasks to run the business.

Due to government's actions due to the pandemic, the company had to downsize and pause its operations during the lockdown since all the targeted customers were either closed or running only very small operations, such as providing take away solutions. However, based on the company's income statements of 2020 and 2021, the revenue has been slightly increasing over time, which provides opportunities to continue operations and focus on growth.

The company's price list of products imported is divided by categories of different types of goods, and it has been set up by taking advantage of prior profitability analysis and research of competitive situation of similar businesses operating in the same area. The company's price list is attached in **Appendix 1**.

### 1.4 Key concepts

**Budget** is defined as "formal expression of plans, goals and objectives of management that covers all aspects of operation for designated time period" (Shim, Siegel & Shim 2011).

**Master budget** is defined as "an overall financial plan for a forthcoming calendar of fiscal year" (Shim, Siegel & Shim 2011).

**Operating budget** consists of business revenue and cost of goods or services. This type of budget covers income statement items (Shim, Siegel & Shim 2011).

**Financial budget** examines the expected assets, liabilities, and stockholders' equity of the business (Shim, Siegel & Shim 2011).

**Cash budget** is for cash planning and control. It presents expected cash inflow and outflow for designed time period (Shim, Siegel & Shim 2011).

**Budget revision and control** should be done regularly. A budget should be revised to make it accurate during the period in response to error, feedback, new data, changing conditions or modification of the company's plan (Shim, Siegel & Shim 2011). Budget is a major control device for revenue, costs, and operations. The purpose is to increase profitability and reduce costs or to meet other corporate objectives as quickly as possible (Shim, Siegel & Shim 2011).

**Benchmarking** focuses in budgets and provides benchmarked evaluation performance. At the end of the period, companies use performance reports, to compare "actual" revenues and expenses against "budgeted" revenues and expenses (Braun & Tietz 2013)

## **1.5 Thesis Structure**

This project research thesis is structured in the four project tasks mentioned above in Chapter 1. The thesis starts by giving an introduction that summarises what the thesis includes. Secondly, it focuses on a literature review concerning the theory and concepts behind budgeting, and then it mostly focuses on the budgeting tool. The Chapter 3 starts with a background of the company's financials and it illustrates how projections develop from historical primary data to a budgeting tool. The Chapter 4 presents the results and conclusions as well as takeaways from the valuable and good personal learning journey.

## 2 Theoretical framework

This chapter explains the literature framework behind budgeting and financial analysis. First, the general definitions in regard to budgeting and financial analysis are explained. Later in this chapter, it is explained how budgeting and financial analysis can help small and medium-sized enterprises (SME) to improve in their business.

### 2.1 Budgeting

“Don’t tell me what you value, show me your budget and I’ll tell you what you value” (Biden 1978).

“It’s really important for businesses to create a budget so they can handle their short- and long-term objectives and create a roadmap for the future,” says Kerry Foster, Finatics Virtual CFO.

Budget is one of the tools that business can use to set up goal and evaluate performance. According to Horngren, Foster & Dater (1997), budget is a quantitative data of decided period to help managers to design business plans. It makes up of financial and non-financial aspects of the business. Budgeting is about mapping out plan, executing it and observing. It also includes monitoring actions if they are according to the plan (Brook & Palmer, 1984).

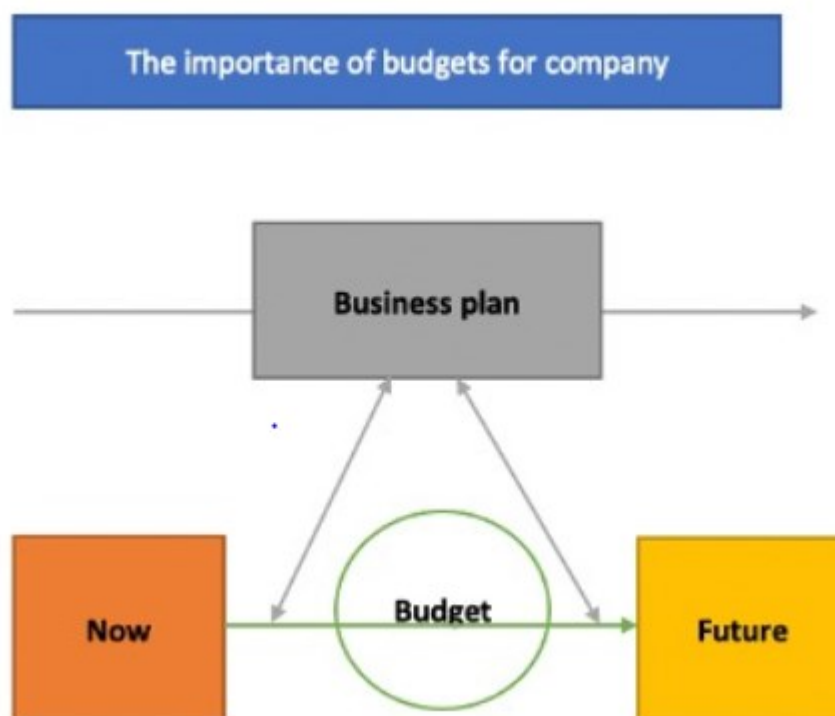




Figure 1. The importance of budgets for company (adapted from corporate finance institute 2021).

The figure above explains how budgets connect company's business plan and goals to the company's situation in the present and to what it wants to accomplish in the future.

Businesses' budgeting approach varies among businesses. It depends on many aspects, such as the size of the company and the general business economic environment. There are four most common budget methods used by companies: incremental, activity-based, value-proposition and zero-based method. The incremental budget is using the previous year budget as basis and alter it to acquire the present budget. The activity-based budget means a top-down budgeting. In this case, the budgeting starts with the company's executives setting the sales target, after which the activities and its costs will be put in place. The value proposition budgeting method means that all the things that are included in the budget will provide value to the business. The last one is zero-based, which is one of the most time-consuming. This method starts from scratch and every single expense needs to be justified.

Budget is a company's expectation of what it desires to attain. It is usually a thorough presentation of the future outcomes, financial position and cash flow that the company is expecting to achieve. The budget will be compared to the actual development and the company's management will always seek to keep the actuals in line with what has been budgeted.

Forecast is an estimation on what will actually be realized, typically items like revenue and expense. It is updated on a shorter period compared to a budget, commonly quarterly or even monthly.

The main distinction between budget and forecast is that budget creates targets for the business, while forecast the actual result expectation. In a nutshell, budget tells you where business wants to go, and forecast informs you where the business is actually going.

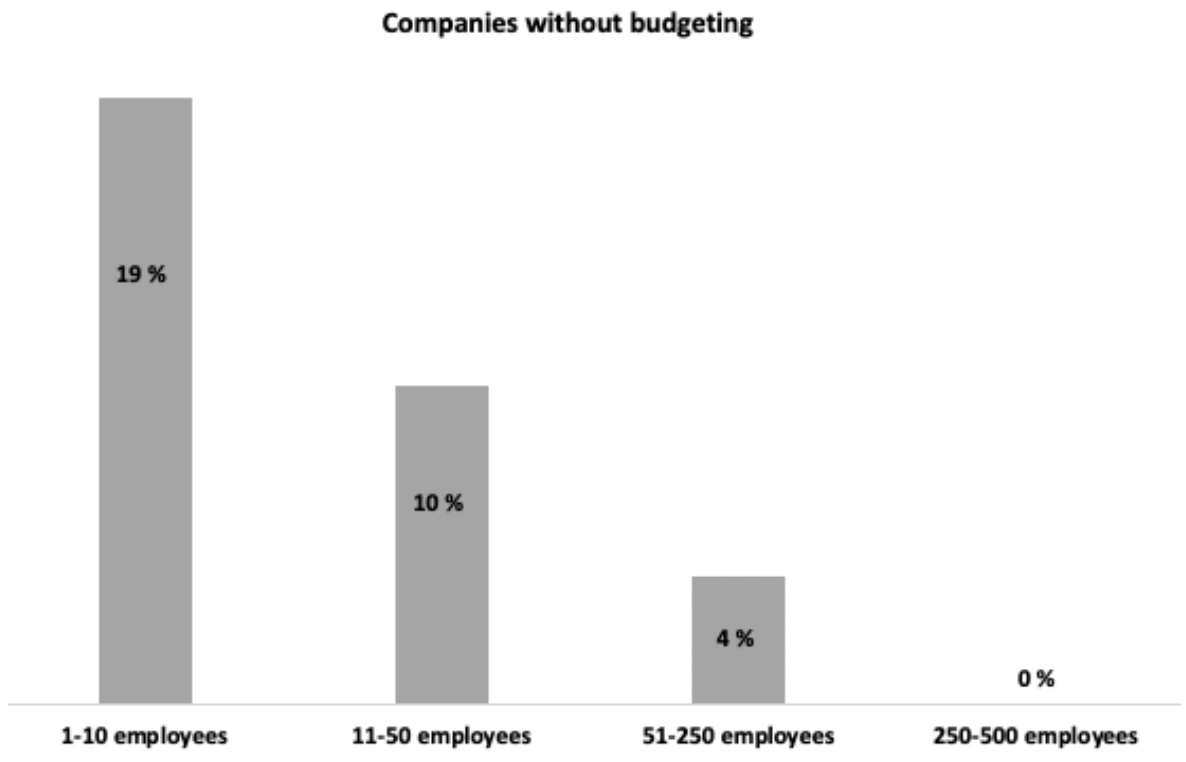


Figure 2. Companies size without any kind of budget (adapted from Clutch 2021 Budgeting Survey).

The graph above shows the smaller the business the more likely it is to run their business without any kind of budgeting, whether documented or informal. This probably happens because smaller companies have smaller number of business activities, for which it is still rather easy to track.

Many studies have shown that budget helps businesses to evaluate their business performance and their financial performance. According to Otley (1978), businesses use budgeting as their planning tool. Ghosh & Chan (1997) states that companies who perform budgeting will likely be able to allocate their resources effectively.

A carefully built budget allows companies to regularly and continually to trace their financial performance. This helps the management to set business long-term plans, including new recruitments and new product lines. Budget helps to set sales goals, and decisions regarding salaries, bonuses, and employee's benefits. Health financial performance can also attract potential investors and provide a chance to open credit lines.

## 2.2 Master budget

A master budget is an overall financial and operating plan for the forthcoming calendar or fiscal year. It is usually prepared annually or quarterly. The master budget is in practise a number of sub-budgets tied together to summarize the planned activities of the business. The format of the master budget depends on the size and nature of the business.

(Shim, Siegel & Shim 2011).

The master budget is a mixture of different standard statements considering sales, expenses, volume, and different transactions for the future period. It is basically a pro forma of the normal financial statements. It is made in the beginning of the financial year to plan and organise the operations, and it is usually reviewed also during the financial year, e.g. quarterly, to control the performances. The budgeting tool is an actual device that might evaluate different scenarios.

The master budget is mainly composed of operating budget and financial budget. The operating budget in this thesis is mostly based on sales budget and operating expense budget. Financial budget in this thesis consists mostly of cash budget. In order to design a proper master budget, certain steps need to be followed.

First, a sales forecast is needed to quantify projected turnover. Secondly, the amount of volume that is projected to be sold needs to be calculated. Thereafter, an estimation of costs and operating expenses is included in the master budget. As a result, there will be a projection of the profit and loss statement.

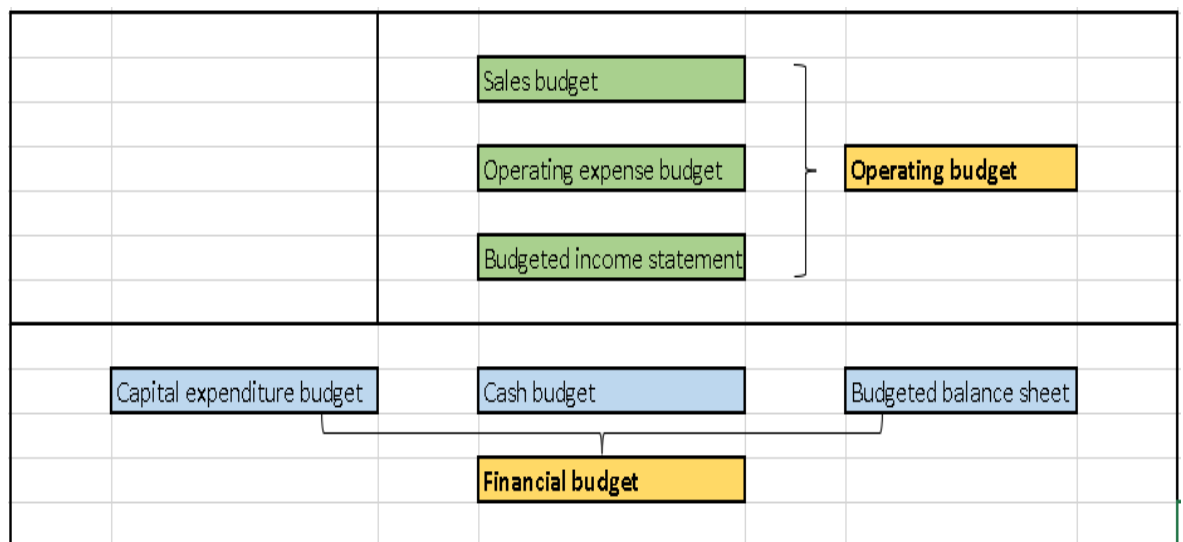


Figure 3. Benefits of Budgeting (adapted from figure in Braun & Tietz 2013, 518).

### **2.2.1 Operating budget**

The operating budget deals with the costs for merchandise or services produced.

It covers income statement items comprised of revenues and expenses. (Shim, Siegel & Shim 2011).

#### **Sales budget**

The sales budget is the starting place for budgeting. The sales budget is a calculation which needs to multiply the expected number of unit sales by the expected sales price per unit to arrive at the expected total sales revenue. (Braun & Tietz 2013)

Number of sales unit X sales price per unit = Total sales revenue.

#### **Operating expense budget**

All the costs incurred in every area of the value chain, except production, must be expensed as operating expenses in the period in which they are incurred. Thus, all research and development, design, marketing, distribution, and customer service costs will be shown on the operating expense budget. Some operating expenses are variable, based on how many units will be sold (not produced). (Braun & Tietz 2013, 518)

Number of variable cost unit x Sales variable cost per unit = Total Variable expenses.

### **2.2.2 Financial budget**

The financial budget examines the expected assets, liabilities and stockholder's equity of the business. It encompasses balance sheet budget, capital expenditure budget and cash budget.. All financial budgets are usually needed to secure company's financial health. (Shim, Siegel & Shim, 2011).

#### **Cash budget**

The cash budget is for cash planning and control. It presents expected cash inflow and outflow for a designed time period. The cash budget helps management to keep cash balances in reasonable relationship to its needs and helps in avoiding idle cash and possible cash shortages. (Shim, Siegel & Shim 2011).

## **2.3 Performance evaluation**

Huck and McEwen (1991), McMahon and Davies (1994), Schwenk and Shrader (1993) underline that SMEs with successful financial performance are able to manage their financial issues effectively. Even though corporations calculate their financial performance differently, yet financial ratio analysis is the conventional way to investigate and to elucidate the financial performance of an enterprise. (Jacobs 2001).

The key of success comes also from measuring performance. In this section the author describes six ways to measure small business.

1. Analysing financial statements such as income statement, cash flow and balance sheet provides a better understanding of the company's financial situation.
2. Assessing customer satisfaction is essential, as a company needs to make sure that its customers are satisfied. Methods that assess this include customer reviews and surveys.
3. Knowing your customers and how many they are. This is essential in order to make new strategies to gain more.
4. Reviewing internal performance is important in order to see how effective a company can be.
5. Considering changes in market trends within the industry.
6. Assessing self-expectations on the business.

(Kappel 2017).

### **2.3.1 Budgeting variance**

The variance or difference between actual and budgeted figures is used to evaluate how well the manager has controlled operations and determines whether the plan needs to be revised. (Braun & Tietz 2013 594.)

### **2.3.2 Financial analysis**

Financial analysis is a process to assess and to analyse a company's financial statement. The purpose of doing the analysis is for the management to be able to make a better business decision to obtain more profit in the future. It is comprehensive analysis of the income statement, balance sheet, cash flow and statement of changes in equity.

Financial analysis seeks to find financial situation, health and position of a company. It is an activity to point out the financial strength and weakness of a business (Mrkvicka & Kolár 2006).

To be in a good financial situation, normally a company is financial efficient, and it can be measured by profitability.

As mentioned before, financial performance analysis measure a company's financial position. Good financial position indicated by liquidity measurement, associates with company's ability to source its financing to pay financial obligations. Bank, Tarasquina & Bank (2006) states that financial position suggests how well is a company directing its capital structure for future performance. When performing financial analysis, there are key requirements that need to be fulfilled. They are completeness, accuracy, and consistency in implementation.

Financial analysis' main source of data comes from a financial statement report, such as income statement, balance sheet, statement of cash flow and statement of share-owner's equity. Notes of financial statements reporting can also be utilised to extract data regarding accounting policies and other relevant data.

Income statement dispenses a company's business operation outline of the entire year. Income statement report or the profit and loss statement starts with how much revenue the company has earned and ends with how much is the earned net income or loss. In between revenue and net income, there are line items such as cost of goods sold, gross profit, operating expenses, operating profit and income before tax.

Statement of cash flow is the most important financial statement. It is a statement that combines balance sheet and income statement. Cash flow report provides data such as a company's inventory repurchases, capital expenditures, dividend paid, investing and financing.

In a nutshell, a company's financial analysis tells the well-being of the business. When it is done periodically, it can help managers to discover and calculate businesses' likely future growth, most effective business structure and company's performance. Through financial analysis, a company provides their internal and external investors with unbiased view of business's financial situation, health and growth which will be helpful for making investment and lending decisions.

Some key advantages of performing regular financial analysis are to review cash flow, short and long-term liabilities, and inventory movement, to identify business trends, and to help to prepare budget. Parties that may be interested or affected by a company's financial performance are trade creditors, bond holders, investors, and management. Financial accounting focuses on providing financial information to external parties like stockholders and creditors. On the other hand, managerial accounting provides financial information for managerial team to run the business successfully. (Braun & Tietz 2015.)

### 3 Design Budgeting tool

This Chapter designs a complete master budget. Since the author is also the owner of the company, this thesis does not need to include a user guide explaining how the budgeting tool works.

The commissioning company has never had a budget during the past year and half of its operations. In February 2021 the entrepreneur and author of the thesis decided to build a budgeting tool, in facts, th master budget include primary data which comes straight from the accounting tool that the commissioning company currently uses. It focuses on actual data that has been gathered during this financial year organised by quarters.

First, a structure and components of the budgeting tool are designed. The main target of the research is to build a simple budgeting tool that is easy to modify and can be used overtime for future projections. At the same time, the tool shall be straight forward and easy to use.

The master budget includes 4 different types of budgets. The operational budget includes 3 different sheets of budgets:

1. Sales budget
2. Expense budget
3. Income statement budget

The financial budget includes:

1. Cash budget

Finally there is an easy table based on performance analysis which considers variance in euro and in percentage between actual and projected data.

#### 3.1 Operating budget

Operating budget shows for the year 2021 and by each of its quarters all the types of budgets that consist the operational budget.

##### 3.1.1 Sales budget

The sales budget is based on the price list and is included in **appendix 2**. It multiplies the units with the price of the items, resulting in actual sales. It will be easy to change units or prices or even add more items to it, and the formula will change totals and variances correspondingly.



Table 1. Total sales budget 2021

Total Sales budget 2021	q1	q2	q3	q4	Tot
<b>budgeted</b>	<b>15470</b>	<b>12103.5</b>	<b>18546.3</b>	<b>21974</b>	<b>68093.8</b>
<b>actual</b>	<b>14140</b>	<b>7825</b>	<b>18598</b>	<b>?</b>	<b>40563</b>
<b>variance</b>	<b>1330</b>	<b>4278.5</b>	<b>-51.7</b>	<b>?</b>	<b>27530.8</b>
<b>variance %</b>	<b>9%</b>	<b>35%</b>	<b>-0.28%</b>	<b>?</b>	<b>40%</b>

This table above shows the total operating sales budget in 2021. It is divided by quarters and the total shows the budget for the entire financial year. Budgeted figures are based on hypothetical data. Actual figures are the results of primary data collected by the commissioning company for the first three quarters. Certain figures have been adjusted during the financial year based on new data acquired from the operations. The variance is the budgeted figure less the actual. The variance in percentage is the numerical variance divided by the budgeted figure. For the fourth quarter, no actual data is represented since the financial year is still ongoing at the time of this research. The total of financial year does not consider actual data in the fourth quarter.

### 3.1.2 Expense budget

The products on the price list have a margin percentage of 30, so all the cost of goods sold (COGS) are increased with that amount, resulting in the prices on the price list. The commissioning company operates with volumes for which the margin shall not be higher, otherwise there is a risk of losing competitiveness and being out of market.

Table 2. Total operating expense budget.

Total expense budget 2021	q1	q2	q3	q4	TOT
<b>COGS</b>					
<b>budgeted</b>	<b>10829</b>	<b>8472.45</b>	<b>12982.41</b>	<b>15381.8</b>	<b>47665.66</b>
<b>actual</b>	<b>9898</b>	<b>5477.5</b>	<b>13018.6</b>		<b>28394.1</b>
<b>variance</b>	<b>931</b>	<b>2994.95</b>	<b>-36.19</b>		<b>19271.56</b>
<b>variance %</b>	<b>9%</b>	<b>35%</b>	<b>-0.28%</b>		<b>40%</b>
<b>Operative expense</b>					
<b>budgeted</b>	<b>2400</b>	<b>2400</b>	<b>2400</b>	<b>2400</b>	<b>9600</b>
<b>actual</b>	<b>3500</b>	<b>3050</b>	<b>3950</b>		<b>10500</b>
<b>variance</b>	<b>-1100</b>	<b>-650</b>	<b>-1550</b>		<b>-900</b>
<b>variance %</b>	<b>-46%</b>	<b>-27%</b>	<b>-65%</b>		<b>-9%</b>
<b>Grand Total</b>					
<b>budgeted</b>	<b>13229</b>	<b>10872.45</b>	<b>15382.41</b>	<b>17781.8</b>	<b>57265.66</b>
<b>actual</b>	<b>13398</b>	<b>8527.5</b>	<b>16968.6</b>		<b>38894.1</b>
<b>variance</b>	<b>-169</b>	<b>2344.95</b>	<b>-1586.19</b>		<b>18371.56</b>
<b>variance %</b>	<b>-1%</b>	<b>22%</b>	<b>-10%</b>		<b>32%</b>

This table shows the total operating expense budget in 2021 divided by quarters, and the grand total shows the budget expenses of the entire financial year. Budgeted figures in COGS are connected with sales budget in terms of projected units sold. Actual COGS figures are 30% less than the actual sales prices collected by the commissioning company since the margin of the products on the price list is 30% for each item.

Operating expenses are variable costs that the commissioning company must pay in order to operate. They include, for example, phone bills, overheads, and salary for the owner. Budgeted expenses are based on hypothetical figures that the company expects to incur each quarter. Actual figures of operating expenses are collected from primary data in the Holvi accounting system. Certain actual figures have been adjusted based on company's operating decisions during the financial year. Grand total is the result of COGS plus operating expenses. The variance is the budgeted figures minus the actuals. The variance in percentage is the numerical variance divided by budgeted figures. In the fourth quarter, no actual data is represented since the financial year is still ongoing at the time of this research. The total of financial year does not consider actual data in the fourth quarter.

### **3.1.3 Income statement budget**

Once the sales and expense budgets described above were designed it was easier to build the income statement budget. The thesis includes an actual income statement extracted from primary data from the accounting tool HOLVI used by the commissioning company.

Table 3. Income statement budget in total

budgeted 2021				
Income statement 2020	actual	budgeted	variance	variance %
Sales revenue	40563	68093.8	27530.8	40%
direct material	28394.15	47665.66	19271.51	40%
contribution margin	12168.85	35000	22831.15	65%
contribution margin %	30%	51%		
less: operating expenses				
labor costs	4850	6000	1150	19%
overhead	4250	3600	-650	-18%
operating income	3068.85	25400	22331.15	88%
tax expenses	2028.15	3404.69	1376.54	40%
net income	1040.7	5000	3959.3	79%
net income %	3%	7%		

This table shows the income statement for the financial year 2021. Sales revenue and direct materials are results of the operating sales and expense budgets. Both actual and budgeted figures show a variance of 40%. Contribution margin is the difference between sales and cost of goods sold. Contribution margin in percentage is the result of contribution margin divided by sales revenue. Operating expenses includes labour cost and overhead costs. The operating expenses are the results of operating expense budget. Operating income is the difference between contribution margin minus labour costs and overhead costs. Tax expenses mean the income tax which in this case is 5% of the contribution margin. Net income is the difference between operating income minus tax expenses. Net income percentage is the result of net income divided by sales revenue.

### 3.2 Financial Budget

As explained in Chapter 1.3 on the demarcation process and considering the size of the company and scope of its operations, the financial budget only includes the cash budget.

#### 3.2.1 Cash budget

The cash budget has been prepared based on the operating budget figures. It collects both budgeted and actual data from cash inflow and outflows.

Table 4. Cash budget.

Cash budget 2021	q1		q2		q3		q4	
	budgeted	actual	budgeted	actual	budgeted	actual	budgeted	actual
opening cash balance	5000		7241	5742	8472.05	5039.5	11635.94	6668.9
account receivable	15470	14140	12103.5	7825	18546.3	18598	21974	
cash inflow	15470	14140	12103.5	7825	18546.3	18598	21974	
COGS	10829	9898	8472.45	5477.5	12982.41	13018.6	15381	
other expenses								
labour costs	1500	2500	1500	2300	1500	2800	1500	
overhead	900	1000	900	750	900	1150	900	
cash outflow	13229	13398	10872.45	8527.5	15382.41	16968.6	17781	
Net cash	7241	5742	8472.05	5039.5	11635.94	6668.9	15828.94	

This table shows that in the first quarter the company is making low profit compared to budgeted figures. Nevertheless, it is still capable of paying operating expenses meanwhile keeping the balance above EUR 2,000. Due to the decrease of sales during the second quarter, the commissioning company shows on the cash budget a lower amount in the opening cash. However, the company is still able to keep the balance above EUR 2,000. During the third quarter, the commissioning company has sales and expenses on a budgeted level so effectively the cash available is developing as predicted. At the end of the fourth quarter of the financial year, the company has made too optimistic projections, so the cash available is going to decrease again.

### 3.3 Performance evaluation

Performance evaluation of the company's financials has been done regularly during the financial year, and they have been adjusted accordingly. Budgeting variances are meant to give better understanding of the company's performance and how effective it can be.

Customer satisfaction has been taken in consideration in a very simple way, by asking verbally for feedback.

During the second quarter the company has lost one customer causing a change in budgeted figures, which have been updated. New strategies and plans to gain new customers are being considered for the upcoming financial year 2022, taking also into account new market trends and government's restrictions concerning the COVID-19 pandemic.

### 3.3.1 Budgeting variance

Table 5. Master budget variance.

Total Sales budget 2021	q1	q2	q3	q4	Tot
variance	1330	4278.5	-51.7		27530.8
variance %	8.60%	35.35%	-0.28%		40.43%
Total expense budget 2021	q1	q2	q3	q4	Tot
COGS					
variance	931	2994.95	-36.19		19271.56
variance %	8.60%	35.35%	-0.28%		40.43%
Operative expense					
variance	-1100	-650	-1550		-900
variance %	-45.83%	-27.08%	-64.58%		-9.38%
Grand Total					
variance	-169	2344.95	-1586.19		18371.56
variance %	-1.28%	21.57%	-10.31%		32.08%
Income statement budget 2021	q1	q2	q3	q4	Tot
revenue	14140	7825	18598		40563
variance	1330	4278.5	-51.7		27530.8
variance %	8.60%	35.35%	-0.28%		40.43%
net income	335	-293.8	999.5		1040.7
variance	1132.5	919.67	1237.08		3959.3
variance %	77.17%	146.94%	55.31%		79.19%
Cash budget 2021	q1	q2	q3	q4	
net cash	5742	5039.5	6668.9		
variance	1499	3432.55	4967.04		
variance %	20.70%	40.52%	42.69%		

This table shows variances for each budget for the financial year and each quarter. An accurate variance is when the actual is very close to the budgeted data. As a matter of fact,

when the actual is much higher than budgeted, companies' expectations should be reviewed, or then a significant change has occurred in the operations. Variances have been adjusted automatically when the figures from budgets have changed during the financial year.

### 3.3.2 Financial analysis

This sub-chapter shows actual income statement of year 2021.

Table 6. Profitability figures.

<b>Income statement 2021</b>	<b>q1</b>	<b>q2</b>	<b>q3</b>	<b>q4</b>	<b>tot</b>
<b>Sales revenue</b>	<b>14140</b>	<b>7825</b>	<b>18598</b>		<b>40563</b>
<b>net income</b>	<b>335</b>	<b>-293.8</b>	<b>999.5</b>		<b>1040.7</b>
<b>net income %</b>	<b>2.37%</b>	<b>-3.75%</b>	<b>5.37%</b>		<b>2.57%</b>

The total amount of income made from sales of products or services is called revenue. It is the top line indicator on the income statement, and it is driven by company's business activity. The commissioning company is very small in size considering the revenue.

Net income is an indicator of a company's profitability and it is calculated as revenues minus all the costs that a company needs to have in order to run operations, such as cost of goods sold, administrative and general expenses, taxes and other expenses.

Net income percentage is calculated by dividing net income on revenue. It is used to run a vertical analysis on income statements.

The author focuses mainly on this figure because the size of the company is small and therefore financial ratios are not meaningful to be applied.

## 4 Conclusions

This chapter summarizes the thesis's conclusions. The conclusions include the main results of the thesis, areas for further development, and reflections on personal learning and evaluation.

### 4.1 Main results

In this product research thesis, the main target was to build a complete budgeting tool, and it has been achieved through completing the product tasks discussed in Chapter 1.1.

The importance of budgeting is becoming fundamental in today business. It helps to focus on the aspects that are vital to have a successful business. The main conclusion from the research is that it would always be beneficial for an SME to start a budgeting process. Budgeting increases the quality of planning the company's operations, and it helps to set goals, such as profitability and target revenue. Budgeting is also helpful tool when it comes to making decisions on investments on inventory. Finally, budgeting helps to monitor the financial position of the company and to assess whether the company can pay its operating expenses.

The only downside with the budgeting tool is that preparing budgets can be time-consuming, as often a small entrepreneur or a private trader is alone responsible for making sure that business related tasks are carried out to secure smooth operations and great customer experience. However, a budgeting tool can be considered an asset for companies that decide to have it and use it on a routine basis.

It is important to note that the budgeting tool should be reviewed often and it should be designed so that it is simple to modify when the business grows or changes to meet the company's expectations or changes in structure, or to adapt to new market trends.

The budgeting tool prepared in this thesis is designed for the commissioning company and therefore might not apply to other type of companies.

The main results shown in the tables are mostly in accordance with the variances between budgeted and actuals.

In **Appendix 1**, the commissioning company's price list of items that it regularly sells to its customers is presented. The prices for each item are 30% higher than COGS. The price list includes 23 items divided by categories.

In **Appendix 2**, table 2 (sales budget for the first quarter) presents how effective can a budgeting tool be, as in the first quarter of 2021 the difference between the budgeted sales and actual sales were minimal. In table 3 (sales budget for the second quarter) there is a big variance between the figures. Even though a budgeting tool seems to be realistic in the beginning of the quarter, it has to be updated in order to improve accuracy, as it can be seen that units sold were much less than expected. During a financial year it is possible that changes in operations occur, and in this case the commissioning company lost an important customer, which caused a decline in sales.

Table 4 (sales budget for the third quarter) shows again accuracy in projected figures compared to actuals, and during this quarter the budgeting tool has been very effective. During the third quarter, many companies involved in this industry managed to increase their sales due to higher demand driven by the end customers.

Table 5 (sales budget for the fourth quarter) shows only budgeted sales, which are again increasing compared to the third quarter. This budget has been calculated based on customer demands that the company needs to consider.

The sales figures in this budget have been increased due to expected increase in demand by a customer, who invested in a new restaurant and is therefore expected to increase its purchase volumes.

In **Appendix 3**, the tables present the operating expense budget divided in two: the cost of goods sold is completely driven by the sales budget, whereas the operating expenses are not entirely dependent on sales.

Table 6 presents the totals of the operating expense budget for the financial year. It can be seen that the budgeting tool is very accurate in the first and third quarter but shows discrepancy in the second quarter, similarly as the sales budget.

Table 7 shows that cost of goods sold have a relatively low variance in the first quarter. However, other operational expenses may differ depending on the commissioning company's decisions. Table 8 shows that there is a big variance of 35% compared to actual performance during the second quarter. Since the company's sales decreased, other operational expenses, such as salary for the owner and warehouse costs, decreased as well. Table 9 shows very precise accuracy between actual and budgeted figures during the third quarter. Since the sales increased, operational costs increased as well. Table 10 shows only budgeted figures as the fourth quarter is still ongoing.



In **Appendix 4**, the tables present income statement budgets for the financial year 2021 and by each quarter. Table 11 presents the entire financial year. All the budgeted sales and expenses for the financial year are considered, however the actuals are not taking into account for the fourth quarter as the financial year is still ongoing. For that reason, actual sales are short by EUR 27,530 compared to budgeted, and actual direct materials are short by EUR 19,271 compared to actuals. There is a big variance percentage of 65% in the contribution margin. This figure already shows that operating budget for fourth quarter has to be updated and modified, as the projections do not look accurate.

In **Appendix 5**, the table shows for each quarter of the financial year 2021, how account receivables and payables develop overtime. It starts with open cash balance of EUR 5,000. This type of company sends invoices to its customers with a 7 days' payment period, and it is uncommon that receivables from a quarter will transfer to the next one. The online shop collects payments within two to three business days. For this reason, all transactions are included in only one cash inflow, which is account receivables to simplify the table. Cash payments are divided by account payable for cost of goods sold, labour cost, and overhead costs. The company maintains at least EUR 5,000 minimum cash balance at the end of each quarter.

In Appendix 6, it is a summary of all the variances made for each budget.

## **4.2 Further development**

Even though the goal of the thesis has been reached, there is always room for improvement. The operating budgets are made based on the price list of the commissioning company, so every time the company decides to include or exclude more items, the budget should be modified and improved accordingly. In fact, budgeting is a continuous process that should be conducted often enough during the financial year so it can be developed and updated for the company's needs. Budgeting can really help the commissioning company to plan its operations, set a strategy and reach the profitability goals.

## **4.3 Personal learning and evaluation**

During the thesis preparation, between March and November 2021, the author struggled to keep updating the data and pushing it forward for teacher reviews. The Gantt chart made for the thesis plan shows that the author experienced certain difficulties in scheduling and planning the 3 phases of the thesis work sufficiently in advance.

At the end of this project, I am able to conclude that budgeting is an interesting topic that will be beneficial for my future operations as entrepreneur, and I will be using it to budget

my personal expenses as well. As mentioned, there is always space for improving the understanding of the topic through experience and deeper research of different types of budgeting methods. Even though I encountered many difficulties, I gained a lot new knowledge on the budgeting itself, became more confident with my Microsoft Excel skills, and improved in academical writing.

This thesis has been a great lesson in my study journey in which I managed to complete all courses by the deadline. I feel grateful that I have managed to complete my studies in time, and it has been an important life experience that has showed me how I can develop and educate myself. I feel very grateful when I look back thinking about all the support that I have got from Haaga-Helia. The teachers at the university have always been very helpful and available to answering any questions I have had during the process and to clarify my doubts. I also appreciate a lot all the networking connections that I have been able to make during the past three years. I also feel grateful for having met many great students with whom we have been helping each other and made it through the end together.

## 5 References

- Bank, V. Tarasquina, A. & Bank, S. 2006. Financial analysis. Moscow: Prospect, 344 p. ISBN 5-482-00022-2
- Braun, W., Tietz, M., Harrison, T. 2013. Managerial accounting. 3rd ed. Pearson Education. New Jersey
- Braun, K. & Tietz, W. 2015. Managerial Accounting. 4th Edition. Pearson Education Limited. Harlow.
- Brook H R., Palmer, C. E. & Herrington, L. A. 1984 Cost Accounting: principles and applications. 4th ed. MC Graw-Hill Book. San Francisco.
- Ghosh, B.C. & Chan, Y.K. 1977. Management accounting in Singapore-well in place: Managerial Auditing Journal, 12, 1, pp. 16–18.
- Horngren C. T., Forster, D & Daltor, S. M. 1997. Cost Accounting: a managerial Emphasis. 9th ed. Prentice hall. New Jersey.
- Huck, J. & McEwen, T. 1991. Competencies needed for small business success: perceptions of Jamaican entrepreneurs. Journal of Small Business Management, 29, 4, pp. 490-492.
- Jacobs, A. 2001. Financial Management IV (FMA 401-V). Study guide 1. 3<sup>rd</sup> ed. Technikon SA. Pretoria
- Kappel, M. 2017. 6 ways to measure business success. Forbes. Assessed: 10 November 2021.
- McMahon, R. & Davies, L. 1994. Financial reporting and analysis practices in small enterprises: their association with growth rate and financial performance, Journal of Small Business Management, 32,1, pp. 9-17.
- Mrkvicka, J & Kolár, P. 2006. Financial analysis. 2<sup>nd</sup> ed. Prague. ASPI. Prague.
- Otley, D.T. 1978. Budget use and managerial performance: Journal of Accounting Research, 16, pp. 122–149.

Schwenk, C. & Shrader, C. 1993. Effects of formal strategic planning on financial performance in small firms: a meta-analysis. *Entrepreneurship Theory and Practice*, 17 ,3pp. 53-64.

Shim, A. I., Shim, J. K & Siegel, J. G. 2011. *Budgeting Basics and Beyond*. Wiley Corporate F&A. Hoboken.

## 6 Appendices

### 6.1 Appendix 1 – Price list

Prices Excluded VAT (14%)

description	€	Kg-L-Pz	note
Mozzarella di Agerola	12.5	kg	
parmigiano reggiano 1/8 18-24months DOP	18.5	kg	
pecorino re nero	18	kg	
gorgonzola dop 1/8	14.5	kg	
Ricotta di Agerola	12	kg	
Olive oil 5L	5	L	
Olive oil novello	30	L	
Artichokes grilled 780g	11.5	pz	
Cherry tomato semidry yellow	11	pz	
Tomato semi Dry 750g	11	pz	
Tomato sauce Palo 100% italian	3.5	pz	
Olives taggische no seed under olive oil 900g	16	pz	
Signetti flour	1.8	kg	
Spolvero x pizza Croccantina di riso iacuone	4.8	kg	
Truffle Pate 500g	11	pz	
Salame Piccante pepperoni	11.2	kg	
Spianata piccante dop	16.9	kg	
Prosciutti san Daniele 24months	18	kg	
Salame Toscano di montalcino igp	14	kg	
Salame Finocchiona	14	kg	
Nduja Black pork dop	18	kg	
Prosciutti cotto big fume ferrarini	14	kg	
Tuna yellow fin big pieces 1730g	21	pz	

## 6.2 Appendix 2 – Sales budget, total and by quarter

Table 1. Total sales budget 2021

Total Sales budget 2021	q1	q2	q3	q4	Tot
<b>budgeted</b>	<b>15470</b>	<b>12103.5</b>	<b>18546.3</b>	<b>21974</b>	<b>68093.8</b>
<b>actual</b>	<b>14140</b>	<b>7825</b>	<b>18598</b>	<b>?</b>	<b>40563</b>
<b>variance</b>	<b>1330</b>	<b>4278.5</b>	<b>-51.7</b>	<b>?</b>	<b>27530.8</b>
<b>variance %</b>	<b>9%</b>	<b>35%</b>	<b>-0.28%</b>	<b>?</b>	<b>40%</b>

Table 2. Sales budget in first quarter

Sales budget 2021	q1					
product	unite price	unit sold	budgeted sales	actual sales	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	12.5	640	8000	7600	400	5%
parmigiano reggiano 1/	18.5	35	647.5	630	17.5	3%
pecorino re nero	18	13	234	225	9	4%
gorgonzola dop	14.5	5	72.5	65	7.5	10%
ricotta di agerola	12	3	36	30	6	17%
<b>veggies</b>						
Olive oil 5L	5	240	1200	1100	100	8%
Olive oil novello	30	10	300	250	50	17%
Artichokes grilled 780g	11.5	10	115	100	15	13%
Cherry tomato semidry	11	5	55	50	5	9%
Tomato sauce Palo 100%	3.5	20	70	60	10	14%
Olives taggische no seed	16	10	160	150	10	6%
Signetti flour	1.8	1000	1800	1900	-100	-6%
Spolvero x pizza Crocca	4.8	50	240	200	40	17%
Truffle Pate 500g	11	15	165	110	55	33%
<b>ham</b>						
Salame Piccante peppe	11.2	25	280	220	60	21%
Spianata piccante dop	16.9	10	169	150	19	11%
Prosciutti san Daniele 2	18	6	108	100	8	7%
Salame Toscano di mon	14	35	490	350	140	29%
Salame Finocchiona	14	35	490	320	170	35%
Nduja Black pork dop	18	15	270	200	70	26%
Prosciutti cotto big fum	14	2	28	30	-2	-7%
<b>fish</b>						
Tuna yellow fin big piec	36	15	540	300	240	44%
<b>Total</b>		<b>2199</b>	<b>15470</b>	<b>14140</b>	<b>1330</b>	<b>9%</b>

Table 3. Sales budget in second quarter

Sales budget 2021		q2				
product	unit price	unit sold	budgeted sales	actual sales	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	12.5	460	5750	3000	2750	48%
parmigiano reggiano 1/8 18-24mon	18.5	30	555	285	270	49%
pecorino re nero	18	10	180	111	69	38%
gorgonzola dop	14.5	5	72.5	47	25.5	35%
ricotta di agerola	12	3	36	30	6	17%
<b>veggies</b>						
Olive oil 5L	5	220	1100	1000	100	9%
Olive oil novello	30	8	240	200	40	17%
Artichokes grilled 780g	11.5	8	92	46	46	50%
Cherry tomato semidry yellow	11	5	55	32	23	42%
Tomato sauce Palo 100% italian	3.5	50	175	134	41	23%
Olives taggische no seed under olive	16	10	160	120	40	25%
Signetti flour	1.8	700	1260	1100	160	13%
Spolvero x pizza Croccantina di riso	4.8	40	192	124	68	35%
Truffle Pate 500g	11	15	165	135	30	18%
<b>ham</b>						
Salame Piccante pepperoni	11.2	20	224	200	24	11%
Spianata piccante dop	16.9	10	169	150	19	11%
Prosciutti san Daniele 24months	18	6	108	98	10	9%
Salame Toscano di montalcino igp	14	30	420	220	200	48%
Salame Finocchiona	14	30	420	250	170	40%
Nduja Black pork dop	18	15	270	235	35	13%
Prosciutti cotto big fume ferrarini	14	2	28	28	0	0%
<b>fish</b>						
Tuna yellow fin big pieces 1730g	36	12	432	280	152	35%
<b>Total</b>		<b>1689</b>	<b>12103.5</b>	<b>7825</b>	<b>4278.5</b>	<b>35%</b>

Table 4. Sales budget third quarter

Sales budget 2021		q3				
product	unit price	unit sold	budgeted sales	actual sales	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	12.5	700	8750	8700	-50	-1%
parmigiano reggiano 1/8 18-24mon	18.5	50	925	900	-25	-3%
pecorino re nero	18	15	270	280	10	4%
gorgonzola dop	14.5	8	116	132	16	14%
ricotta di agerola	12	5	60	55	-5	-8%
<b>veggies</b>						
Olive oil 5L	5	300	1500	1650	150	10%
Olive oil novello	30	12	360	330	-30	-8%
Artichokes grilled 780g	11.5	13	149.5	165	15.5	10%
Cherry tomato semidry yellow	11	7	77	85	8	10%
Tomato sauce Palo 100% italian	3.5	70	245	270	25	10%
Olives taggische no seed under olive	16	13	208	210	2	1%
Signetti flour	1.8	1200	2160	2100	-60	-3%
Spolvero x pizza Croccantina di riso	4.8	70	336	320	-16	-5%
Truffle Pate 500g	11	17	187	156	-31	-17%
<b>ham</b>						
Salame Piccante pepperoni	11.2	30	336	370	34	10%
Spianata piccante dop	16.9	12	202.8	230	27.2	13%
Prosciutti san Daniele 24months	18	8	144	150	6	4%
Salame Toscano di montalcino igp	14	45	630	720	90	14%
Salame Finocchiona	14	40	560	520	-40	-7%
Nduja Black pork dop	18	20	360	330	-30	-8%
Prosciutti cotto big fume ferrarini	14	5	70	75	5	7%
<b>fish</b>						
Tuna yellow fin big pieces 1730g	36	25	900	850	-50	-6%
<b>Total</b>		<b>2665</b>	<b>18546.3</b>	<b>18598</b>	<b>51.7</b>	<b>0%</b>



Table 5. Sales budget fourth quarter

Sales budget 2021		q4				
product	unit price	unit sold	budgeted sales	actual sales	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	12.5	720	9000			
parmigiano reggiano 1/8 18-24mon	18.5	45	832.5			
pecorino re nero	18	25	450			
gorgonzola dop	14.5	10	145			
ricotta di agerola	12	7	84			
<b>veggies</b>						
Olive oil 5L	5	350	1750			
Olive oil novello	30	40	1200			
Artichokes grilled 780g	11.5	18	207			
Cherry tomato semidry yellow	11	12	132			
Tomato sauce Palo 100% italian	3.5	110	385			
Olives taggische no seed under olive	16	21	336			
Signetti flour	1.8	1150	2070			
Spolvero x pizza Croccantina di riso	4.8	110	528			
Truffle Pate 500g	11	25	275			
<b>ham</b>						
Salame Piccante pepperoni	11.2	35	392			
Spianata piccante dop	16.9	15	253.5			
Prosciutti san Daniele 24months	18	13	234			
Salame Toscano di montalcino igp	14	65	910			
Salame Finocchiona	14	60	840			
Nduja Black pork dop	18	35	630			
Prosciutti cotto big fume ferrarini	14	30	420			
<b>fish</b>						
Tuna yellow fin big pieces 1730g	36	25	900			
<b>Total</b>		<b>2921</b>	<b>21974</b>			

### 6.3 Appendix 3 – Expense budget, total and by quarter

Table 6. Total operating expense budget

Total expense budget 2021	q1	q2	q3	q4	TOT
COGS					
budgeted	10829	8472.45	12982.4	15381.8	47665.7
actual	9898	5477.5	13018.6		28394.1
variance	931	2994.95	-36.19		19271.6
variance %	8.60%	35.35%	-0.28%		40.43%
Operating expense					
budgeted	2400	2400	2400	2400	9600
actual	3500	3050	3950		10500
variance	-1100	-650	-1550		-900
variance %	-45.83%	-27.08%	-64.58%		-9.38%
Grand Total					
budgeted	13229	10872.5	15382.4	17781.8	57265.7
actual	13398	8527.5	16968.6		38894.1
variance	-169	2344.95	-1586.19		18371.6
variance %	-1.28%	21.57%	-10.31%		32.08%

Table 7. Operating expense budget first quarter

Expense budget 2021		q1				
product	unite price	unit expense	budgeted expense	actual expense	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	8.75	640	5600	5320	280	5.00%
parmigiano reggiano 1/8 18-24mon	12.95	35	453.25	441	12.25	2.70%
pecorino re nero	12.6	13	163.8	157.5	6.3	3.85%
gorgonzola dop	10.15	5	50.75	45.5	5.25	10.34%
ricotta di agerola	8.4	3	25.2	21	4.2	16.67%
<b>veggies</b>						
Olive oil 5L	3.5	240	840	770	70	8.33%
Olive oil novello	21	10	210	175	35	16.67%
Artichokes grilled 780g	8.05	10	80.5	70	10.5	13.04%
Cherry tomato semidry yellow	7.7	5	38.5	35	3.5	9.09%
Tomato sauce Palo 100% italian	2.45	20	49	42	7	14.29%
Olives taggische no seed under olive	11.2	10	112	105	7	6.25%
Signetti flour	1.26	1000	1260	1330	-70	-5.56%
Spolvero x pizza Croccantina di riso i	3.36	50	168	140	28	16.67%
Truffle Pate 500g	7.7	15	115.5	77	38.5	33.33%
<b>ham</b>						
Salame Piccante pepperoni	7.84	25	196	154	42	21.43%
Spianata piccante dop	11.83	10	118.3	105	13.3	11.24%
Prosciutti san Daniele 24months	12.6	6	75.6	70	5.6	7.41%
Salame Toscano di montalcino igp	9.8	35	343	245	98	28.57%
Salame Finocchiona	9.8	35	343	224	119	34.69%
Nduja Black pork dop	12.6	15	189	140	49	25.93%
Prosciutti cotto big fume ferrarini	9.8	2	19.6	21	-1.4	-7.14%
<b>fish</b>						
Tuna yellow fin big pieces 1730g	25.2	15	378	210	168	44.44%
<b>Total COGS</b>		<b>2199</b>	<b>10829</b>	<b>9898</b>	<b>931</b>	<b>8.60%</b>
<b>Operating expenses</b>						
warehouse	200	3	600	700	-100	-16.67%
salary	500	3	1500	2500	-1000	-66.67%
phone bills	100	3	300	300	0	0.00%
<b>Total operating expense</b>		<b>9</b>	<b>2400</b>	<b>3500</b>	<b>-1100</b>	<b>-45.83%</b>
<b>Grand Total</b>		<b>2208</b>	<b>13229</b>	<b>15437</b>	<b>-2208</b>	<b>-16.69%</b>

Table 8. Operating expense budget second quarter

Expense budget 2021		q2				
product	unit price	unit expense	budgeted expense	actual expense	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	8.75	460	4025	2100	1925	47.83%
parmigiano reggiano 1/8 18-24mon	12.95	30	388.5	199.5	189	48.65%
pecorino re nero	12.6	10	126	77.7	48.3	38.33%
gorgonzola dop	10.15	5	50.75	32.9	17.85	35.17%
ricotta di agerola	8.4	3	25.2	21	4.2	16.67%
<b>veggies</b>						
Olive oil 5L	3.5	220	770	700	70	9.09%
Olive oil novello	21	8	168	140	28	16.67%
Artichokes grilled 780g	8.05	8	64.4	32.2	32.2	50.00%
Cherry tomato semidry yellow	7.7	5	38.5	22.4	16.1	41.82%
Tomato sauce Palo 100% italian	2.45	50	122.5	93.8	28.7	23.43%
Olives taggische no seed under olive	11.2	10	112	84	28	25.00%
Signetti flour	1.26	700	882	770	112	12.70%
Spolvero x pizza Croccantina di riso i	3.36	40	134.4	86.8	47.6	35.42%
Truffle Pate 500g	7.7	15	115.5	94.5	21	18.18%
<b>ham</b>						
Salame Piccante pepperoni	7.84	20	156.8	140	16.8	10.71%
Spianata piccante dop	11.83	10	118.3	105	13.3	11.24%
Prosciutti san Daniele 24months	12.6	6	75.6	68.6	7	9.26%
Salame Toscano di montalcino igp	9.8	30	294	154	140	47.62%
Salame Finocchiona	9.8	30	294	175	119	40.48%
Nduja Black pork dop	12.6	15	189	164.5	24.5	12.96%
Prosciutti cotto big fume ferrarini	9.8	2	19.6	15	4.6	23.47%
<b>fish</b>						
Tuna yellow fin big pieces 1730g	25.2	12	302.4	196	106.4	35.19%
<b>Total COGS</b>		<b>1689</b>	<b>8472.45</b>	<b>5477.5</b>	<b>2994.95</b>	<b>35.35%</b>
<b>Operating expenses</b>						
warehouse	200	3	600	450	150	25.00%
salary	500	3	1500	2300	-800	-53.33%
phone bills	100	3	300	300	0	0.00%
<b>Total operating expense</b>		<b>9</b>	<b>2400</b>	<b>3050</b>	<b>-650</b>	<b>-27.08%</b>
<b>Grand Total</b>		<b>1698</b>	<b>10872.5</b>	<b>8527.5</b>	<b>2344.95</b>	<b>21.57%</b>

Table 9. Operating expense budget third quarter

Expense budget 2021		q3				
product	unite price	unit expense	budgeted expense	actual expense	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	8.75	700	6125	6090	35	0.57%
parmigiano reggiano 1/8 18-24mon	12.95	50	647.5	630	17.5	2.70%
pecorino re nero	12.6	15	189	196	-7	-3.70%
gorgonzola dop	10.15	8	81.2	92.4	-11.2	-13.79%
ricotta di agerola	8.4	5	42	38.5	3.5	8.33%
<b>veggies</b>						
Olive oil 5L	3.5	300	1050	1155	-105	-10.00%
Olive oil novello	21	12	252	231	21	8.33%
Artichokes grilled 780g	8.05	13	104.65	115.5	-10.85	-10.37%
Cherry tomato semidry yellow	7.7	7	53.9	59.5	-5.6	-10.39%
Tomato sauce Palo 100% italian	2.45	70	171.5	189	-17.5	-10.20%
Olives taggische no seed under olive	11.2	13	145.6	147	-1.4	-0.96%
Signetti flour	1.26	1200	1512	1470	42	2.78%
Spolvero x pizza Croccantina di riso	3.36	70	235.2	224	11.2	4.76%
Truffle Pate 500g	7.7	17	130.9	109.2	21.7	16.58%
<b>ham</b>						
Salame Piccante pepperoni	7.84	30	235.2	259	-23.8	-10.12%
Spianata piccante dop	11.83	12	141.96	161	-19.04	-13.41%
Prosciutti san Daniele 24months	12.6	8	100.8	105	-4.2	-4.17%
Salame Toscano di montalcino igp	9.8	45	441	504	-63	-14.29%
Salame Finocchiona	9.8	40	392	364	28	7.14%
Nduja Black pork dop	12.6	20	252	231	21	8.33%
Prosciutti cotto big fume ferrarini	9.8	5	49	52.5	-3.5	-7.14%
<b>fish</b>						
Tuna yellow fin big pieces 1730g	25.2	25	630	595	35	5.56%
<b>Total COGS</b>		2665	12982.4	13018.6	-36.19	-0.28%
<b>Operating expenses</b>						
warehouse	200	3	600	850	-250	-41.67%
salary	500	3	1500	2800	-1300	-86.67%
phone bills	100	3	300	300	0	0.00%
<b>Total operating expense</b>		9	2400	3950	-1550	-64.58%
<b>Grand Total</b>		2674	15382.4	16968.6	-1586.19	-10.31%

Table 10. Operating expense budget fourth quarter

Expense budget 2021		q4				
product	unite price	unit expense	budgeted expense	actual expense	variance €	variance %
<b>cheese</b>						
mozzarella di agerola	8.75	720	6300			
parmigiano reggiano 1/8 18-24mon	12.95	45	582.75			
pecorino re nero	12.6	25	315			
gorgonzola dop	10.15	10	101.5			
ricotta di agerola	8.4	7	58.8			
<b>veggies</b>						
Olive oil 5L	3.5	350	1225			
Olive oil novello	21	40	840			
Artichokes grilled 780g	8.05	18	144.9			
Cherry tomato semidry yellow	7.7	12	92.4			
Tomato sauce Palo 100% italian	2.45	110	269.5			
Olives taggische no seed under olive	11.2	21	235.2			
Signetti flour	1.26	1150	1449			
Spolvero x pizza Croccantina di riso i	3.36	110	369.6			
Truffle Pate 500g	7.7	25	192.5			
<b>ham</b>						
Salame Piccante pepperoni	7.84	35	274.4			
Spianata piccante dop	11.83	15	177.45			
Prosciutti san Daniele 24months	12.6	13	163.8			
Salame Toscano di montalcino igp	9.8	65	637			
Salame Finocchiona	9.8	60	588			
Nduja Black pork dop	12.6	35	441			
Prosciutti cotto big fume ferrarini	9.8	30	294			
<b>fish</b>			0			
Tuna yellow fin big pieces 1730g	25.2	25	630			
<b>Total COGS</b>		2921	15381.8			
<b>Operating expenses</b>						
warehouse	3	3	600			
salary	3	3	1500			
phone bills	3	3	300			
<b>Total operating expense</b>	1	9	2400			
<b>Grand Total</b>		2930	17781.8			

#### 6.4 Appendix 4 – Income statement budget, total and by quarter

Table 11. Income statement budget in total

Income statement 2021	Financial year 2021			
	actual	budgeted	variance	variance %
Sales revenue	40563	68093.8	27530.8	40.43%
direct material	28394.15	47665.66	19271.51	40.43%
contribution margin	12168.85	35000	22831.15	65.23%
contribution margin %	30%	51%		
less: operating expenses				
labour costs	4850	6000	1150	19.17%
overhead	4250	3600	-650	-18.06%
operating income	3068.85	25400	22331.15	87.92%
tax expenses	2028.15	3404.69	1376.54	40.43%
net income	1040.7	5000	3959.3	79.19%
net income %	2.57%	7.34%		

Table 12. Income statement budget first quarter

q1				
Income statement 2021	actual	budgeted	variance	variance %
Sales revenue	14140	15470	1330	8.60%
direct material	9898	10829	931	8.60%
contribution margin	4242	4641	399	8.60%
contribution margin %	30%	30%		
less: operating expenses				
labour costs	2500	1500	-1000	-66.67%
overhead	700	900	200	22.22%
operating income	1042	2241	1199	53.50%
tax expenses	707	773.5	66.5	8.60%
net income	335	1467.5	1132.5	77.17%
net income %	2.37%	9.49%		



Table 13. Income statement budget second quarter

q2				
Income statement 2021	actual	budgeted	variance	variance %
Sales revenue	7825	12103.5	4278.5	35.35%
direct material	5477.55	8472.45	2994.9	35.35%
contribution margin	2347.45	3631.05	1283.6	35.35%
contribution margin %	30%	30%		
less: operating expenses				
labour costs	1500	1500	0	0.00%
overhead	750	900	150	16.67%
operating income	97.45	1231.05	1133.6	92.08%
tax expenses	391.25	605.175	213.925	35.35%
net income	-293.8	625.875	919.675	146.94%
net income %	-3.75%	5.17%		

Table 14. Income statement budget third quarter

q3				
Income statement 2021	actual	budgeted	variance	variance %
Sales revenue	18598	18546.3	-51.7	-0.28%
direct material	13018.6	12982.41	-36.19	-0.28%
contribution margin	5579.4	5563.89	-15.51	-0.28%
contribution margin %	30%	30%		
less: operating expenses				
labour costs	850	1500	650	43.33%
overhead	2800	900	-1900	-211.11%
operating income	1929.4	3163.89	1234.49	39.02%
tax expenses	929.9	927.315	-2.585	-0.28%
net income	999.5	2236.575	1237.075	55.31%
net income %	5.37%	12.06%		

Table 15. Income statement budget fourth quarter

q4				
Income statement 2021	actual	budgeted	variance	variance %
Sales revenue		21974		
direct material		15381.8		
contribution margin		6592.2		
contribution margin %		30%		
less: operating expenses				
labor costs		1500		
overhead		900		
operating income		4192.2		
tax expenses		1098.7		
net income		3093.5		
net income %		14.08%		

## 6.5 Appendix 5 – Cash budget

Table 16. Financial cash budget 2021

Cash budget 2021	q1		q2		q3		q4	
	budgeted	actual	budgeted	actual	budgeted	actual	budgeted	actual
opening cash balance	5000		7241	5742	8472.05	5039.5	11635.94	6668.9
account receivable	15470	14140	12103.5	7825	18546.3	18598	21974	
cash inflow	15470	14140	12103.5	7825	18546.3	18598	21974	
COGS	10829	9898	8472.45	5477.5	12982.41	13018.6	15381	
other expenses								
labour costs	1500	2500	1500	2300	1500	2800	1500	
overhead	900	1000	900	750	900	1150	900	
cash outflow	13229	13398	10872.45	8527.5	15382.41	16968.6	17781	
Net cash	7241	5742	8472.05	5039.5	11635.94	6668.9	15828.94	

## 6.6 Appendix 6 – Budgeting Variance

Table 17. Variances master budget 2021

Total Sales budget 2021	q1	q2	q3	q4	Tot
variance	1330	4278.5	-51.7		27530.8
variance %	8.60%	35.35%	-0.28%		40.43%
Total expense budget 2021	q1	q2	q3	q4	Tot
COGS					
variance	931	2994.95	-36.19		19271.56
variance %	8.60%	35.35%	-0.28%		40.43%
Operative expense					
variance	-1100	-650	-1550		-900
variance %	-45.83%	-27.08%	-64.58%		-9.38%
Grand Total					
variance	-169	2344.95	-1586.19		18371.56
variance %	-1.28%	21.57%	-10.31%		32.08%
Income statement budget 2021	q1	q2	q3	q4	Tot
revenue	14140	7825	18598		40563
variance	1330	4278.5	-51.7		27530.8
variance %	8.60%	35.35%	-0.28%		40.43%
net income	335	-293.8	999.5		1040.7
variance	1132.5	919.67	1237.08		3959.3
variance %	77.17%	146.94%	55.31%		79.19%
Cash budget 2021	q1	q2	q3	q4	
net cash	5742	5039.5	6668.9		
variance	1499	3432.55	4967.04		
variance %	20.70%	40.52%	42.69%		