

02

Budgeting

Warm up

Read the quote. How can a budget express a company's values? Discuss with a partner.

The budget is not just a collection of numbers, but an expression of our values and aspirations.

Jacob Lew, Former US Treasury secretary

LEARNING OBJECTIVES

Finance communication skills

Discussing a budget
Explaining budget changes
Discussing how to reduce spending

Reading

A blog post about fixed and flexible budgets
Emails about budget changes

Listening

A meeting to approve a budget
A meeting about reviewing budgets

Language

Budget terminology
Verbs to discuss budget reductions
Question tags

The right budget

1 Read the blog post and answer the questions.

- Which types of budget are discussed?
- Which one does the blog writer prefer? Why?

WHAT'S YOUR BUDGET?

Companies need to budget. It allows them to assess income and control expenditure, and improve spending decisions. The two common budget categories in finance are 'fixed' and 'flexible'. Although flexible budgets are much more complicated to draw up, they give a company greater control over cost forecasting and enable better decision-making.

A fixed, or static, budget is drafted at the beginning of the accounting period and income and cost projections remain constant, regardless of changes in output. A flexible budget, on the other hand, is adjusted as production changes to reflect the changing revenue and cost structure of the business.

Fixed budgets are relatively easy to produce and provide information on cost control, but this type of static budget only really works for companies whose costs and market conditions don't change very much. When production volume or market conditions fluctuate, a fixed budget very quickly becomes useless.

Flexible budgets are more effective at dealing with the fluctuating nature of the business cycle, and are probably more common. A flexible budget can be adjusted as volume or conditions change, and better reflects the costs and budgetary conditions facing the company.

2 Discuss the questions with a partner.

- Do you agree with the opinions in the text?
- For what situations is each budget suitable?
- What form of budget does your company use and why?

3 Find the verbs in the text in 1 to complete the expressions with the following meanings. Sometimes more than one verb is possible.

- manage costs: _____ expenditure
- write a budget: _____ / _____ / _____ a budget
- change a budget: _____ a budget
- show something has changed: _____ changes
- circumstances change: conditions _____
- allow people to decide: _____ decision-making

4 Complete the sentences with verbs from 3.

- Volume has _____ wildly this quarter.
- We need to _____ the new budget by next week.
- Clear budgets _____ us to make better decisions about spending.
- Can we _____ the costs to _____ increases in purchase price?
- Let's _____ a detailed budget to _____ expenditure.



Budget approval

1 **03** Solford Ltd is a small manufacturing company. The senior management team is meeting to agree the budget. Listen and decide if the statements are true (T) or false (F).

- a Some people are worried about being too exposed to risk. T / F
- b They agree to cut the marketing budget. T / F
- c They decide to change the maintenance supplier to save money. T / F
- d They decide not to make changes to the budget for now. T / F

2 **03** Listen again and complete the sentences.

- a It _____ quite aggressive.
- b Yes, I guess you're _____, but I'm still worried about the total spend.
- c Is there _____ else we can save money?
- d Can we do _____ to reduce these costs?
- e I'm not sure _____ save any money if we cancelled it.
- f I _____ the budget reflects the sales forecast.
- g I understand what you _____, but I don't want us to overexpose ourselves.
- h That's a good _____, but we can keep track of spending and always amend the budget later.

3 Match the sentences in 2 to the reasons you use them.

- 1 to give opinions
- 2 to politely disagree
- 3 to ask for suggestions

4 Complete the conversation. Use the expressions in 2 to help you.

- A Can we do ^(a) _____ to save money?
- B I ^(b) _____ we can cut production costs.
- A I ^(c) _____ what you mean, but that's a bit risky.
- B Is there ^(d) _____ else we can cut costs? What about using a different logistics company?
- A I'm not ^(e) _____ we could reduce delivery costs if we did that.

Over to you

Work in groups of three. Read the company information and look at the budget.

House Care is a home repair company specializing in plumbing and electrical repairs. The company plans to provide all its technicians with tablets connected to the company database so that they can manage jobs and customer payments electronically.

House Care believes that it needs the best trained technicians in order to remain the market leader so has decided to offer all technical staff advanced training.

The company currently buys advertising space on city-centre taxis and wants to continue with this.

Annual Budget

This year	
Salaries.....	€250,000
Marketing & Promotion.....	€20,000
Operating Expenses.....	€86,000
Training.....	€29,000
IT Investment.....	€30,000
Total.....	€415,000

Student A: Turn to page 46.

Student B: Turn to page 50.

Student C: Turn to page 49.





Cutting the budget

1 Discuss the questions with a partner.

- a** Does your company often have to change the budget? Why / Why not?
- b** Which departments do you think are most commonly affected by budget cuts and why?

2 Melissa is the finance director of Good Buy, an electronics retailer. She has just completed the forecast for next quarter. Read the email to the heads of the other departments and answer the questions.

To: Simon Fisher, Anton Daubney, Anya Berger
Subject: Budget review

Hi everyone,

We've just updated the forecasts and, due to wider market volatility, we've decided to tighten the budget. Therefore, I'd like each department to review their budget and find savings of 10%.

This will allow us to bring down spending across the company.

I hope that this action will enable us to operate successfully even if we do experience a downturn in our core business.

Could everyone please go over their budget and let me have the updated proposal by next Monday?

If you have any questions, please let me know.

Best regards,
Melissa Foster
Finance Director

- a** What do the department heads have to do?
- b** What issues is the company experiencing?
- c** What is the aim of this action?

3 Find words and phrases in the email in 2 with a similar meaning to the following.

- | | |
|---------------------------------------|--------------------------|
| a amended _____ | e cut costs _____ |
| b fluctuations _____ | f central _____ |
| c reduce available money _____ | g review _____ |
| d save money _____ | |

4 Complete the email with the correct form of words and phrases in 2 and 3.

To: Melissa
Subject: Sales budget

Hi Melissa,

I've ^(a) _____ over the sales budget and have found ^(b) _____ of 4% but I can't ^(c) _____ spending any lower than that. If I ^(d) _____ costs any more, it will begin to damage our ^(e) _____ activities.

I understand we need to ^(f) _____ the company budget but any savings should allow us to continue operating activities that are essential to our revenue.

Could we arrange a meeting to discuss how seriously we need to cut our budgets now?

Best regards,
Simon

5 Talk to a partner about how you would respond to Simon's email and then write a reply to him.



6 **04 Listen to a meeting between Melissa, the finance director, and the heads of other departments. Choose the best summary for the meeting.**

- a** The department heads all agree that it's not necessary to cut the budget.
- b** Melissa convinces the other department heads to review their budgets again to protect jobs at the company.
- c** There is a big argument and no agreement.

7 **04 Listen again and discuss the questions with a partner.**

- a** How well do you think Melissa manages the meeting?
- b** Is there anything she could have done better in this situation?
- c** How does she manage to persuade the other department heads to review their budgets again?

8 **05 Listen and complete the extracts from the meeting.**

- a** I _____ how you feel, Simon, but _____ it's necessary.
- b** We're in an _____ business environment and we _____ what will happen.
- c** Well, the market is _____ at the moment and ...
- d** ... we _____ consider staff reductions, but _____ avoid that.
- e** I know it's _____ but this action now could _____ jobs later.

9 Match each extract with the reason Melissa uses it.

- 1** To show empathy
- 2** To give wider reasons for the decision
- 3** To talk about future possibilities

10 Melissa uses several questions tags in the meeting. Read the examples (a-c) and choose the correct option (1 or 2) in the rules below.

- a** Keeping money back is better than having to find savings later, isn't it?
- b** We definitely don't want to start cutting people, do we?
- c** So, we can all go over our budgets again and find those little extra savings, can't we?

- 1** When the sentence is positive, the tag should be *positive* / *negative* and vice versa.
- 2** Using question tags makes you sound *more* / *less* persuasive.

11 **06 Listen to the sentences in 10 and decide if Melissa's intonation rises or falls at the end.**

12 Add a tag question to these statements.

- a** It's a good idea, _____
- b** We need to cut the budget, _____
- c** We can't do it, _____
- d** You agree with me, _____
- e** It'll improve the business, _____

Over to you

Roleplay the scenario at the back of the book.

Student A: Turn to page 47.

Student B: Turn to page 48.



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Before you watch

1 Identify the business drivers (the things that make your company grow) in your company by answering the following questions. Then discuss your ideas with a partner.

- What drives your sales figures?
- What drives costs?
- What drives your cash flow?
- What's the quality of your workforce?
- What's your growth potential?

2 How important are business drivers when thinking about budgets?

While you watch



1 Watch the section on *Forecasting and budgeting* and answer the questions.

- a What things does Andy say you should focus on when making a forecast? Why?
- b What does Sumeer say is the most important thing to focus on? Why?



2 Watch the section on *The importance of cash flow*. Do the following sentences summarize Alex's opinions (A) or Sumeer's opinions (S)?

- a Cash flow is important, but there are other factors you also need to think about.
- b Cash is the most important consideration.
- c It is always possible to borrow some money on a short-term basis.
- d When a business is growing, it needs to be careful that it doesn't grow too fast.
- e Making good profits doesn't necessarily mean that you have a healthy cash flow.
- f Your business won't survive if you can't pay your staff.



3 Watch the section on *The budget process* and complete the summary.

A key part of budgeting is ... to be ^(a) _____ of your ^(b) _____ at the end of the ^(c) _____.

A lot of people don't ^(d) _____ that they have ^(e) _____ at the end of the year.



4 Watch the section on *Making cuts* and decide if the statements are true (T) or false (F). Correct the false ones.

- a Alex believes it's easiest to cut staff. T / F
- b Alex thinks you can always find alternative suppliers. T / F
- c Sumeer advises cutting spending that is not necessary. T / F
- d Sumeer thinks cutting spending never affects revenue. T / F



5 Watch Alex talking about a budget that wasn't achievable. Answer the questions.

- a What did Alex realize about his initial business plan as he got more experience?
- b What did he learn from the experience? Why can it be good not to reach your targets?

Finance speak

Complete the sentences with the words in the box.

damage discretionary lending lump manage overtrading

- a We have to pay a _____ sum figure of £40,000 in tax.
- b Large payments quickly _____ your cash flow.
- c You always have access to short-term _____, like bank loans.
- d A key risk for new business is _____, where they take on too much work.
- e The easiest thing to cut is _____ spending – money you don't need to spend.
- f When setting targets, try to _____ your expectations and be realistic.

After you watch

Discuss the questions with a partner.

- a Do you believe that cash is king? Why / Why not?
- b How do you stay mindful of your cash flow?

01 Forecasting

1 Complete the sentences with the words in the box.

cost of goods sold fluctuations gross income
margin operating profit revenue

- To find your profit _____, divide profit by _____.
- To find your gross profit, subtract your _____ from your _____.
- Subtract your _____ expenses from _____ profit to find your operating _____.
- Year on year, there will be _____ in your profits.

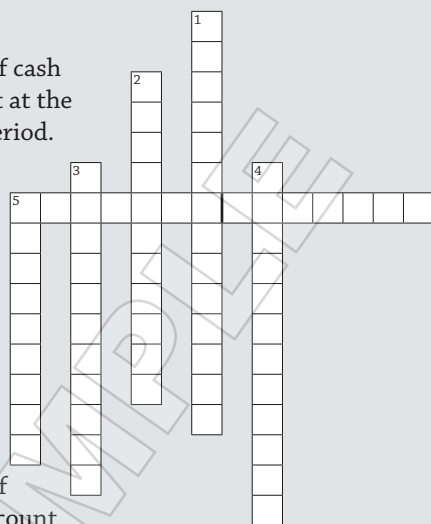
2 Underline the correct options in the sentences.

- We *anticipate* / *plan* to higher costs in the future.
- We *intend* to / *predict* our sales to increase by 10%.
- We *intend* to / *anticipate* limit the effect of job losses by offering retraining.
- We've been *experiencing* / *intending* cost rises across the business.
- We *plan to* / *forecast* introduce budget controls across all departments.

3 Use the definitions to complete the crossword.

Across

- 5 The amount of cash in the account at the start of the period.



Down

- The amount of cash in the account at the end of the period.
- The money coming into the company.
- The difference between money coming into and leaving the company.
- The money leaving the company.
- The costs of running the business.

4 Put the words in brackets in the correct place.

- It seems that the shortfall won't be big. (probably)
- We need to increase cash receipts. (definitely)
- We will have a problem with operating cash flow. (maybe)
- Our cash disbursements are too high. (certainly)
- The opening balance is wrong. (possibly)

02 Budgeting

1 Complete the sentences with the words in the box.

adjust drafting enables control reflect

- We haven't finished _____ the budget for this quarter.
- The budget isn't fixed; we _____ it as conditions change.
- A flexible budget allows you to _____ business changes in your budget.
- A good budget allows you to _____ expenditure.
- Good budgeting _____ good decision-making.

2 Use the prompts to write complete sentences.

- seems / good idea
It seems like a good idea.
- can we / anything / reduce costs?

- I / not sure it / save money

- they / think / budget / reflect / sales forecast

- that / good point / but / can change it later

3 Correct the mistakes in the sentences.

- We need to tight the budget.
- How can we down costs?
- We need to focus on our business core.
- There's a lot of market volatile at the moment.
- The savings will able greater investment.

4 Rewrite the sentences using question tags.

- I know it's a good idea.
It's a good idea, isn't it?
- I'm sure you agree with me.
- We can save a lot of money.
- Do you think it will work?
- You're very confident about the sales forecast.
- I'm sure we can do it next week.

Finance skills checklist

- I can make a financial forecast.
- I can discuss projected revenue and cash flow.
- I can discuss budget issues.
- I can talk about possible budget cuts.
- I can talk about possible future results.