

The financial forecasting of riordan manufacturing

[Business](#), [Industries](#)



Managerial finance focuses on theories and procedures in a firm's management that will benefit its owner. There are many economic issues like the general change in economic condition that has increased the complexities and role of managerial finance function. This paper focuses on Riordan Manufacturing, Inc. A Strategic plan is a long-term plan that envisions the firm's future plans for the next five to ten years. Economic forecast on the other hand is based on the recent records of a firm- its sales trends and economic prospects report. An operating budget is required in order to run a project.

Cash Budget shows a cash flow of the firm for a certain period. Other terms are further discussed in the paper. Strategic planning plays as an important role in the maximization of shareholder's wealth. Factors like risk and timing are carefully considered and associated for the expected earnings per share in the next five to ten years. (Brigham, 1992, p. 14, 340) Strategic planning can help maximize the shareholder's benefit or his wealth in such a way that it can be planned how the available resources will be efficiently used in the future years.

In making assumptions for cash budgets, cash discounts should be reflected; the portion of total sales transacted on a cash discount basis should be indicated. Bad debts are also ignored, but by reducing accounts receivable collections, they can be worked in the forecast. Depreciation schedules, which reflect actual depreciation charges for existing and expected facilities, are worked up separately. Finally, the computation of tax figures is connected with the profit plan. (Gitman, Joehnk & Pinches, 1985, pp. 135-

136). For a better understanding, the elements of Master Budget are discussed below. Elements of Master Budget Sales Forecast

In order to make a possible estimate of the sales, sales forecasting is done. This includes the process of analyzing and organizing information. There are certain factors that can affect the sales forecast. Some external factors are: seasons, special events, weather, consumer earnings and change in population. Some internal factors are: price changes shortage and labor problems (Sales Forecasting, par. 1). Master Production Schedule Master production schedule operates at an amassed level and is cost driven. It attempts to meet its requirement at a least amount. This is developed for the purposes of production, inventory and the like.

“ It has as input a variety of data, e. g. forecast demand, production costs, inventory costs, etc and as output a production plan detailing amounts to be produced, staffing levels, etc for each of a number of time periods” (Master production Schedule, par. 3) Operating Expense Budget An operating expense budget allocates the production budget to different departments like human resources, advertising and marketing, manufacturing and so on. A large company basically needs a large Operating Expense Budget (Types of Budgets, par. 4). Cash Budget Cash budget serves as a basis for an operation.

It allows verification on what one would do to the cash an individual have. In order for a certain operation to be possible, a cash budget is needed. It also determines whether the cash is being used efficiently. For small businesses, cash budget is vital. It determines its status to the customers before it begins to have liquidity problems Capital Expenditure Budget It is a plan
<https://assignbuster.com/the-financial-forecasting-of-riordan-manufacturing/>

prepared for a specific project. The time p needed for this budget is determined by the project itself. “ Capital expenditures to be budgeted include replacement, acquisition, or construction of plants and major equipment” (Capital Expenditure Budget, par.

1). Budgets and financial forecast are useful in the administration of cash and marketable securities, it also helps identify the firm’s needs and resource requirements, and finally, in profit planning (Gitman, Joehnk, Pnches, p. 145). In the budgeting process for the most recent fiscal report, the annual sales were divided to monthly figures. The Economic forecast became useful in such a way that economical issues are addressed and considered in budgeting. It serves as a basis for the analysis of the whole fiscal budget. Considering the computation of payment for direct labor, we use the formula: Direct cost of goods sold * 0.

65 is used. In the 2005 fiscal budget, it can be seen that there are increase in the payment for direct labor for the month of October, November and December. By subtracting the payment for direct labor for the month of October 2004 from that of November 2004, we obtain the amount \$108, 994. 2, and by doing the same process, for the months of November and December, 2004 respectively, it will result to an amount of \$325, 926. We can say that this increase in labor cost is reflected by the increase in economy as stated in the economic forecast.

The issues affecting the finalization of the fiscal budget for 2005 are those concerning the real GDP growth, value of dollar, inflation, labor cost, and interest rates. Discussed above are the issues in a more detailed manner. Real GDP Growth When the real GDP decreases, there will also be a decrease
<https://assignbuster.com/the-financial-forecasting-of-riordan-manufacturing/>

in the estimation of the company's economic growth. Among the specific factor are the increase in oil price and the persistent trade deficit. Value of Dollar The said persistence in the in trade deficit will not only affect the estimation of economic growth, but also, it will cause an impact on the value of dollar.

The trade deficit is caused by the relatively strong economy of the United States and the weaker economies of most of the company's trading partners (Economic forecast, par. 6). Inflation The increase in oil prices and the decrease in the value of dollars are events that brings threats of an expected inflation. Although there is a decline in the rate of labor productivity, financial managers should secure the relatively good condition of productivity gains. Labor Cost If the economy continues to grow, it has a great impact on any firm. An event like this will require an increase on the wages.

Which pertains to the payment for Direct Labor Cost. In some cases, the company should adjust on situation like this. Financial managers should consider the number of laborers that they have. Interest Rates Interest rates are affected by low market labor, wage increase that will cause an expected suffering of aggregate demand, increase in domestic and foreign prices. Regarding this issue, financial managers should soon secure the expansion of operations, replacement of equipment, and other purposes (Economic Forecast, par. 9).

References

<https://assignbuster.com/the-financial-forecasting-of-riordan-manufacturing/>

Beasley, J. E. (n. d). Master production schedule. Retrieved March 15, 2008 from <http://people.brunel.ac.uk/~mastjjb/jeb/or/masprod.html>. Brigham, E. F. (1992). Fundamentals of financial management. USA: The Dryden Press. Canada Business. (September 5, 2007). Sales Forecast. Retrieved March 15, 2008 from http://www.canadabusiness.ca/servlet/ContentServer?pagename=OSBW/CBSC_WebPage/CBSC_WebPage_Temp&cid=1102940227898 Capital Expenditure Budget. (n. d.). Dictionary of Accounting Terms. Retrieved March 15, 2008, from Answers.com Gitman, L. J. , M. D. Joehnk, &G. E. Pinches. (1985). Managerial finance. New York: Harper and Row Publishers.