Increasing Company’s Financial Performance by Budgeting and Cost Management in The Selected Company

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Thesis Guidelines:

Introduction

Define the objectives and the application methods used in the Master thesis.

I. **Theoretical part**
   - **Gather theories and researches about budgeting, cost management and financial performance measurement.**

II. **Practical part**
   - **Characterize the Selected company.**
   - **Analyse the company's financial performance, budgeting and cost management in the Selected company.**
   - **Propose project of improving financial performance of the selected company with using budgeting and cost management.**

Conclusion

Thesis Extent: **cca 70 stran**

Appendices:

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ABSTRAKT

Tato diplomová práce je zaměřena na rozpočtování, řízení nákladů a finanční výkonnost akciové společnosti Viet Tinh Anh působící v dětském hračkářském průmyslu ve Vietnamu. Teoretická část práce obsahuje informace týkající se nákladového účetnictví, rozpočtového procesu a kontroly, finanční výkonnosti. V analytické části je analyzována struktura nákladů, proces rozpočtování a finanční výkonnost společnosti. Studie na základě analytických výsledků poskytuje doporučení, která doplňují proces rozpočtování, který pomáhá zlepšit finanční situaci a pomáhá společnosti pracovat efektivněji.

Klíčová slova: nákladové účetnictví, řízení nákladů, rozpočtování, finanční analýza, finanční výkonnost.

ABSTRACT

This Master's thesis is focused on budgeting, cost management and financial performance of the Viet Tinh Anh Joint Stock Company working in the children toys industry in Vietnam. The theoretical part of the thesis contains information relating to cost management, the budgeting process and financial performance. In the analytical part, the cost structure, the budgeting process and financial performance of the company are analyzed. Based on the analytical results, the study provides recommendations and completes the budgeting process that helps improve the financial situation and help the company operate more efficiently.

Keywords: cost accounting, cost management, budgeting, financial analysis, financial performance.

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I hereby declare that the print version of my Bachelor's/Master's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

CONTENTS

INTRODUCTION

In the current economy, many businesses are facing both internal and external challenges. In the process of trade integration and liberalization, the external challenges are changing in policies from the government, high competition from competitors, rapid changes in tastes of consumer. Internal challenges may include factors such as low-tech enterprises, weak management leading to business inefficiencies. So managers' concerns are to create a sustainable competitive advantage for their companies. It requires businesses to constantly innovate and improve the level of business management to increase their competitive position in the market.

There are many methods that a company can use to improve its financial performance. This thesis will mention the budgeting process. Budgeting plays an important role in fulfilling the objectives of the company in the short-term as well as the company’s strategies in the long-term. However, to have a budgets system which accurately and effectively and reflecting the actual potential of enterprises is a difficult task. In present, some enterprises have budgets system but often do not attach to the objectives, the estimated figures are often inappropriate so it does not promote its role in controlling and evaluating business performance.

The thesis is divided into theoretical and practical parts. The theoretical part of the thesis contains information relating to cost accounting, the budgeting process and financial performance. In the analytical part, the cost structure, the budgeting process and the impact of budgeting to the financial performance of the Viet Tinh Anh Joint Stock Company are analyzed. Based on the analytical results, the study provides recommendations and completes the budgeting process that helps improve the financial performance and help the company operate more efficiently.

OBJECTIVES AND METHODS OF MASTER THESIS PROCESSING

The objective of this master thesis:

- Provide fully the information about cost management, budgeting process and measurement the financial performance of business.
- Analyze cost structures, the current budgeting process and the impact of budgeting to the financial performance of Viet Tinh Anh Joint Stock Company. Find out the limitations of the current budgeting process that leading to inefficiencies in cost management and financial performance in the company.
- Proposals solutions to complete the budgeting process that helps the company improve the financial performance.

The author uses available resources, such as books, articles and information from official resources in order to complete literature review. The author collects secondary data from Viet Tinh Anh Joint Stock Company. Data are collected mainly from the detail budgets of the company in 2018, financial statements and accounting ledger from 2015 to 2018. Based on the company's secondary data and basic functions in spreadsheet processing programs such as Excel, detailed financial analysis will be calculated. The main research methods are synthesis, financial analysis with absolute values, financial ratios, decomposition, reasoning and mathematical methods.

I. THEORY

1 COSTS AND COST MANAGEMENT

1.1 Cost classification methods

1.1.1 Cost Objects

"A cost object is any activity for which a seperate measurement of costs is desired. In other words, if the users of accounting information want to know the cost of something, this something is called a cost object" (Drury Colin, 2012, p.23). Examples of cost objects include the cost of the product, the cost of providing a service, the cost of operating a department such as the sales department, and the customer can be considered a cost object. It is really anything that people want to measure usage costs.

1.1.2 Direct and Indirect Costs

Direct costs are those costs that can be specifically and exclusively identified with a specific cost object.

Direct materials are materials that become an integral part of the finished product and that cost can be conveniently traced to the finished product (Garrison et al., 2012). Direct materials include all materials that can be identified with a specific product. For example, if a company is a toy manufacturer, an example of raw material cost will be the plastic used for making toys.

Direct labor involves labor costs that can be easily (physically and conveniently) traced to or identified with a specific product (Garrison et al., 2012). Examples of direct labor costs include salaries of workers involved in assembling parts into finished products, wages of tailors in a garment manufacturing factory.

Indirect costs cannot be specified specifically and exclusively with a certain cost object. They include indirect labor, materials and other expenses (Drury Colin, 2012). For example, the materials that used for machine repair are used to repair many different machines classified as indirect materials. These materials cannot be identified with a particular product. Wages of supervisors, managers, administrative staffs, security guards are classified as indirect labor. Although the efforts of these workers are necessary, it cannot be identified with any one product. Both indirect materials and labor costs are used for the benefit of all products rather than for any specific product.

Distinguish between direct and indirect costs: sometimes, direct costs are considered indirect because there is no cost-effective way to track costs directly to cost objects. The difference between direct and indirect costs also depends on the cost object. A cost can be considered directly to a cost object but indirectly against another object (Drury Colin, 2012).

1.1.3 Period and Product Costs

For the purpose of measuring profits and inventory valuation, it is necessary to classify costs as either product costs or period costs (Drury Colin, 2012).

Product costs include all costs associated with purchasing or making a product. In the case of manufactured goods, these costs include direct materials, direct labor, and manufacturing overhead. Products costs "attach" to units of product as the goods are purchased or manufacture. They are still attached when the goods go into the inventory and waiting for sale (Garrison et al., 2012). Product costs are not necessarily considered expenses during the period in which they are incurred. Instead, they are considered to be costs in the period in which related products are sold.

Period costs are all the costs that are not the product cost. Period costs are not included as part of the cost of the goods to be purchased or manufactured. Instead, period costs are treated as expenses on the income statement in the period which they are incurred (Garrison et al., 2012). For this reason, no effort is taken to attach period costs to products for the purpose of inventory valuation. For example, all selling and administrative expenses are treated as period costs. They are advertising expenses, administrative staffs salaries, the office rental fees, sales commissions,…

In merchandising organization all purchasing costs are regarded as product costs and non-purchasing costs are regarded as period cost.

There are two reasons why non-purchasing costs are considered as period time and are not included in inventory valuation. Firstly, inventories are current assets that are expected to contribute to future revenues. The purchasing costs incurred in the purchase of goods and may be expected to generate future revenues to cover the cost of goods. However, there is no guarantee that non-purchasing costs will generate future revenues, they do not represent the added value for any particular product. Therefore, they are not included in the inventory valuation. Secondly, many non-purchasing costs do not arise when the goods are being stored. Therefore, it is not suitable to include non-purchasing costs in inventory valuation (Drury Colin, 2012).

1.1.4 Cost Behaviour in Relation to Volume of Activity

The term "variable", "fixed", "semi-variable", "semi-fixed" are used in the management accounting literature to describe how a cost reacts to the changes in activities. Variable costs vary in direct proportion to the volume of activity. That means, duplicate the level of activity will double the total variable cost (Drury Colin, 2012). For example, the purchasing costs of all goods that are sold in a merchandising company; direct raw materials, direct labor in manufacturing company.

Figure 1: Variable costs: (a) total; (b) unit (Source: Drury Colin, 2012, p.29).

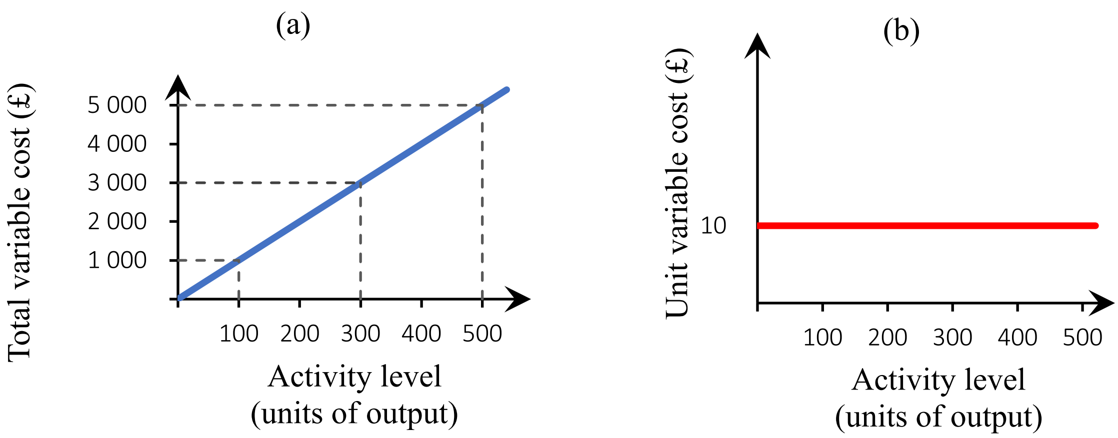
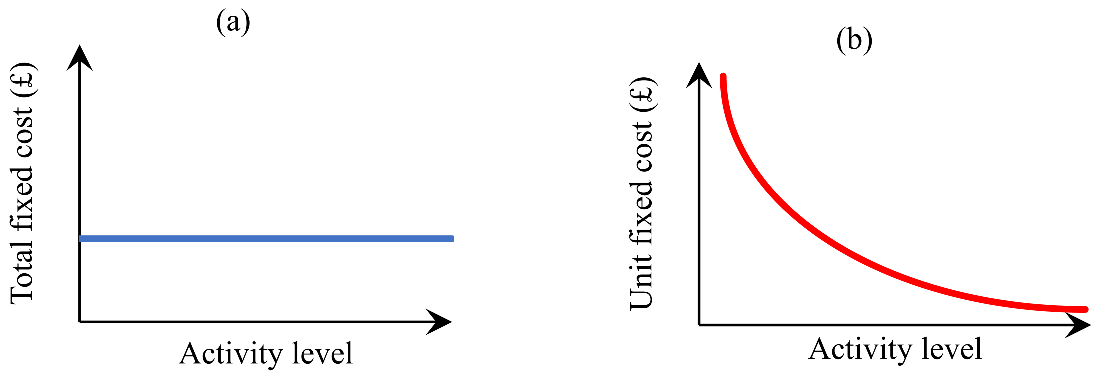


Figure 1 illustrates variable costs where the variable cost per unit of activity is 10£. The total variable costs are linear and unit variable costs are constant.

For a cost to be variable, it must be variable in relation to activity base. An activity base is a measure of anything that causes the incurrence of variable costs. An activity base is sometimes called as a cost driver. Some of the most popular activity bases are direct labor hours, machine hours, production units and selling units (Garrison et al., 2012). It is unlikely that variable costs per unit will be constant for all levels of activity. In some cases, the costs can increase in higher portion than the total quantity, on the contrary the costs increase in lower portion than the total quantity.

Fixed costs remain constant over wide ranges of activity within a specified time period. They are not affected by changes in activity (Drury Colin, 2012). For example of fixed costs such as depreciation of fixed assets, insurance, manager salaries, administrative salaries, office rental fees,…

Figure 2: Fixed costs: (a) total; (b) unit (Source: Drury Colin, 2012, p30).



You can see, the total fixed costs are constant for all levels of activity while the unit fixed costs decrease proportionally to the level of activity. Unlike variable costs, fixed costs are not affected by changes in activities. When the level of activity increases or decreases, the total fixed costs remain constant. But the total fixed costs only remain in a specified time period and a certain level of activity, beyond those conditions, the total fixed costs can be changed. For example, homeowner can increase the rental fees for the next year, the limitation of the machine capacity.

Spending in some fixed costs, such as supervisory salaries, can be adjusted in the short-term to reflect changes in activity. The costs that behave in this way are described as a semi-fixed costs or step-fixed costs. The feature of the step-fixed costs is that in a given time period they are fixed in the specified activity levels, but they can eventually increase or decrease step by step by a constant amount at various critical activity levels (Drury Colin, 2012).

For planning purposes, fixed costs can be considered as either committed or discretionary. Committed fixed costs committed represent the organization's investments with a multi-year planning horizon that can not be significantly reduced even in the short-term period without making fundamental changes. Even if activities are interrupted or cut back, the committed fixed costs remain unchanged for a short-time period because the costs of recovering them later may be much greater than any short-run savings. Discretionary fixed costs (often referred to as managed fixed costs) often arise from management's annual decisions to cover certain fixed cost items. Discretionary fixed costs can be cut in a short-time with minimal damage to the organization's long-term goals (Garrison et al., 2012).

In practice, there is sometimes very difficult to distinguish between variable and fixed costs. Most company cost units consists of variable and fixed part, this type of costs are called semi-variable costs (also known as mixed costs). A mixed cost contains both variable and fixed cost elements (Drury Colin, 2012).

1.1.5 Relevant and Irrelevant Costs and Revenues

Costs and revenues can be classified according to whether they are relevant to a specific decision. The relevant costs and revenues are those costs and revenues will be changed by a decision in the future, while irrelevant costs and revenues are those costs that will not be affected by that decision (Drury Colin, 2012).

1.1.6 Avoidable and Unavoidable Costs

Sometimes the terms avoidable and unavoidable costs are used instead of relevant and irrelevant costs. Avoidable costs are those costs that can be saved by not adopting a certain alternative, while the unavoidable cost cannot be saved. Therefore, only avoidable costs are suitable for the purpose of decision making (Drury Colin, 2012).

1.1.7 Sunk Costs

These costs are the cost of resources already in which the total will not be affected by the choice between different alternatives. A sunk cost has been incurred in a past transaction and cannot be changed by any decision that will be made in the future. They are not relevant for making current decisions (Edmonds et al., 2006).

1.2 Strategic Cost Management

1.2.1 Target Costing

Target costing involves setting a target cost for a product, which is determined a target selling price and a required profit margin. The target cost is the target sales price minus the required profit (F5 ACCA Paper, 2016).

In the high competitive market, the selling price must be competitive. In order to sell at competitive prices and earn a required profit, the cost of production and sales must be kept at the level that will provide the required profit at the selected selling price.

Target costing involves in designing a product and its manufacturing process in order to be able to produce and sell it at the cost that bring to the company a required profit at the chosen price. It focuses on reducing the expected cost of the product down to the target cost amount. To achieve the target cost will usually require some redesigning of the product and remove unnecessary costs. Target costing is most effective at the product design stage and less effective for products that have been set up. At the design stage, it is easier and cheaper to make changes that reduce costs.

Target cost does not represent the traditional cost method. In the traditional cost method, material costs, labour costs and overhead costs are calculated and the desired profit is added to determine the selling price.

Target costing includes the following stages (Drury Colin, 2012) :

Stage 1: Determine the target price that customers will be willing to pay for the product.

Stage 2: Deduct a target profit margin from the target price to determine the target cost.

Stage 3: Estimate the actual cost of the product.

Stage 4: If the estimated actual cost exceeds the target, the company conducts investigation and redesigning the product. Make efforts to close the gap. The goal is driving down the actual cost to the target cost.

1.2.2 Life-Cycle Costing

Life-cycle costing is a costing method that considers the entire value chain of a product from a cost perspective. Other types of costing often look only at the manufacturing process, whereas the life-cycle costing tracks and evaluate cost of a product from the research and development phase of the product's life, designing costs, production costs, post-manufacturing abandonment and disposal costs.

Life-cycle costing estimates and accumulates costs throughout a product's life cycle to determine whether the earned profits during the production stage will cover costs that incurred during the pre and post-production stage (Drury Colin, 2012). This approach to costing makes sense for several reasons. The determination of costs incurred in the different stages of a product life cycle provides an insight into understanding and managing the total cost incurred throughout its life cycle. It helps managers identify areas in which cost reduction efforts are most effective. Life-cycle costing focuses on reducing costs during a product's life.

2 BUDGET AND CONTROL

2.1 The Introduction of Budgeting

2.1.1 The objectives of budgeting

The budgets serve some useful purposes. These include:

✓ Ensure the organization's goals are achieved: Objectives are set for the entire organization and for each individual departments and activities in the organization. Quantified expressions of these goals are then drawn into the targets to be achieved during the budget planning period (F5 ACCA Paper, 2016).

✓ Planning annual operation: The annual budgeting process leads to the completion of those objectives of the organization, because managers must set up detailed plans for implementation long-term plans. The budgeting process ensures that managers plan for future activities. This budgeting process encourages managers to anticipate problems before they arise. (Drury Colin, 2012). This is probably the most important functions of the budgeting and control system.

✓ Co-ordinate activities: Sometimes a choice benefits one department at the expense of another (Edmonds et al., 2006). The budgeting process forces coordination among activities of different departments to can be brought together and reconciled in the best interests of the entire company.

✓ Communicate ideas and plans: A formal system is needed to ensure that each person is affected by the plans has a clear understanding of the part what they have to do (F5 ACCA Paper, 2016).

✓ Establish a system of control: A budget supports managers in managing and controlling the activities that they are responsible for. By comparing the actual results with the budgets for different types of costs, managers can determine which costs are inconsistent with the original plan and therefore require their attention (Drury Colin, 2012). When the reasons for the inefficiencies were found, the appropriate actions should be taken to overcome the situation. Besides, the good results should continue to promote.

2.1.2 The limitation of budgeting

✓ Inaccuracy: A budget based on a set of assumptions that are often not too far from the operating conditions under which it is built. If the business environment changes significantly, then the company's revenues or costs may change that lead to the actual results will not be as expected in the budget (Steven M. Bragg, 2017). For example: changing in interest rates, currency exchange rates, purchasing prices of materials, labor, goods or other case when the company's revenue do not achieve as the original target , but the company continue to spend under their original budgets, the company will rupture any possibility of earning a profit.

✓ Time required: It can be very time-consuming to create budgets. The time is lower if the company has a well-designed budgeting process, employees are trained to clearly understand and familiar with the process. Besides the urgency is required when the company just has to complete the reports of the old year and make the budgets for the new year.

✓ Rigid decision making: The budgeting process only focuses the manager's attention on strategy during the budgeting formulation period. Therefore, if there is a fundamental change in the market after the budget completed, there is no department will officially review the situation and make changes (Steven M. Bragg, 2017). The company will easily lose the opportunities compared to its competitors.

✓ Excessive spending: Some managers believe that all the funds are allocated to their department need to be spent. It is believed that if they do not use as much as they are authorized in the current budget, then the funds given to them in the next budget will be reduced. This leads to unnecessary capital waste and affect the company's profitability.

2.2 The Budgeting Process

2.2.1 The strategic plan, budgeting and control process

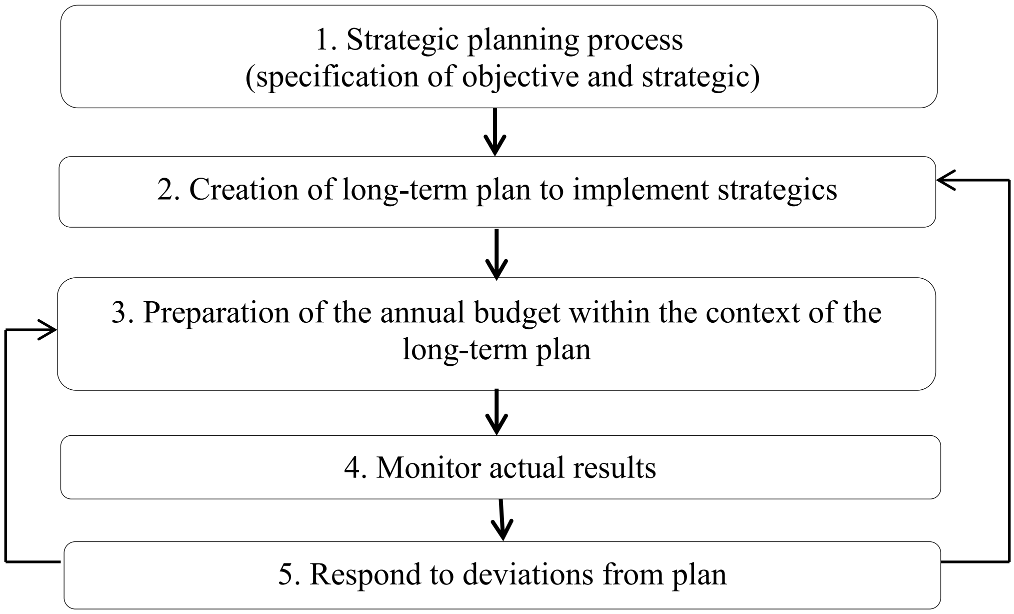
Strategic planning process:

Before the budgeting process begins, an organization should prepare a strategic plan (Drury Colin, 2012). Strategic plan begins with determining the objectives of the organization. Objectives establish the direction in the future in which the directors of the organization wish it to be heading. They answer the question: "Where do we want to be?"

The objectives of an organization relates to the entire organization. The objectives tend to be more specific, and represent the desired state or outcome. They are usually measurable by financial terms such as the desired profit or sales, return on capital, growth rate or market share. Objectives must also be developed for different parts of an organization. The unit objectives of an organization relates to the specific objectives of individual departments in the organization. The organization's objectives are often set for the entire organization and then translated into unit objectives, becoming targets for individual departments (Drury Colin, 2012).

It is important for directors in a company to understand clearly where do their company want to be and how to achieving the company's objectives. Therefore, the organization must conduct to collect information to ensure that it has a full understanding of its current situation. This is known as a "position audit" or "strategic analysis" and involves looking both inwards and outwards (F5 ACCA Paper, 2016). The organization must collect information from all its internal departments to understand the resources it owns. Besides it must also collect information outside in order to evaluate its position in the market. Current and potential markets must be analyzed to identify possible new opportunities. General economic overview must be considered and forecast what is likely to happen in the future.

Figure 3: Strategic planning, budgeting and control process (Source: Drury Colin, 2012, p.359)



Creation of long-term plan:

When the board of directors has determined those strategies that have the greatest potential for achieving the company's objectives, they need to collect the chosen strategies together and create a long-term financial plan. The long-term plan is a statement of the preliminary objectives and activities that the organization requires to achieve its strategic plan (Drury Colin, 2012). The long-term plan should be broken down into short-term plan which is called the budget.

Preparation of the annual budget:

Budgeting is concerned with the implementation of the plan for the next year. Budgets are more accurate and detailed. The budgets are clear indication of what is expected to be achieved during the budget period, while long-term plans represent broad directions that top management intends to follow (Drury Colin, 2012).

Monitor actual results and respond to deviations from plan:

The final stages in the process of strategic planning, budgeting and control are comparing actual results and plans. These phases represent the budget control process. Planning and control are closely linked. Planning includes looking ahead to determine the actions needed to achieve the organization's objectives. Control includes looking back to determine what actually happened and comparing it to the plans. Effective control requires corrective action so that actual results are consistent with the plans. In addition, plans may require amendments if the comparisons indicate that plans are no longer achievable.

2.2.2 The budget period

As a general rule, the period covered by the budget must be long enough to show the effectiveness of management policies but short enough so that the estimate can be made with reasonable accuracy (Williams et al.,2018). Most operating budgets and financial budgets include a period of a fiscal year. Companies often divide these annual budgets into four quarters. Each quarter is then divided into twelve monthly for control purpose. The limitations of preparing the annual budget are rigid and binding the company with a 12 month commitment, which may be risky because the budget is based on uncertain forecasts.

Another approach is that the annual budget is divided into monthly budget targets for the first three months, and by quarters for the remaining nine months (Drury Colin, 2012). At the end of each quarter, the budget for the next quarter will be reviewed and modified for any changes in economic conditions and divided into monthly budget targets. This process ensures that the budget is reviewed at least several times each year and the budget figures for the upcoming months are based on current conditions and forecasts (Williams et al.,2018). Budgeting is a continuous process, and managers are encouraged to constantly look ahead and consider future plans.

2.2.3 Stages in the budgeting process

According to Colin Drury (2012, p.364), the important stages are as follows:

1. Communicating details of budget policies and guidelines for people who are responsible for budget preparation;

2. Determining the factor that restricts output;

3. Preparation of the sales budget;

4. Initial preparation of various budgets;

5. Negotiation of budgets with superiors;

6. Co-ordination and review of budgets;

7. Final acceptance of budgets;

8. Ongoing review of budgets.

<u>Communicating details of budget policies:</u>

The long-term plans are the starting point for preparing annual budgets. Therefore, the top management must communicate the policy of the long-term plan which affects the current year's budgets to those responsible for preparing the current year's budget. Policy effects may include changes in sales plans such as expanding or restricting certain activities (Drury Colin, 2012). It is essential that all department managers clearly understand the policy of top management for implementing the long-term plan in this current year's budget so that the general guidelines can be established and guided to their employees.

<u>Determining the factor that restricts output:</u>

In each organization there are some factors that limit performance for a fixed time (Drury Colin, 2012). In most organizations, the main factor is sales demand. A company is often restricted from making and selling many of its products because there will be no sales demand for increasing output at a price that will be profitable for the company. The other factor can also be machine capacity, highly skilled labor resources, the availability of key raw materials or the availability of cash. Once this factor is determined, the rest of the budget can be prepared (F2 ACCA Paper, 2016).

Preparation of the sales budget:

The sales volume determines the level of a company's activities, when sales demand is the factor that limits output. So, the sales budget is the most important plan in the annual budgeting process. This budget is also the most difficult plan (Drury Colin, 2012). The sales volume depends on the customer's actions. In addition, the sales demand may be affected by the economy environment, government policies, competitors, advertising strategies, etc.

Initial preparation of various budgets:

The managers should prepare the budgets for areas of which they are in charge. The budget preparation should be a "bottom-up" process. This means that the budget should start at the lowest levels of management. Managers are required to draft a budget for their areas. Then they are submitted to their upper levels of management, who combine the lower level budget into the combined budget for the entire department. The department budgets are then submitted to senior management, where they are combined into a coordinated budget for the entire organization. This approach allows managers to engage in preparing their budgets and increase the probability that they will accept budgets and strive to achieve budget targets (Drury Colin, 2012).

Another approach is "top-down" process. In "top-down" process, the budget targets are set at the top management for the entire organization and for each major department or activity within the organization. The budget targets are then given to the department managers, who are required to prepare a budget that matches the targets that have been imposed on them from above (F2 ACCA Paper, 2016).

Negotiation of budgets with superiors:

When a manager is prepared his draft budget, he should submit to his senior manager for approval. The senior manager should incorporate this budget with the other budgets that they are responsible for and then submit this budget for approval for top management. Depending on the company structure, it will have the difference of the number of approval levels. At each stage of the process, the budget will be negotiated between the manager who prepared the budget and his superior until the agreed by both parties.

Coordination of budgets:

During the negotiation process, the individual budgets must be checked in relation to each other. This check may indicate that some budgets are out of balance with other budgets and need to be revised so that they will be compatible with other conditions, restrictions and other plans (Drury Colin, 2012). For example, to get a high discount, the purchasing department buys a large amount of goods, but the sales department forecasts that the demand for that month is low, the difference can lead to a large of inventories. Another case, a production manager may include buying machinery in his budget but money is not available. During the negotiation process, an income statement budget, a balance sheet and a cash flow statement should be prepared to make sure that all departments combine with together and budgets can be acceptable.

Final acceptance of budgets:

When all budgets are in harmony with each other, they are summarized into a master budget including a budget income statement, a balance sheet and a cash flow statement.

Ongoing review of budgets:

The budget process should not stop when the budget has been agreed. Periodically, actual results should be compared with the budget. Managers will receive a detailed report of the difference and should investigate the reasons for the difference. If the difference is within the control of management, corrective action should be taken and ensure that inefficiencies do not occur in the future. However, the difference may have occurred because the budget was not realistic to begin with or because the actual conditions during the budget year were different from those predicted. Adjustments are necessary in order that the budgets are in accordance with actual conditions. It is important to note that the budgeting process does not end for the current year once the budget has begun, budgeting should be considered a continuous and dynamic process (Drury Colin, 2012).

2.2.4 The System of Budgets

a) Sales budget

Sales budget is the starting point of the budgeting process. This forecast is based on a business strategic plan, past experience, estimated business conditions, economy environment and competitors (Williams et al., 2018). Sales budget shows the company's sales expectations during the budget period. If a company has a large number of products, it usually gathers the products into main categories like territories, contract, the company's product lines. Depending on the company characteristics, it should choose an appropriate method. A detail sales budget shows the number of each product that the company forecasts to sell and the expected selling prices (Steven M. Bragg, 2017). It provides basic data to build budgets for production costs, selling expenses and administrative expenses. The sales budget is therefore the foundation of all other budgets, because all costs are ultimately dependent on sales volume. If the sales budget is incorrect, other budget estimates will not be reliable (Drury Colin, 2012).

b) Production budget

A production budget is a plan that forecasts the number of products manufactured during the period based on the estimated number of sales in the sales budget. Managers use the production budget in order to plan for production processes, machine time and scheduling. The goal is to ensure that sufficient production to meet the sales needs and inventory levels is maintained. In addition, a production budget is also the foundation for purchasing material, labor, and other factory overhead.

The production budget indicates the number of products that are manufactured, it includes the number of sales forecast and the finished product inventory is expected to have on hand. The basic calculation used by the production budget is (Steven M. Bragg, 2017):

Total production required = Forecast sales + inventory expected

The number of products to be manufactured = Total production required – Inventory in the beginning.

Direct materials budget: The budget for direct raw materials is the responsibility of the purchasing manager. After the production department prepare an estimate of the materials which required to meet the production budget, the purchasing department is responsible for planning purchase materials to meet the production requirements. The goal is to buy these materials at the right time with the planned purchase price. In Addition, it is necessary to take into the planned material inventory levels (Drury Colin, 2012).

Direct labor budget: a direct labor budget is used to calculate the number of labor hours to produce products which required to meet the production budgets, as well as their costs.

Factory overhead budget: a factory overhead budget contains all production costs that the excepted direct raw material costs and direct labor (Steven M. Bragg, 2017). The factory overhead costs normally include: depreciation, rental fees, equipment, indirect materials, factory management staffs,… The total of factory overhead budget will depend on the cost behavior of individual cost items related to the expected production level. The costs should also be analyzed according to whether they can be controlled or uncontrolled for the purpose of cost control (Drury Colin, 2012).

In merchandising company, the production budget will be replaced by the purchasing budget. In the purchasing budget, managers plan to purchasing goods which require to meet sales requirements.

c) The cost of goods sold budget

The cost of goods sold includes the direct labor budget, the direct material budget and the factory overhead budget. In the other word, it shows cost of goods which are expected to be sold based on the sales budget.

The cost of goods sold budget also includes total revenue (from the sales budget), in order to users can see the gross margin. Comparing between the gross margin of budget with actual result of the previous year will be useful to determine if the cost of goods sold is reasonable (Steven M. Bragg, 2017).

d) Selling expenses and administrative expenses budget

Depending on the organization that the selling expenses budget and the administrative expenses budget should be separated. A selling expenses budget is a plan that estimates selling expenses in the period. Selling expenses include costs that related to marketing and selling products to customers like advertising and promotion campaigns, salesman salaries, the rental fees of stores, delivery costs,… An administrative expenses budget is a plan that estimates administrative expenses in the period. It includes all costs that are not directly related to the provision of products or sales such as administrative salaries, depreciation, office expenses,…

Depend on the company structure, the sales manager will be responsible for the sales budget, the distributor manager will be responsible for the distribution cost, the marketing managers will be responsible for the marketing costs and the administrative manager will be responsible for the administrative budget (Drury Colin, 2012).

e) Income statement budget and Balance sheet budget

Once all the budgets have been prepared, the income statement budget and balance sheet provide the overall picture of the planned performance for the budget period (Drury Colin, 2012).

f) Cash budget

The goal of the cash budget is to make sure that there is always enough cash to meet the level of activities that are required in the different budgets. The cash Budget can help a company avoid cash balances excess their request by allowing the managers to take the previous steps to invest excess cash in short-term investments. In addition, cash shortages can be identified in advance and can take steps to ensure that bank loans will be available to meet any temporary cash shortage (Drury Colin, 2012).

The main components in cash budget are cash inflows and cash outflows. Cash inflows are estimated cash receipts from customers. Cash outflows include payments on account payable, debts and interest, wages, taxes, other expenses and dividend payments. Payments on accounts payables are payments for goods or services offered by suppliers, such as raw materials, goods. Normally, these payments will be made sometime after purchases (Ross et al., 2016). Debts and interest include loans that are due and interest expenses in this period (Williams et al., 2018). Wages, taxes and other expenses: This category includes all other common expenses of doing business that require cash payment. Depreciation is often regarded as a regular business expense, but it does not require cash payment and is not included in cash outflow (Ross et al., 2016).

3 FINANCIAL PERFORMANCE MEASUREMENT

3.1 Financial Ratio

Financial ratios analysis is a quantitative method to better understand the profitability, operational efficiency, liquidity of a company by comparing the information that contained in the company's financial statements. Financial ratios analysis is a fundamental analysis.

Ratios analysis involves evaluating the financial performance and health of a company by using data from the current and historical financial statements. Users can compare the company performance over time to evaluate whether the company is improving or deteriorating, and compare the company's financial situation with the industry average and other companies operating in the same sector.

In addition, ratios analysis can be used to establish a trend line for a company that use for future predictions.

3.1.1 Profitability Ratios

Profitability is the net result of a number of policies and decisions. The ratios examined thus far provide useful clues as to the effectiveness of a firm's operations, but the profitability ratios go on to show the combined effects of liquidity, asset management, and debt on operating results (Brigham et al., 2011).

a. Profit margin

The gross profit margin determines the gross profit per dollar of revenue before all other expenses are deducted. The gross profit margin is defined as (Brigham et al., 2011):

Gross profit margin = $\frac{Sales - Cost\ of\ goods\ sold}{Sales}$

Because there are additional expenses of operating the business like selling expenses, administration expenses beyond the cost of goods sold, another important profitability ratio is the operating profit margin (Berk et al., 2017). The operating profit margin determines how much a company earns from each dollar of sales before the impact of interest and taxed is considered. The operating profit margin is defined as (Brigham et al., 2011):

Operating profit margin $= \frac{EBIT}{Sales}$

The net profit margin is calculated by dividing net income by sale. The net profit margin is defined as (Brigham et al, 2011).

$$\text{Net profit margin} = \frac{Net\ income\ available\ to\ common\ stockholders}{Sales}$$

The net profit margin shows the percent of each dollar in sales that is available to equity holder after the company pays interest and taxes (Berk et al., 2017). Investors and analysts often use the net profit margin to evaluate the performance of a company and estimate future profits based on the sales forecasts. A higher ratio is always better than a lower because it means that the company can turn more sales into profits. In addition, a historical analysis helps analysts understand if the company's profit is improving or decreasing. A decreased ratio may imply the higher competition in the market or problems with the company costs management.

b. Return on Equity

Analysts often use Return on Equity (ROE) to evaluate the company's return on investment. The ROE measures the return that the company has earned on its investment. The ROE is defined as (Berk et al., 2017).

$$\text{Return on Equity} = \frac{Net\ income}{Book\ Value\ of\ Equity}$$

ROE also shows how effective the company use owners' equity to fund operation activities and growing the company.

c. Return on Assets

Return on Assets (ROA) measures the income available to debt and equity investors per dollar of the company's total assets (Brealey et al., 2017). Total assets are calculated by total liabilities plus owners' equity. Return on Assets is calculated as (Berk et al., 2017):

$$\text{Return on Assets} = \frac{Net\ Income + Interest\ Expense}{Book\ Value\ of\ Assets}$$

The ROA calculation includes interest expense because the company's total assets have been funded by both debt and equity investors (Berk et al., 2017). Notice that net income is earned throughout the year (the period) while book value of assets is an end of the year (the period) number. Therefore, it would be better if we use the average total assets that are calculated by the average of beginning and ending assets (Brigham et al, 2011).

3.1.2 Asset utilization ratios

a. Total assets turnover ratio

The total assets turnover ratio is defined as (Brigham et al., 2011):

Total assets turnover ratio = $\frac{Sales}{Total\ assets}$

The total asset turnover ratio indicates how many sales are generated from each dollar of the company's assets. This ratio measures how efficienly the company uses it's assets to generate sales, so a higher rate is always more favourable. A lower rate shows that the company does not use it's assets effectively and the company can meet management or production problems.

b. Inventory turnover ratio

The inventory turnover ratio is defined as (Ross et al., 2016):

Inventory turnover = $\frac{Cost\ of\ goods\ sold}{Inventory}$

The inventory turnover ratio is calculated by comparing the cost of goods sold with the average inventory in a period of time. This ratio measures the number of times an inventory is sold during a period. The inventory turnover ratio indicates how efficiently the company can control it's goods, so it is important to have a high ratio.

Days' sales in inventory

The Days' sales in inventory is defined as (Ross et al., 2016):

Days' sales in inventory = $\frac{365\ days}{Inventory\ turnover}$

Days' sales in inventory measure the number of days the company will take to sell all of it's inventory. The smaller the number, the faster the company turns over inventory, more efficient it is.

c. Receivables turnover

The receivables turnover ratio is defined as (Ross et al., 2016):

Receivables turnover = $\frac{Sales}{Accounts\ receivable}$

The receivables turnover ratio measures the number of times the company can turn it's receivables into cash during in a period of time. A higher ratio is always more favorable, it means that the company is collecting its receivables more frequently throughout the year.

Days' sales in receivables

Days' sales in receivables measure the number of days the company takes to convert its receivables into cash.

The Days' sales in receivables is defined as (Ross et al., 2016):

Days' sales in receivables = $\frac{365\ days}{Receivables\ turnover}$

The relation between Efficiency Ratios and Profitability:

Efficiency ratios measure how well companies utilize their assets to generate income. Efficiency ratios go hand in hand with profitability ratios. Most often when companies are efficient with their resources, they become profitable. For example, inventory turnover ratio measures how many times inventory turned over into saleable products. Days' sales in inventory measures number of days firm takes to turn over inventory. If inventory management is not good (stocks are over-consumed, products sell slowly,…), inventory turnover ratio will be slow, days' sale in inventory will be longer. Therefore, enterprises will be stagnant capital, storage costs will increase and profit will decrease. To overcome, enterprises will transfer the storage costs to customers through product prices, product prices will increase, reducing the competitiveness of enterprises. In the other hand, high price will lead to reduce number of sale and revenues of enterprises decrease, profit will decrease too. This situation may cause the enterprise to face financial difficulties in the future. So, inventory needs to be maintained at a reasonable level to encourage production and consumption.

3.1.3 Leverage Ratios

a. Debt ratio

The debt ratio is defined as (Brigham et al., 2011):

Debt ratio = $\frac{Total\ liabilities}{Total\ assets}$

b. Debt-to-equity ratio

The debt-to-equity ratio is defined as (Brigham et al., 2011):

Debt-to-equity ratio = $\frac{Total\ liabilities}{Total\ assets - Total\ liabilities}$

c. Times-Interest-Earned ratio

Lenders often assess a company's ability to meet its interest obligations by comparing its earnings with its interest expenses using an interest coverage ratio. A high ratio indicates that the company is earning much more than is necessary to meet its required interest payments (Berk et al., 2017)

The times-interest-earned (TIE) ratio, also called the interest coverage ratio. The Times-Interest-Earned ratio is defined as (Brigham et al., 2011):

Times-Interest-Earned ratio = $\frac{EBIT}{Interest\ expense}$

3.1.4 Liquidity Ratios

a. Current ratio

The current ratio is calculated by dividing current assets by current liabilities (Brigham et al., 2011):

Current ratio = $\frac{Current\ assets}{Current\ liabilities}$

The current ratio measures the company's ability to pay short-term liabilities with its current assets. The current ratio is an important measurement of liquidity because short-term liabilities will mature within the next year. This means that the company has a limited time to raise capital to pay for these liabilities.

b. Quick (or Acid-Test) ratio

The quick, or acid test, ratio is calculated by deducting inventories from current assets and then dividing the remainder by current liabilities (Brigham et al., 2011):

Quick (or Acid-Test) ratio = $\frac{Current\ assets - Inventories}{Current\ liabilities}$

The quick ratio measures the company's ability to pay short-term liabilities with only quick assets. Quick assets are current assets that can be converted into cash in the short-term. Cash, marketable securities and receivables are considered quick assets. Inventories will be excluded when calculating the quick ratio, because inventories are typically the least liquid of a company's current assets.

c. Cash ratio

Companies need cash to pay employees and meet other obligations. Running out of cash can be very costly for a firmThe companies often gauge their cash position by calculating the cash ratio, which is the most stringent liquidity ratio. The cash ratio is defined as (Berk et al., 2017):

$$\text{Cash ratio} = \frac{Cash}{Current\ liabilities}$$

<u>The relation between Liquidity and Profitability:</u>

The liquidity is the ability of a firm to pay its short term obligation for the continuous operation. It has primary importance for the survival of a firm both in short term and long term. The profitability measures the economic success of the firm irrespective to cash flow in the firm. It is often observed that a firm is very profitable in its books but it does not have sufficient cash and cash equivalent to pay its daily bills and due obligations. That is an illustration of classical poor liquidity management. The empirical studies have proved it that a large number of the firms are bankrupt not because they are not profitable but they do not have sufficient liquidity. The return on equity is estimated on accrual basis of accounting irrespective to the actual cash flow. The profit and loss figures do not represent the paying capacity of the firm. Additionally, the figures are book value based which are normally not adjusted to current inflation index and other market determinants. The profitability does not sure the liquidity in short term but without the profitability long term liquidity cannot be sustained. On the other side of the coin; Long term profitability cannot be achieved without short as well as long term liquidity. It proves that both are important for the survival of a firm in long and in short run.

3.2 Economic Value Added

Economic Value Added (EVA) is an estimate of a business's economic profit, and it differs from accounting profits. EVA represents the residual income after the cost of all capital, including equity capital, which has been deducted, while accounting profits are determined without imposing the cost of equity. Equity capital has a cost because shareholders give up investment opportunities and earn profits elsewhere when they provide capital to the company. This cost is an opportunity cost rather than an accounting cost, however it's quite realistic (Brigham et al., 2011). In general, EVA is used to assess how a company creates value from its invested capital. If EVA is positive, it implies that a company creates value for its shareholders. Otherwise, it will destroy their value (Young, O'Byrne, 2001).

According to Young and O'Byrne (2001), EVA is defined as:

EVA = NOPAT - (Cost of capital * Capital)

Where:

- NOPAT – Net operating profit after taxes measures the company's operating profit after taxes.
- Cost of capital – Weighted Average Cost of Capital (WACC). WACC is a measure of composite return expected by all of the company's investors. WACC consists of two components the after-tax cost of debt and the cost of equity.
- Invested capital is the total all the firm's financing, however it takes into account only the shareholder's equity, all interest-bearing debts, both short-term and long-term, and other long-term liabilities.

Another approach of EVA is accounting model. The accounting model used by the Ministry of Industry and Trade of the Czech Republic, EVA is defined as:

EVA = (ROE – Cost of Equity) x Shareholder's equity

Cost of equity is a component of WACC. Cost of equity is the expected return rate of the investors. The Capital Assets Pricing Model (CAPM) is the most frequent approach to calculate the cost of equity. This method uses Beta – a coefficient of volatility of an organization's share price and represents a market risk.

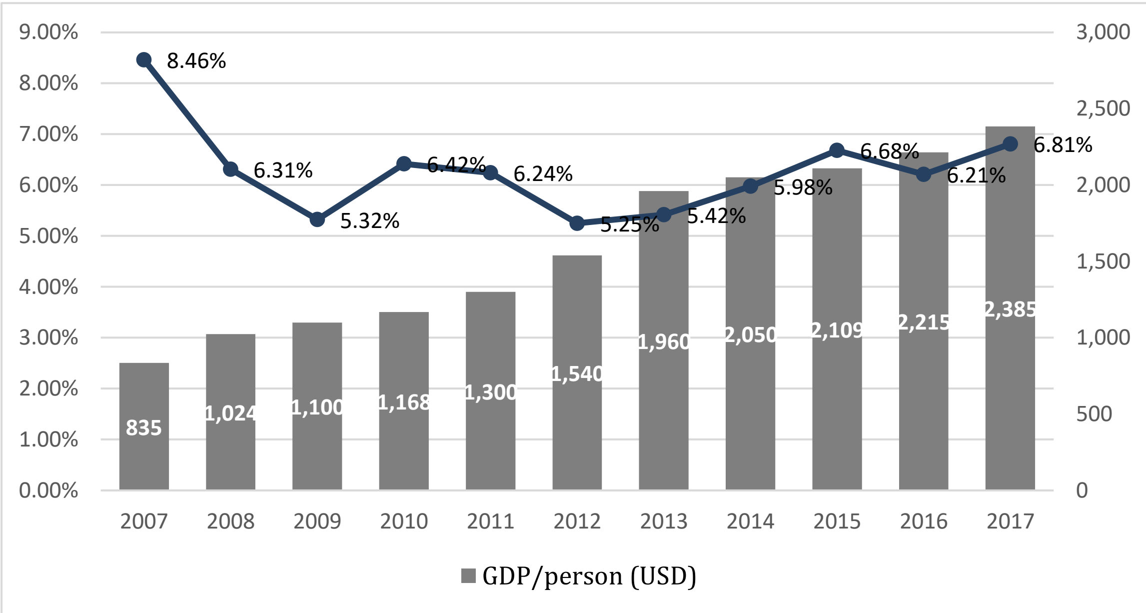
II. ANALYSIS

4 GENERAL ECONOMIC OVERVIEW

Vietnam's Gross Domestic Product

Vietnam's Gross Domestic Product ("GDP") growth has been among the fastest in the world, averaging 6.0 percent a year in the 2000s. GDP growth and GDP per capita over the years from 2007 to 2017:

Figure 4: GPD Growth from 2007 to 2017 [Source: the General Statistics Office of Vietnam]



After achieving 6.8% in 2017, GDP increased 7.4% in the first quarter of 2018, 6.73% in the second quarter and 6.88% in the third quarter (compared to the same period last year). Generally for 9 months, GDP is estimated to increase 6.98%, the highest rate of growth in 9 months from 2011.

The service sector grew at 6.89% in the first three quarters of 2018. There is the positive rate of growth but lower than the same period in 2017 (7.21%). The agriculture, forestry and fishery sector also showed the recovery with advantageous factors from outside. The growth rate 3.65% is much higher than the same period of the previous years (0.65% in 2016 and 2.78% in 2017). The industry and construction sector achieves 8.89%, much higher than the same period of previous years (7.5% in 2016 and 7.17% in 2017). The industry operation with Samsung is a main reason that helps increasing of this area with the high growth rate 12.65%.

Consumer Spending and Inflation

According to data from the General Statistics Office of Vietnam, inflation increased from 2.66% in March to 4.67% in June and reduced lightly by 3.98% in the third quarter in 2018. However, this inflation is much higher than the same period of 2017, inflation increased by 2,52%; 3,35%; 3,4% in 2017.

For the first 9 months in 2018, the Consumer Price Index ("CPI") increased by 3.57%. The food prices are strong recovery compared to 2017 is an important cause for increasing CPI. After touching a bottom in 30 years, pork prices in 2018 recovered sharply because of supply – demand imbalance as the result of many farmers left pig breeding after the crisis of pork oversupply in 2017. In addition, public services contributed significantly to the increasing CPI. The adjustment in the prices of health services in accordance with Ministry of Health made the health service prices increase 18.26% and CPI increased 0.71%.

One of the cause lead on inflation that the people concerned is the price of petrol. Normally, the increase of the petrol prices will be accompanied by increase prices of other goods and services because of increasing transportation costs. Moreover, the imposition environmental protection tax on the petrol prices in the next time will put a great pressure on inflation in coming time.

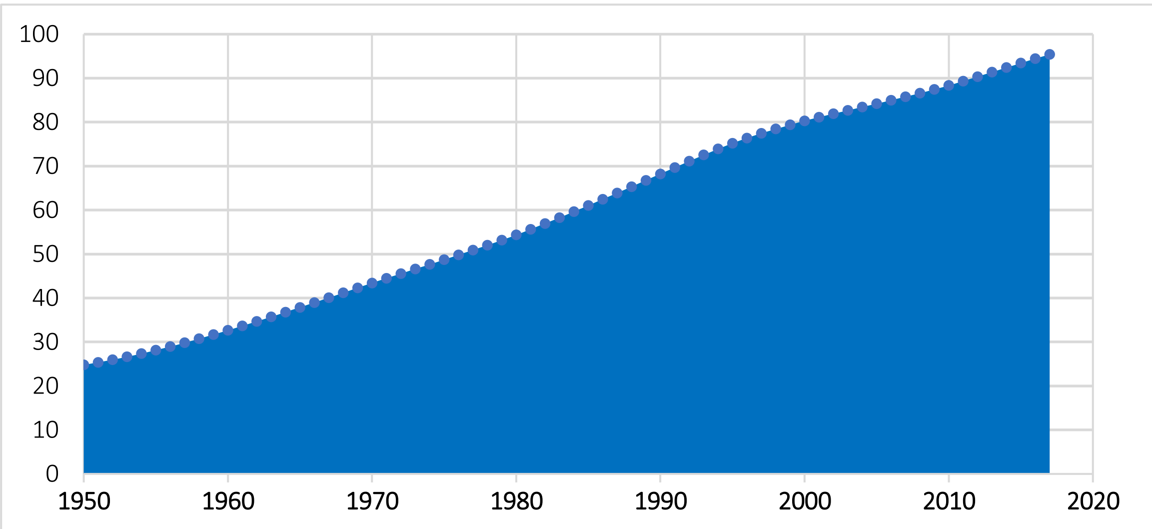
5 VIETNAM CHILDREN TOYS MARKET

Vietnam toys market valued at $5 billion. Participating in the children's toy market in Vietnam includes domestic enterprises and imported products from other countries. Children's toy market segment includes high quality products with high prices which import from The United State, Canada, European countries, Australia, Japan,... and products with low prices which manufacture in Vietnam or import from neighboring countries – especial from China. According to the evaluation of experts, Vietnam's toy market is still dominated by products which imported from China. Compared to Vietnam's toys, China toys are cheaper and they have many models which catch children's tastes.

Besides that, Vietnam's toy exports are on the rise. According to the General Department of Customs, Ministry of Finance, Vietnam exports more than 1.2 billion dollar in toys, games and sport equipment in 2017. The figure represents a 30 percent increase from 2016. The United State is the leading importer, accounting for 434.6 million dollar. Japan is another important destination, with 265.5 million dollar of products. Other major importers are the United Kingdom, Germany, Korea, Belgium, China, Netherlands, Australia and Canada.

Up to the end of 2018, Vietnam's population is 96,961,884 people. Vietnam's population currently accounts for 1.27% of the world's population. Vietnam is ranked 14th in the world in the ranking of countries and territories (source from https://danso.org/viet-nam/).

Figure 5: Vietnam Population Chart from 1950 – 2017 (Unit: million people) [Source: https://danso.org/viet-nam/]



Up to the end of 2017, Vietnam has the following age distribution: 25.2% estimated 23,942,527 young people under 15 years old; 69.3% estimated 65,823,656 people aged from 15 to 64 years old and 5.5% estimated 5,262,699 people over 64 years old. In 2018, 1,588,577 children were born. According to estimating of General Department of Population, there are 4,251 children are born on average every day in 2019. The birth rate around 1.96%.

The data show that children account for a significant proportion in the Vietnam's population. With economic development (GDP growth averaging 6.0 percent a year in the 2000s), per capita income is also increasing. As a likely consequence of economic growth, the people's living standards is also improved. Parents invest for the development of children that helps children have a good environment. So the demand for children's products is increased. In order to meet the society requirements, the children's toy market is growing and more diverse. Vietnam is evaluated a potential market for children's toys industry.

Children's toys are categorized according to main criteria such as classified by gender (boy or girl); classified by age (babies from 0 to 6 months, children from 6 months to 3 years old, children from3 years old to 6 years old and children over 6 years old); classified by functions (group of basic skills development toys, toys develop physical strength and exercises, intellectual development toy group). The main types of toys in Vietnam market include lego, puzzles, building blocks, transport toys such as planes, boats, train sets, cars, motorbikes, doll houses, kitchen and various types of activity, learning, creativity and discovery toys.

Competitive Advantages

One of the main advantages that help the Vietnam toy industry competitive is the availability of domestic materials, which allows manufactures to reduce costs. In addition, manufactures also have access to large workforce with low labor costs. Labor costs in Vietnam are lower than China, Thailand and some other manufacturing centers in Asia.

With domestic market, significant proportion of children in the total population creates a large demand for the toy market.

With export market, Vietnam also has policies and programs to support manufactures. Export tax rates for toys are zero. Trade agreements with economies in the world allow export and import products easier. In terms of marketing, the government sponsors the participation of selected companies in international trade fairs.

Challenges

The rising production costs are a concern in the context of violent competition in the global toy market. Besides material costs, labor-related costs also increase. Starting from January 2018, the monthly minimum wage increased by more than 6% depending on different regions. In order to maintain competitive prices, many suppliers choose to cut profits. In addition, suppliers cut research and development costs, market research costs, advertising costs and other administrative costs. Therefore, the exploitation of new markets and the extending of current markets are very difficult for most suppliers.

As mentioned above, Vietnam's toy market is still dominated by products which imported from China – especially in the low price market segment. According to the evaluation of sale staffs at children toy stores, toys which import from China are extremely attractive in terms of color, variety of types and cheaper prices than the similar products in Vietnam. The geographical distance between Vietnam and China is too close to each other that create good conditions for trading goods, including children toys. Large markets and low labor costs also facilitate China companies to invest manufacturing children toys in Vietnam. In fact, one of the major disadvantages is smuggled goods from China, this situation occurs most in the Northern provinces. These items have unclear quality standards, but consumers still buy because they are cheaper prices, variety of types and suitable for children hobbies. In addition, the population in rural areas with low awareness and low income, they prioritize cheap products, they do not pay attention to the origin of products and the quality standards of the product. To overcome these problems, the Government has more strictly control over these products by issuing regulations on quality standards and intensifies control of import activities. Moreover, through the media, the government helps consumers identify the harmful effects of using poor quality toys for children's health and how to distinguish between clear origin products and smuggled products.

The issuing regulations on quality standards is also a challenge with Vietnam companies. It makes companies increase costs and slow down the pace of new products. According to Mr. Nguyen Trung Kien – The general manager of An Toan Viet corporation company, whenever the company changes products or launches a new product, it have to do certification, quality inspection, periodically check every 6 months in accordance with regulations. Because children's toys require multiple features which must combine many factors such as children can learn while playing, combine sound and image, encouraging physical activities, stimulating creativity, logical thinking... The company has to spend from 3 to 6 months to research the pattern of children toys, it takes 3 months to produce a complete product. These regulations usually make products that have not been brought to the market have to be re-checked periodically, giving rise costs, resulting in higher cost of goods, reducing competition with import goods.

6 COMPANY PROFILE

6.1 History and Development

Research has shown that our children spend approximately 15,000 hours playing during the first six years of their lives. As Vietnam has a growing young population, the demand for play materials is continually expanding.

Understanding this evolution, Viet Tinh Anh Joint Stock Company ("**VTA**") was established in August, 2009 with a chartered capital of VND 8.5 billion by a group of young entrepreneurs who want to bring childrens high-quality toy products. Until now, the chartered capital of the VTA has increased to VND 76.5 billion. As at 31 December 2018, the company had 500 employees.

Currently, VTA is the official distributor and has the largest market of Lego toys in Vietnam and other globally-recognized toy brands such as SIKU – die-cast vehicles from Germany, Baby Alive from America, K-kids – baby toys, and Janod – musical instruments from France.

VTA is the leading retail company in Vietnam with a chain of 200 stores nationwide which call "**My Kingdom**". My Kingdom stores provide directly to customers the high quality toy products of famous brands in the world.

6.2 Vision, Mission and Core Value of The Company

Vision: VTA wishes to become a close and reliable friend of every Vietnamese family, help parents in the comprehensive development of the child's brain, creativity and mobility by the high quality toys that the company offers.

Mission: VTA provides educational, entertaining and safe toys to develop children's creative thinking and imagination. VTA is committed to bring Vietnamese children much joy in the development process in the most positive way.

Core Value of VTA: VTA believes that with the following values, the member of the company will connect into a solidarity, helps the company's development and achieve the set objectives. There are 5 core values in the company: customers first, comprehensive responsibility, creativity and progress, openness and respect, team-work.

6.3 Corporate Structure

VTA structure is built simple to serve the purpose of easy management. It presented in the figure 6 below.

With brief responsibilities of each position listed as follows:

General Director: She is responsible for overseeing and managing all aspects of business operation, especially in setting sales strategy.

Administration department: divided into human resources department and IT department. Head of the human resources is the human resources manager. The team is responsible for all administrative activities like seeking and arranging human resources, salary, receptionist, secretary,... and IT department which IT manager is the leader is responsible for assisting with internal network and technology.

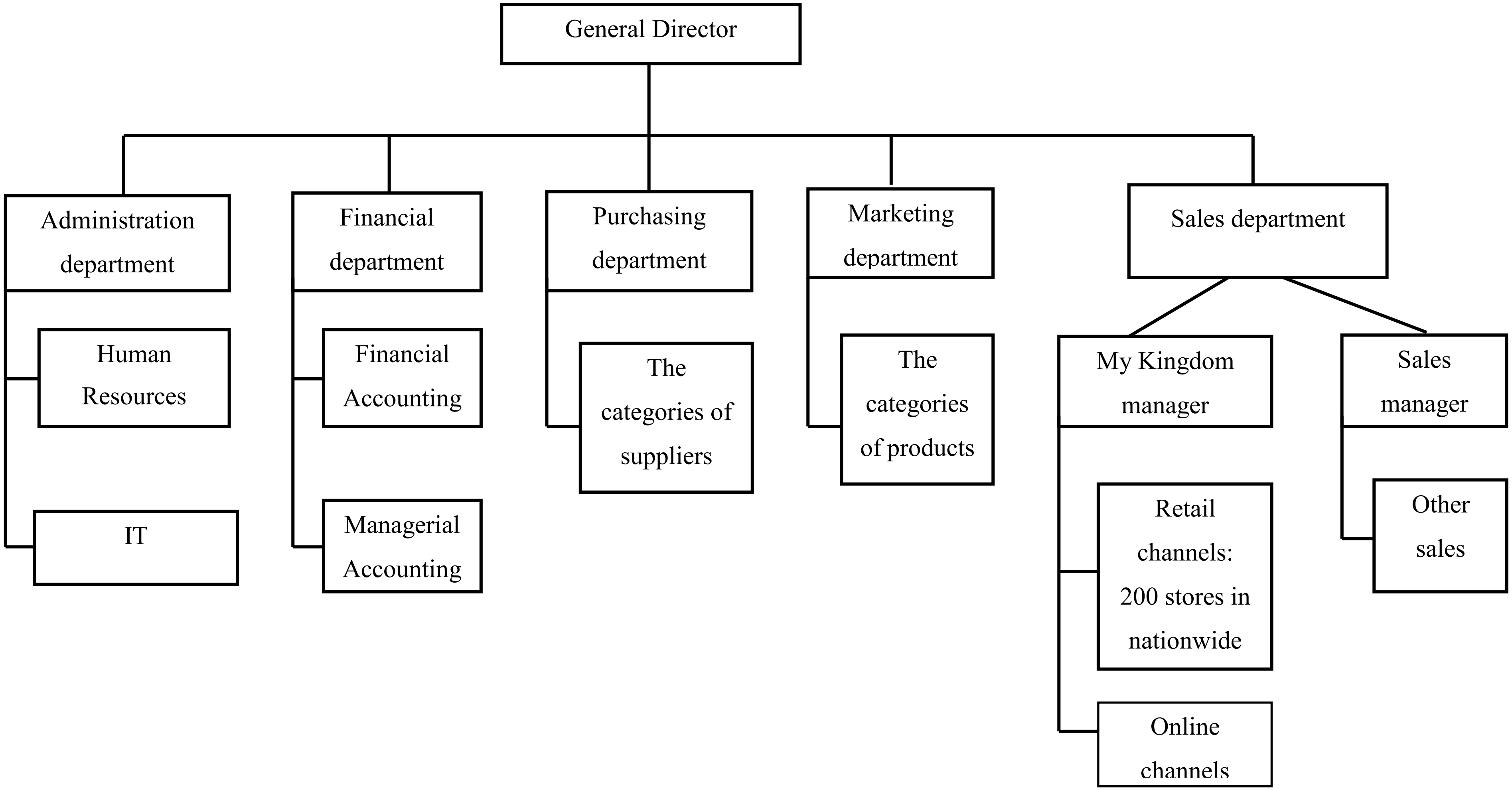
Financial department: the head is the financial manager. Financial department divided into 2 team financial accounting and management accounting.

Purchasing department: the head is the purchasing manager. The department is responsible for purchasing goods from suppliers.

Marketing department: the head is the marketing manager. The department is responsible for running advertising programs to promote products to customers. It divided into the categories of products: boy, girl, baby, lego, hottoy, education, stationary and digital marketing.

Sales department: There are 2 managers responsible for My Kingdom channels and other channels. My kingdom channels include 200 retail stores nationwide and online channels. Other channels are wholesalers such as book stores, convenient store, super/ hyper market, lower trade, school,...

Figure 6: VTA Joint Stock Company structure (Source: VTA Joint Stock Company).



Business Activities

VTA is a merchandising company. The company's products are 100% imported and they are in a ready-to-sell condition. The operating cycle of the company includes the following basic transactions:

1. Purchase of goods: VTA imports children toys from the world's leading distributors such as Lego, Audley, Siku, Timtoys, Hasbro,...

2. Sales of goods: VTA has 200 retail stores nationwide and online sales system. Beside that, It redistributes to book stores, convenient store, super/ hyper market, school,..

3. Collect account receivables from customers.

As the word cycle shows, this series of transactions is repeated continuously. Account receivables which collected from customers are used to import goods and the cycle starts again. The operating cycle of a merchandising company is shorter and more simple than that of a manufacturing company. Because the first transaction – purchasing goods – is replaced by many activities related to manufacturing the products.

The main brands:

- Lego: is a construction toy of Lego Group based in Billund, Denmark.
- Lil Woodzeez: is a brand from Canada. Lil Woodzeez's products simulate a modern city with houses, grocery stores, school, residents,..
- Leapfrog: is leading educational toys in America. The products intended for babies from 6 months to 3 years old, encouraging babies play and learn English.
- Royal Baby: is the famous brand of bicycles in Northern European and they are available in 60 countries.
- Heys: Canadian brand suitcase with over 30 years of experience in the suitcase field.
- Zycom: brand from Australia, It specializes in scooter lines.
- Crayola: crayon brand and painting-related products in America.
- Baby Alive: is an American brand doll toy line.
- Siku: brand top leading children toys in Germany.
- K's Kids: famous toy brand from Hong Kong

6.4 VTA SWOT Analysis

Strengths: Imported products from famous brands abroad. High quality goods, clear certificate of origin, ensuring safety for children when using. Young and creative staff, set up effective marketing campaigns, bring products closer to consumers.

Weaknesses: Because products are imported from abroad, beside the purchase price from distributors, other costs incurred in import such as transportation costs, customs costs,... lead to high selling prices. It is difficult to compete with domestic goods, especially cheap products from China.

Opportunities: Vietnamese children account for 25,2% in population that creates a large demand for the children toy market. Nowadays, children toys which are unknown origin and harming the health of children are strongly condemned through the media. Parents pay more attention to the safety of their children, so they look for high quality products. Beside that, imported products are always attractive in terms of color, variety of types, meet customers requirements and they do not have to go through a long production process like domestic products. These are opportunities for the company's products to reach consumers and have a stable market share.

Threats: from domestic companies which products have cheaper prices, many alternative products in the market.

7 ANALYSIS OF COSTS

VTA is a merchandising company which sell products but do not make them. VTA's products are 100% imported and they are in a ready-to-sell conditions. So, VTA's expenses are simpler than a manufacturing company. VTA expenses include cost of goods sold, selling expenses and administration expenses.

Table 1: Total costs structure of VTA for period 2015 – 2018 (unit: billion VND) [source: own processing].

Accounting year	2015		2016		2017		2018	
Cost of goods sold	227	54.5%	303	51.4%	392	51.4%	406	51.1%
Selling expenses	162	38.9%	247	41.8%	320	42.0%	331	41.6%
Administrative expenses	25	5.9%	36	6.2%	42	5.5%	53	6.7%
Financial expenses	3	0.8%	4	0.6%	9	1.2%	5	0.6%
Total costs	**416**	**100.0%**	**590**	**100.0%**	**763**	**100.0%**	**795**	**100.0%**

In VTA, all purchasing costs are regarded as product costs and non-purchasing costs are regarded as period costs. Look at the table 1, we can see that the total costs increases over the years. The total costs in 2016 increases 42% compared to 2015, while the total costs in 2018 increases 4% compared to 2017. It will be analyzed in more detail when compared to revenue growth in the income statement analysis.

In vertical analysis of the company total costs, we can see that the cost components keep a relatively stable rate over the years. The cost of goods sold always account for the highest rate, more than 50% of the total costs. The cost of goods sold related to purchasing cost, it is treated as direct costs of the company. Then, the selling expenses account for a significant rate, aroung 40% of the total costs. The selling expenses related to selling and marketing activities, it is treated as indirect costs of the company. In order to effectively control their costs, the company should focus on trying to reduce purchasing costs and selling expenses. It will be analyzed more clearly when we look at each of the cost components in detail.

7.1 Cost of Goods Sold

Cost of goods sold is the accumulated total of all costs used to create a product which has been sold during the period. In merchandising company, the cost of purchased goods is considered to be a product cost. Goods are current assets that are expected to contribute to future revenue. Purchasing costs incurred in the purchase of goods and can be expected to generate future revenue that cover the cost of goods. They are included in inventory valuation. Cost of goods sold will include the beginning inventory, plus purchased goods during the period, less the closing inventory.

Purchasing costs are variable costs that if the company do not purchase goods, this costs will not arise.

In VTA, Cost of goods sold is calculated by purchasing costs of goods which has been sold during the period. Purchasing costs include the purchase price from supplier – it is often FOB - free on board which the company suppliers will delivery goods to the nearest port, the company is responsible for paying the cost of shipping from that port and to the company's desired destination like warehouses or stores, and other expenses which incurred during the purchase process. It presented in the Appendix P.I: VTA Cost of goods structure.

The Appendix P.I shows expenses that incurred during the purchase process.

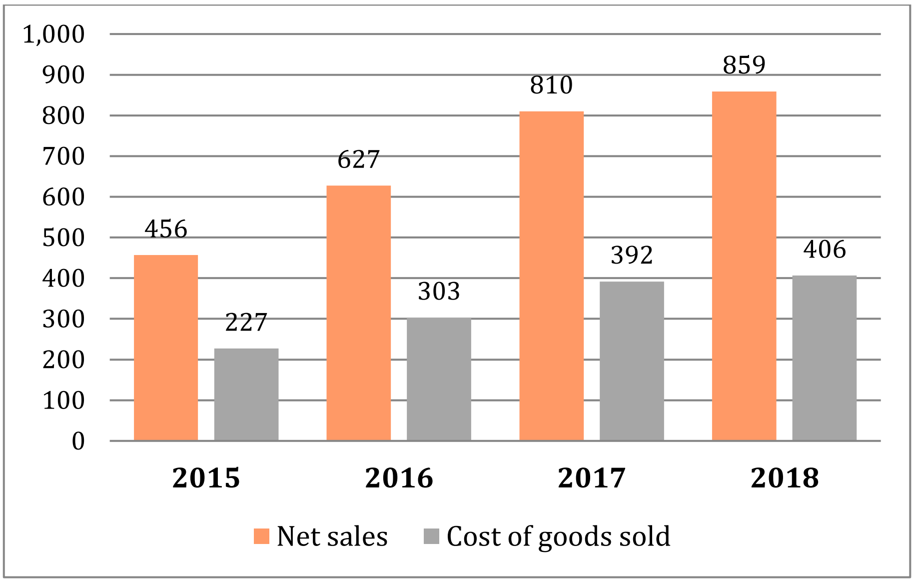
Cost of goods = FOB * (1 + %Sea freight + %Clearing & handing + %Duty)

Where:

- FOB is purchase prices from suppliers.
- Sea freight is shipping costs from the supplier port to Vietnamese port. It depends on type of goods, weight, size and distance from the port of suppliers to the destination of the company. It is often 2%, 5%, 6% or 8% of FOB.
- Clearing and handing is costs related to cleaning, handing goods from ships and shipping costs from Vietnamese to the company's warehouse or stores. It also depends on type of goods, it is often 2%, 5%, 6% or 8% of FOB.
- Duty is costs related to the taxes incurred during the import process such as import taxes, value added tax on imported goods. Beside that, some items have to do quality testing as required. Duties are regulated by the government, it is often 0%, 5%, 10%, 20%, 25% of FOB depending on the type of goods.

In VTA, cost of goods sold is the major expense and account for a large part of the total cost.

Figure 7: VTA Net sales – Cost of goods sold from 2015 – 2018. (unit: billion VND) [source: own processing]

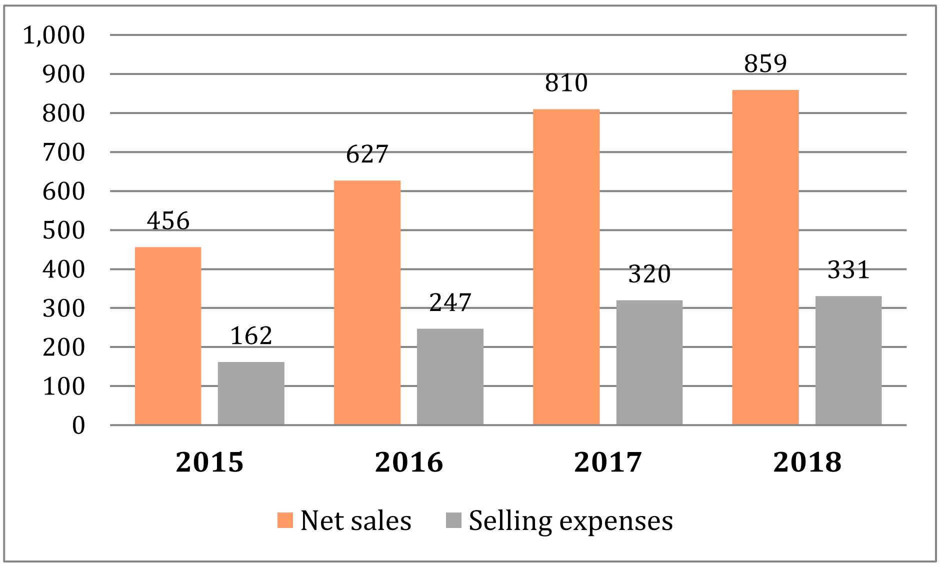


Look at the figure 7, we can see that cost of goods sold always account for 47% - 50%. It is good that the rate is 47% in 2018 and this is the lowest rate in 4 years. VTA is trying to reduce costs during the purchasing process. In additon, purchasing in large quantities helps VTA receive more discounts. It is rather similar to the rate of competitors in the same industry.

7.2 Selling Expenses

Selling expenses are expenses that the company have to incur in selling and marketing efforts. They are indirect costs that can not be determined specifically and exclusively with a certain product. In addtion, selling expenses are not included in inventory valuation like cost of goods sold. They are treated as expenses in the period in which the company has to incur.

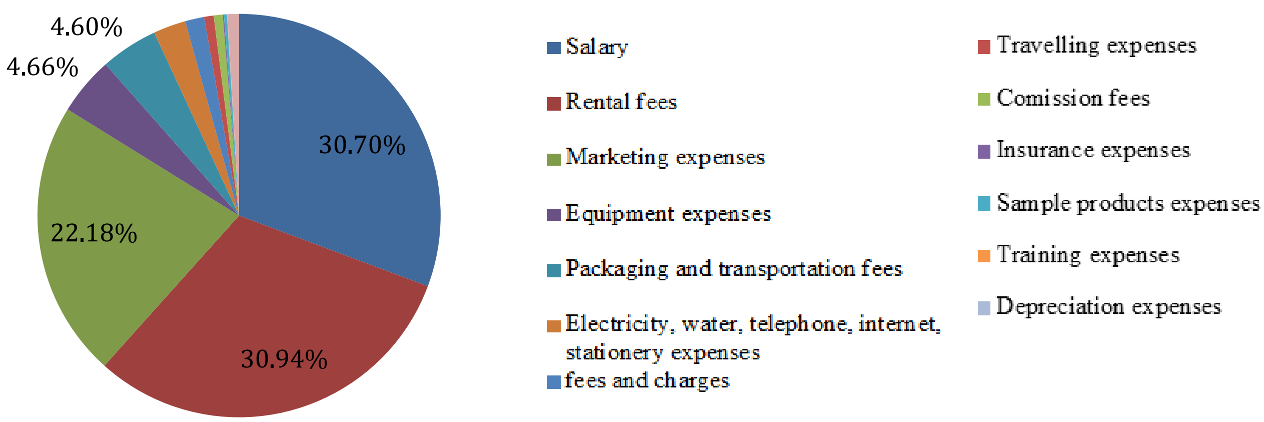
Figure 8: VTA Net sales – Selling expenses from 2015 – 2018 (unit: billion VND) [source: own processing].



After cost of goods sold, selling expenses also account for a large proportion of net sales. The data shows that selling expenses are 107 billion VND, account for 35% of net sales in 2015. The rate maintained at that level and increased to 40% from 2016. Selling expenses are often a concern with merchandising companies. In order to sell goods, VTA has to incur expenses such as rental fees (or depreciation), salaries and commissions of salespersons, advertising, delivery,...

To better understand these expenses, we will look at the VTA's selling expenses structure in 2018.

Figure 9: The VTA's selling expenses structure in 2018 (source: own processing).



In VTA, 83% of selling expenses are salary, rental fees and marketing costs. In 2018, the salaries of salesperson is 101.4 billion VND and accounts for 30.7% in total selling costs, the rental fee is 102.2 billion VND and accounts for 30.94% in total selling costs, the marketing cost is 73.2 billion VND and accounts for 22.18% in total selling costs. Equipment costs account for 4,6% , packing and transportation fees also account for 4,6%. Other costs like electricity, water, telephone, internet, stationery, travelling, traning,... account for a insignificant proportion.

The salary includes all the payables to employees who work in VTA's stores, carry out marketing campaigns,... They are responsible for sales, delivery, customer services and other tasks related to sales. The salary are basic salary, overtime, sales commissions for employees, insurances under government regulations. Because VTA has 200 stores nationwide, it needs a large number of employees to run those stores.

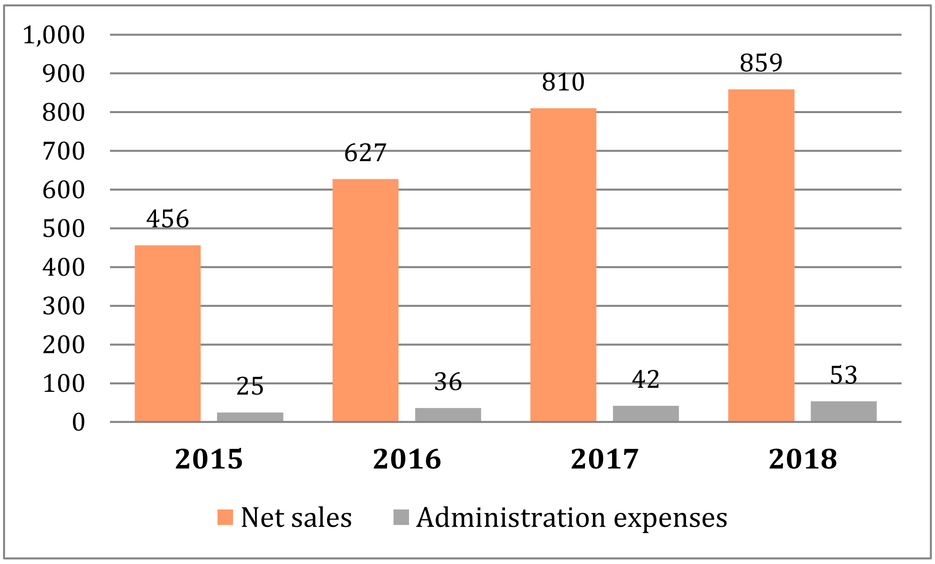
The rental fees include all payables for renting stores. VTA has 200 stores nationwide, in which 70 stores are located in Ho Chi Minh city, 54 stores are located in Ha Noi capital and the remaining stores spread evenly in other provinces. Ha Noi and Ho Chi Minh are two economic centers of Vietnam, cost of renting stores is many times higher than other provinces. With 124 stores in Ho Chi Minh and Ha Noi, VTA has to incur a large amount of rental costs. It asked the question whether or not VTA has effectively used those stores?

The marketing expenses include marketing research costs, advertising costs, promotion and other campaigns which bring VTA's products close to customers and promote shopping. There are too many product lines in the market, including copied and poor quality products. It is a challenge that VTA must introduce the difference between their products and competitor's products. VTA carries out advertising programs through television, youtube, commercial website and other channels. In addition, the promotion and discount programs are necessary.

7.3 General and Administration Expenses

General & administration expenses are expenses that the company has to incur in the overall management of a business. Same as selling expenses, general & administration expenses are indirect costs that can not be determined specifically and exclusively with a certain product. In addtion, they are not included in inventory valuation. They are treated as expenses in the period.

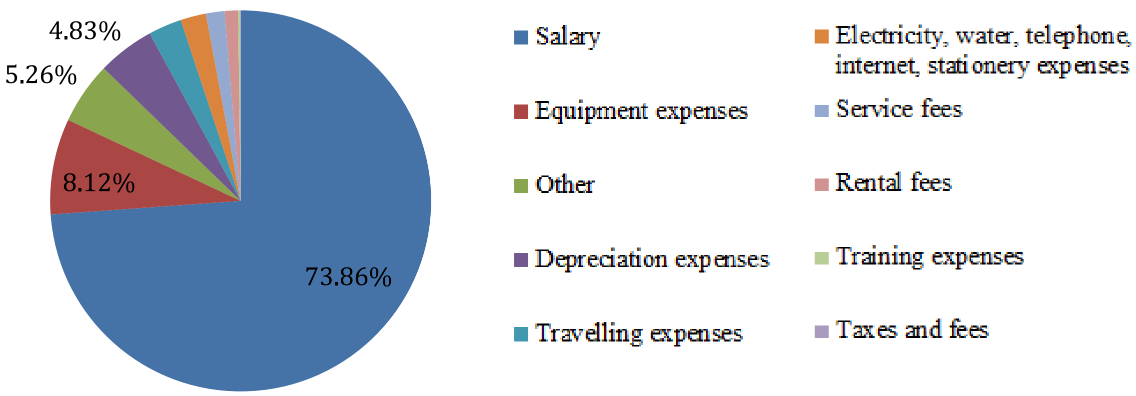
Figure 10: VTA Net sales – General & administration expenses from 2015 – 2018. (unit: billion VND) [source: own processing].



General & administration expenses account for 5% - 6% of net sales. They often include administartive salaries, retal fees (or depreciation), equipments, utilities, travelling and other expenses.

To better understand these expenses, we will look at the VTA's administration expenses structure in 2018.

Figure 11: The VTA's administration expenses structure in 2018 (source: own processing).



Salaries account for 73.86% in general & administration expenses total. It includes the salary of the board of directors and employees which work at the headquarters for overall management tasks. Equipment expenses account for 8.12%, other costs are insignificant.

8 ANALYSIS OF THE BUDGETING PROCESS IN VTA

Budgeting is a part of the management control process, managers make sure that resources are collected and used effectively in the accomplishment of the organization's goals.

Budgets can be required to play a variety of roles. The main roles are planning and controlling. Planning – operational budgets are plans. Plans require managers to think about what they expect to happen in the future. Budgeting allows managers forecast revenues and costs under specific sets of operating assumptions. Controlling is the process of comparing actual result with established budgets. If the results didn't occur as plans, the managers will investigate the causes to see that activities need to be overcome and good activities need to be promoted.

From a costs managerment perspective, budgets provide a basis for comparing actual costs with cost norms that helps the company avoid incurring costs beyond the control of the company, affecting the company's profit.

8.1 The Budgeting Method

Understand the importance of budgeting in cost management which meets the management needs of the company, VTA had started the budgeting process for all company's activities from 2018.

VTA uses incremental budgeting. Incremental budgeting is a method of budgeting in which next year's budget is prepared by using the current year's actual results as a starting point, and making adjustments for sales growth of decline, expected inflation and other changes.

The 2018 budget is set up by VTA based on the 2017 actual results and expected growth. It will be presented more clearly in the next section.

8.2 The Budgeting Process

8.2.1 Sales Budget

Revenue is forecasted based on past data, considering growth over years, add new product factors and the expected growth of the board of directors.

Based on sales data in 2017 and new product factors and the expected growth, the board of directors will co-ordinate with the department managers in order to set the target revenue for the company. The board of directer expected that the revenue of stores will increase 25% in 2018.

Table 2: VTA - Sales Budget 2018 (source: internal documents of VTA Joint Stock Company).

REVENUE TARGETS 2018 -VTA
Million VND

Distribution channels	Target Revenue
Stores	743,261
Bookstore	82,191
Convenient store	5,401
Super/Hyper market	68,326
FNLAND	5,432
School	40,000
Lower Trade	46,057
Ecommerce	35,863
Others	120
Total	**1,026,652**

Target revenue is set for distribution channels. Sales department forecasts the number of goods sold while marketing department decides the selling prices for the forecast period based on purchasing costs, desired profit, product informations and business strategies. The selling price is different between retail prices and wholesale prices.

Stores are retail channels. As we mentioned above, the company has 200 stores nationwide. Other channels are often wholesale channels. In which, lower trade is the distribution channel through business households, stores in the traditional market and e-commerce is revenue from commercial websites.

After the target revenue for the whole year is determined, the monthly target revenue will also be determined. It is showed in Appendix P.II: VTA – Sales Budget 2018 (By Month).

8.2.2 Cost of Goods Sold Budget

Based on sales budget from marketing and sales department, purchasing department will make purchase planning. Cost of goods sold budget is set up according to the number of sales forecast, purchasing prices from suppliers and the expected gross margin. The gross margin is considered based on the gross margin of the previous year. It is showed in Appendix P.III: VTA – Cost of Goods Sold Budget 2018 (By Month).

8.2.3 Selling Expenses Budget

As analysed in the previous section, selling expenses are very important, it accounted for 40% of net sales in 2017.

Selling expenses budget are planned from many departments. Marketing department carries out to plan for marketing costs and schedule of marketing campaigns in the period. Marketing campaigns will be designed for the categories of products, distribution channels,.. Marketing activities at VTA are considered the leading strategies that help VTA increase sales and the market share. Other departments that related to selling activities like the chain of My Kingdom stores, sales department, warehouse,..will plan for expected costs in the period. It includes packaging and transportation fees, tools and equipment, electricity, water, telephone, internet, stationery, travelling and other expenses. Human resource department will plan for salary, insurance and bonus of all employees based on the number of employees, current salary, expected salary increase rate and bonus policy from the board of directors. Accounting department will plan for and rental fees based on tenancy contracts.

Like other budgets, selling expenses budget will be planned monthly. Selling expenses budget is presented in detail as Appendix P.IV: VTA - Selling Expenses Budget 2018 and Appendix P.V: VTA - Selling Expenses Budget 2018 (By month).

8.2.4 Administration Expenses Budget

As analysed in the previous section, administration expenses account for 5%-6% of net sales. It is the inevitable cost of operating business. Salary expenses is the most important, it accounts for 73.86% in 2018. Human resource department will plan for salary, insurance and bonus of all employees. Accounting department will plan for other administrative expenses based on past data, revenue target and other factors like inflation.

Administration expenses budget is presented in detail as Appendix P.VI: VTA – Administration Expenses Budget 2018.

8.2.5 Income Statement Budget

Financial department will make income statement budget based on the relevant budget. Income statement budget is summarized from revenue budget, cost of goods sold budget, selling expenses budget and administration expenses budget. Other indicators such as financial income, financial expenses, corporate income tax will be planned by finance department.

Income statement budget will show the expected profit which achieved during the period to evaluate performance business.

Table 3: VTA - Income Statement Budget 2018 (source: internal documents of VTA Joint Stock Company).

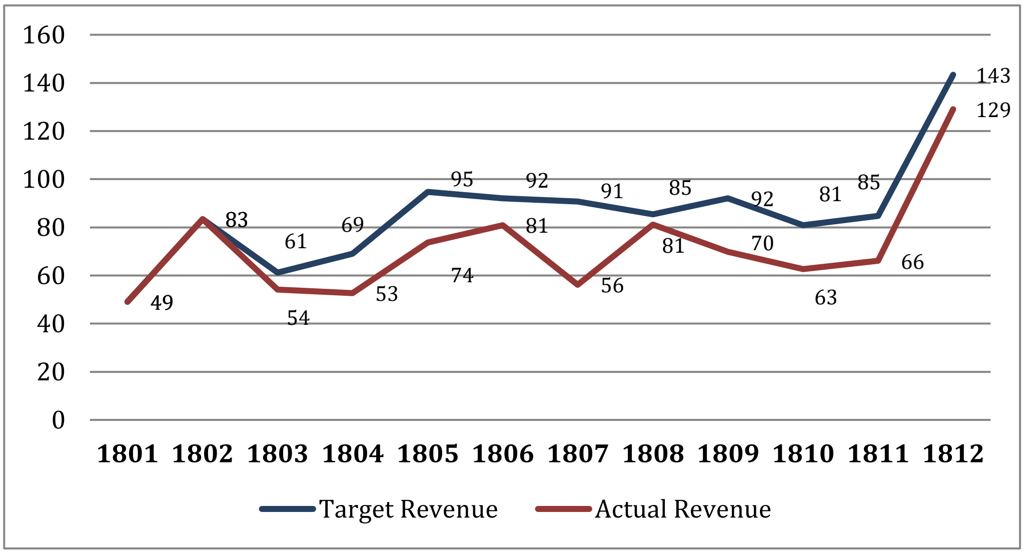
INCOME STATEMENT BUDGET 2018 - VTA
Million VND

Income Statement	**2018**	**%**
Net Revenue	**1,026,652**	**100%**
Cost of goods sold	467,947	46%
Gross profit	**558,705**	**54%**
Financial income	-	0%
Financial expenses	8,787	1%
Selling expenses	419,656	41%
Administration expenses	54,464	5%
Profit from operating activities	**75,799**	**7%**
Other income	-	0%
Other expenses	-	0%
Other profit	**-**	**0%**
Earning before tax	**75,799**	**7%**
Corporate income tax	15,160	1%
Earning after tax	**60,639**	**6%**

8.3 Variances Analysis

It is very important that we have to compare actual result with established budgets to timely control unwanted problems.

Figure 12: VTA Sales Budget Variances 2018. (unit: billion VND) [source: own processing]

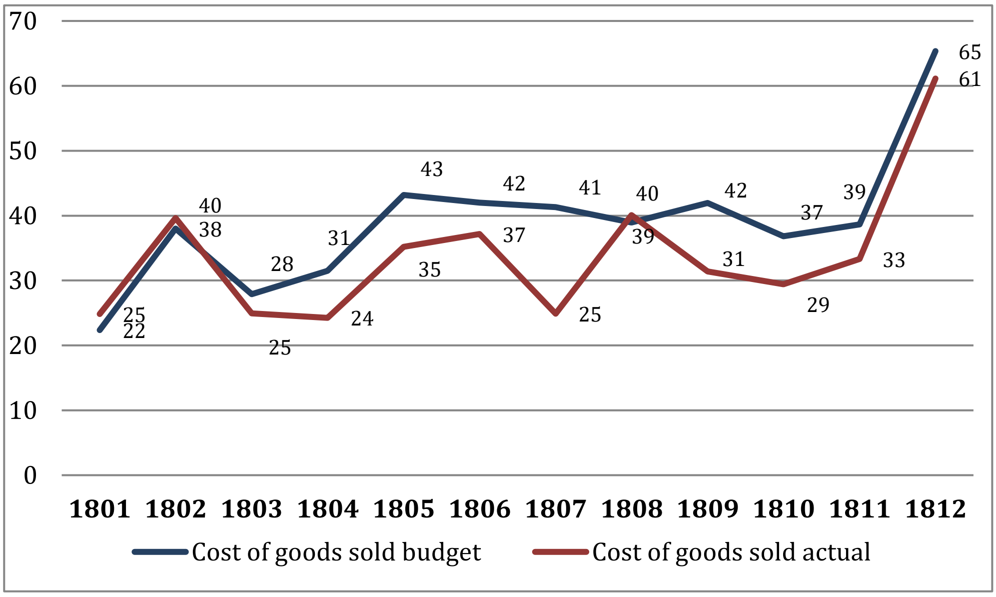


The figure 12 shows that the target revenues are always higher than the actual revenue during 2018. It usually has no difference between the target revenue and the actual revenue in January and February, because the budgets is set up at the beginning of the year that operating activities took place.

Although the economy of Vietnam in 2018 still maintains a high growth rate, the high competition among enterprises in the children toy market lead to result in the company's revenue that cannot increase as expected. The biggest difference is in July, the target revenue is 91 billion VND while the actual revenue is 56 billion VND. It can be explained that family usually travel in July for summer holiday, in addition, they bought toys for their children in June as a gift for the International Children's day. We can predict that sales in July will be lower than June, instead of estimating sales in July equal to June as the company did.

VTA has set the target sales that are too high and aren't suitable for the actual situation. The sales budget provides basic data to set up budgets for cost of goods sold, selling expenses and administration expenses. The sales budget is the foundation of all other budgets, since all final expenditures depend on the number of sales. When the sales budget isn't accurate, the other budgets will be not reliable and it will be a big problem.

Figure 13: VTA Cost of Goods Sold Variances 2018. (unit: billion VND) [source: own processing]



Look at the figure 13, we can see that the cost of goods sold budget are higher than the cost of goods sold actual. It is very difficult to control the cost of goods sold every month, because there are general shipping costs and customs costs that are difficult to allocate by specific items. It is recorded as a cost of goods sold after the batch of goods sold. In order to control cost of goods sold, VTA have to control purchasing prices and track the rate between the actual cost of goods sold and the actual revenue to make sure it doesn't exceed the allowable rate.

Figure 14: VTA Selling Expenses Variances 2018. (unit: billion VND) [source: own processing]

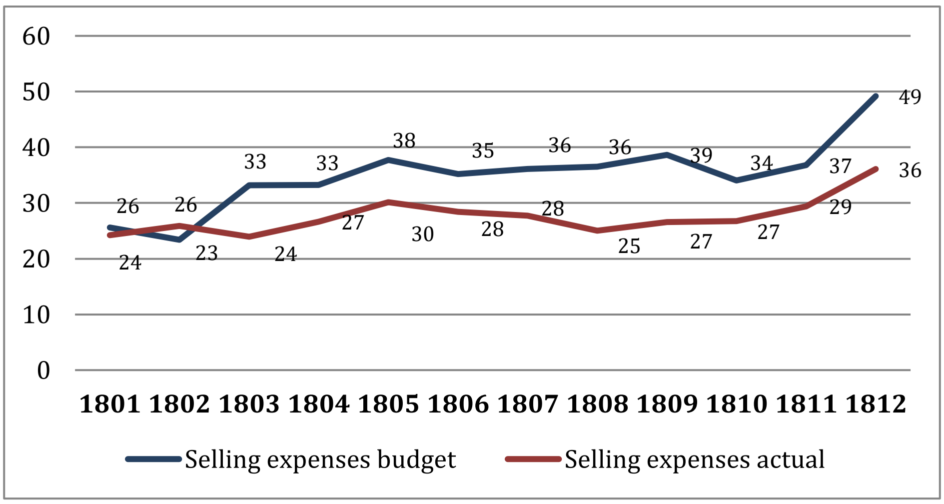
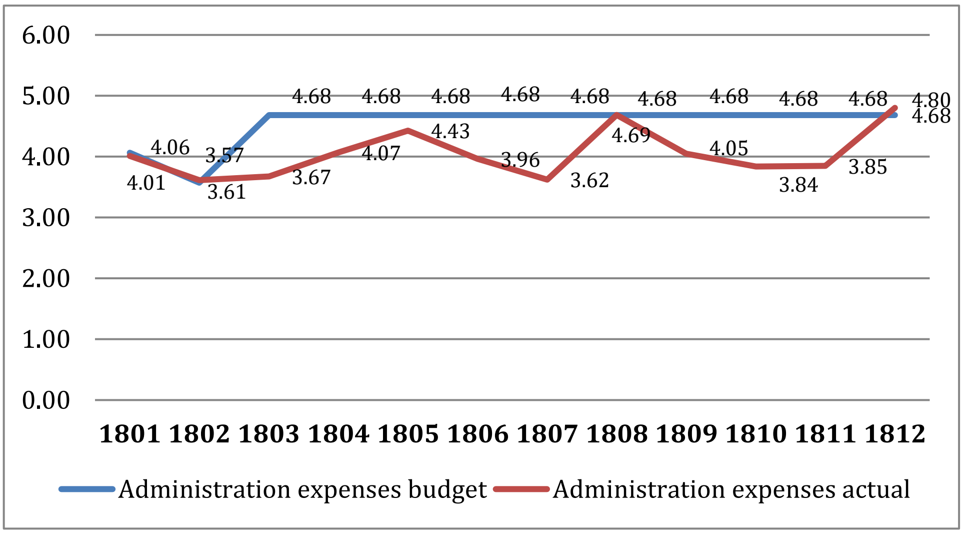


Figure 15: VTA Administration Expenses Variances 2018. (unit: billion VND) [source: own processing]



The figure 14 and figure 15 show that the selling and administration expenses actual are lower than the selling and administration expenses budgets. Because the sales target is much higher than the sales actual, it is easy to understand why the actual expenses are lower than the budget.

It will be a good sign if the actual costs are lower than the budgets, it shows that the company is controlling effectively its costs. But in this case, VTA needs to reconsider the rate between the actual expense and the actual revenue to make sure it doesn't exceed the allowable rate.

9 FINANCIAL PERFORMANCE MEASUREMENT

9.1 Financial Statement Analysis

9.1.1 Balance Sheet Analysis

Table 4: The VTA's Balance Sheet Analysis for period 2015 – 2018 (unit: billion VND) [source: own processing].

Balance Sheet	2015		2016		2017		2018	
Current Assets	**254**	**89%**	**386**	**84%**	**486**	**88%**	**498**	**87%**
Cash and cash equivalents	17	6%	9	2%	30	5%	19	3%
Short-term receivables	71	25%	88	19%	100	18%	85	15%
Inventories	146	51%	266	58%	335	60%	377	66%
Other current assets	21	7%	22	5%	22	4%	17	3%
Long-term Assets	**32**	**11%**	**73**	**16%**	**68**	**12%**	**76**	**13%**
Long-term receivables	0	0%	3	1%	1	0%	0	0%
Fixed assets	18	6%	29	6%	29	5%	29	5%
Other long-term assets	14	5%	41	9%	38	7%	47	8%
TOTAL ASSETS	**286**	**100%**	**458**	**100%**	**554**	**100%**	**574**	**100%**
Liabilities	**161**	**56%**	**311**	**68%**	**334**	**60%**	**327**	**57%**
Short-term liabilities	**90**	**31%**	**219**	**48%**	**314**	**57%**	**326**	**57%**
Short-term loans	53	19%	177	39%	275	50%	233	41%
Short-term account payables	11	4%	12	3%	10	2%	65	11%
Tax payables	9	3%	2	0%	3	1%	4	1%
Payable to employees	1	0%	3	1%	4	1%	5	1%
Short-term accrued expenses	12	4%	21	5%	18	3%	15	3%
Other short-term payables	3	1%	4	1%	5	1%	4	1%
Long-term liabilities	**71**	**25%**	**92**	**20%**	**20**	**4%**	**1**	**0%**
Long-term loans	8	3%	2	0%	1	0%	0	0%
Long-term account payables	16	5%	42	9%	18	3%	0	0%
Other long-term payables	48	17%	48	10%	0	0%	1	0%
Owners' Equity	**125**	**44%**	**147**	**32%**	**220**	**40%**	**247**	**43%**
Owners' capital	27	9%	27	6%	77	14%	77	13%
Undistributed earnings	98	34%	121	26%	143	26%	171	30%
TOTAL RESOURCES	**286**	**100%**	**458**	**100%**	**554**	**100%**	**574**	**100%**

Look at the table 4, we can see that the company’s total assets increased rapidly during the period from 2015 to 2018, it almost doubled. The total assets of the company were 286 billion VND in 2015 and it increased to 574 billion VND in 2018. Within 2015-2018 the company maintains approximately the same share of current and long-term assets on the whole amount of assets, 14/86 in generally. It is can be explained by that VTA is a merchandising company, so the main assets of the company come from inventory and receivables. The company’s inventory accounts for the highest proportion in total assets. It accounts for 51% in 2015 and increased to 66% in 2018.

In VTA’s resources, the share of liabilities and owners’ equity are often 60/40 in generally. The liabilities are highest in 2015 with 68% of total resources, this proportion is 57% in 2018. The company is following the trend of reducing long-term debts, until 2018, the company's long-term debt seems to be 0. Short-term loans account for the highest proportion in liabilities of the company with 41% in 2018.

9.1.2 Income Statement Analysis

Table 5: The VTA’s Income Statement Analysis for period 2015 – 2018 (unit: billion VND) [source: own processing].

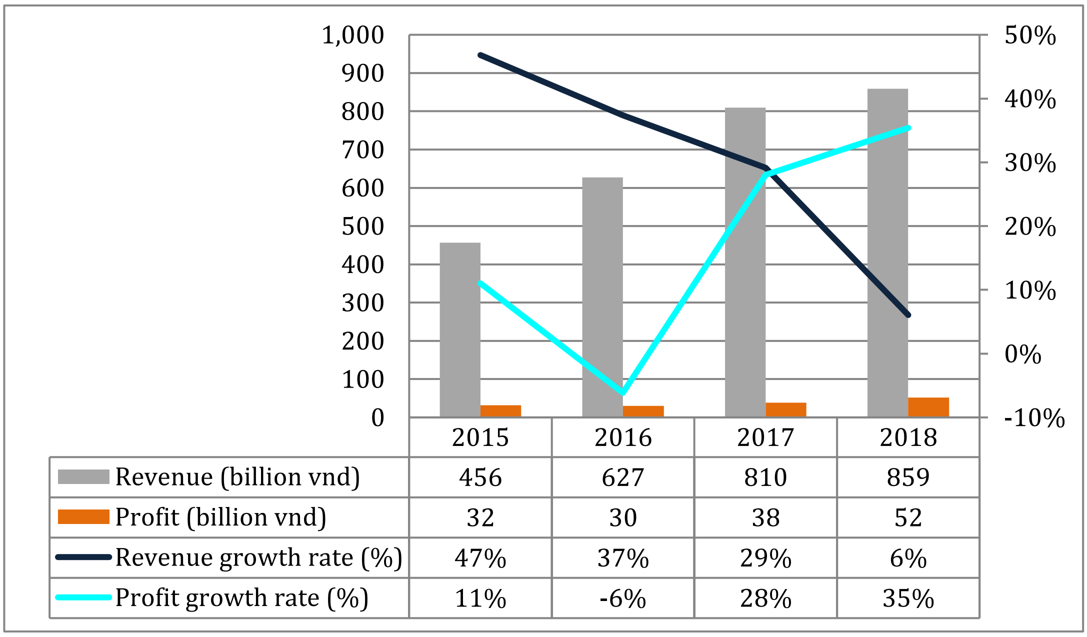
Income Statement	**2015**		**2016**		**2017**		**2018**	
Sales	**456**	**100%**	**627**	**100%**	**810**	**100%**	**859**	**100%**
Cost of goods sold	*227*	50%	303	48%	392	48%	406	47%
Gross profit	**230**	**50%**	**324**	**52%**	**418**	**52%**	**453**	**53%**
Financial income	1	0%	1	0%	0	0%	1	0%
Financial expenses	*3*	1%	4	1%	9	1%	5	1%
Selling expenses	*162*	35%	247	39%	320	40%	331	39%
Adminitration expenses	*25*	5%	36	6%	42	5%	53	6%
Net operating profit	**41**	**9%**	**38**	**6%**	**48**	**6%**	**65**	**8%**
Other income	0	0%	0	0%	0	0%	0	0%
Other expense	*0*	0%	1	0%	0	0%	0	0%
Earning before tax	**41**	**9%**	**37**	**6%**	**48**	**6%**	**65**	**8%**
Corporate income tax	*9*	2%	7	1%	10	1%	13	2%
Earning after tax	**32**	**7%**	**30**	**5%**	**38**	**5%**	**52**	**6%**

In generally, we can see that the cost of goods sold often accounts for 50% in of revenues, selling expenses accounts for 40% of revenues and profit accounts for 6% of revenues. The are positive changes, cost of goods sold accounts for 50% of revenue in 2015, this rate is

47% in 2018. The decreasing in cost of goods sold makes the company gross profit increases from 50% in 2015 to 53% in 2018. The expansion of distribution channels and a chain of 200 stores, the selling expenses of VTA increased to about 40% of revenue in 2016 and 2017. With the efforts in control the selling expenses, it decreased to 38.5% in 2018. The final result is ROS increased from 5% to 6% in 2018 and improve the actual situation of the company.

In other to have an overview of the company's performance, we conduct analysis revenue and revenue growth rate, profit and profit growth rate over years from 2015 to 2018.

Figure 16: Revenue – profit analysis of VTA for period 2015 - 2018 (source: own processing).



	2015	2016	2017	2018
Revenue (billion vnd)	456	627	810	859
Profit (billion vnd)	32	30	38	52
Revenue growth rate (%)	47%	37%	29%	6%
Profit growth rate (%)	11%	-6%	28%	35%

Look at the figure 16, we can see that VTA's revenue has grown over the years from 456 billion VND in 2015 to 859 billion VND in 2018. But in terms of the revenue growth rate compared to the previous year, the revenue growth rate of VTA is decreasing. It is the lowest in 2018 with 6%. It is a really concerned problem. One of the causes is the high competition among enterprises in the children toy market, more and more businesses are entering the market with imported toys from the world's leading suppliers. This also explains why VTA has set the high target revenue with 25% in 2018, because VTA based on the past revenue growth rate, but it isn't suitable for the actual situation in 2018.

In the other hand, there is a good sign when we look at the VTA's profit. VTA's profit grows over the years from 32 billion VND in 2015 to 52 billion VND in 2018. The profit growth rate is the lowest at -6% in 2016 and the highest at 35% in 2018. The revenue growth rate decreases while the profit growth rate is increasing. It shows that VTA has a good cost management in recent years. Reducing costs helps to optimize the profit of the company.

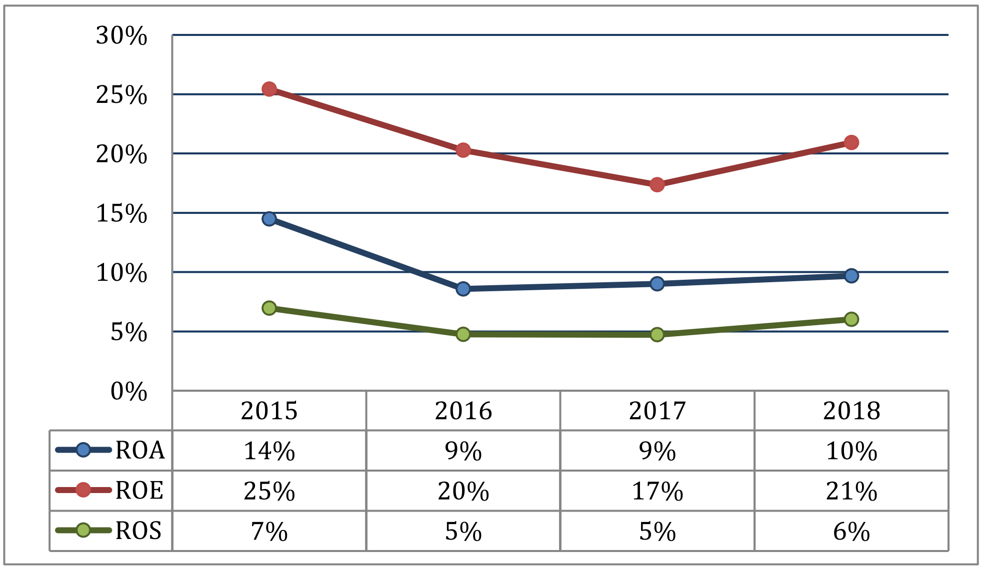
9.2 Financial Ratio Analysis

This part will analyze the financial health of VTA during period 2015-2018 using financial ratios.

9.2.1 Profitability Ratios

In the group of profitability ratios, Return-on-Equity (ROE), Return-on-Asset (ROA) and Return-on-Sales (ROS) will be analyzed.

Figure 17: VTA Profitability ratios for period 2015 - 2018 (source: own processing).



ROA measures the profitability of the total funds of a firm. The objective is to find out how efficiently the total assets have been used by the management. The higher ROA is the better, it shows that the company is using it's assets effectively. ROA was 14% in 2015, it dropped to 9% in 2016 and 2017. The cause may come from the company's inventory. VTA keeps a significant number of inventory in the total assets. Inventories account for 51% in the total assets in 2015, this rate is 58% in 2016, 60% in 2017 and 66% in 2018. ROA is improved in 2018 with 10%.

ROE indicates how good a company is in generating profits from the investment that they received from it's shareholders. ROE was 25% in 2015, it dropped to 20% in 2016 and 17% 2017. It shows that the company had difficulties in business. As mentioned above, one of the causes is the high competition in the market that makes the company's market share decrease. In addition, the increasing in costs was also the cause of profit reduction. ROE is improved in 2018 with 21% when the company had some positive changes in operation. VTA started with budgeting from 2018 to control its expenses. The budgeting helps VTA control costs more effectivelly, the proportion of cost of goods sold has been reduced compared to previous years, leading to increased the company's gross profit. It is showed when we analyse the income statement analysis part above.

Compared to the profitability ratios average for the industry, ROA of the company is 10% in 2018 while ROA of the average of industry is 8.5%. ROE of the company is 21% in 2018 while ROE of the average of industry is 22%. It didn't have too much difference when comparing with the rest of the industry. With the efforts in selling and costs management, it can believe that VTA can maintain or grow this ratios in the coming years.

9.2.2 Asset utilization ratios

Asset utilization ratios measure the efficiency of the company in managing and utilizing its assets. We will look at the total asset turnover ratio and two important current assets of the company: inventory and receivables.

The total asset turnover ratio indicates how many sales are generated from each dollar of the company's assets. This ratio measures how efficienly the company uses it's assets to generate sales, so a higher rate is always more favourable. A lower rate shows that the company does not use it's assets effectively and the company can meet management or production problems.

The inventory turnover ratio is calculated by comparing the cost of goods sold with the average inventory in a period of time. This ratio measures the number of times an inventory is sold during a period. The inventory turnover ratio indicates how efficiently the company can control it's goods, so it is important to have a high ratio. Days' sales in inventory shows measures the number of days the company will take to sell all of it's inventory. The smaller the number, the faster the company turns over inventory, more efficient it is.

The receivables turnover ratio measures the number of times the company can turn it's receivables into cash during in a periof of time. A higher ratio is always more favourable, it means that the company is collecting it's receivables more frequently throughout the year. Days' sales in receivables measures the number of days the company takes to convert it's receivables into cash. This ratio shows the liquidity of the company.

Assets utilization ratios of VTA will be presented in the table below:

Table 6: VTA Assets Utilization Ratios for period 2015 – 2018 (source: own processing).

	2015	2016	2017	2018
Total asset turnover ratio	1.98	1.68	1.60	1.52
Inventory turnover	1.98	1.47	1.30	1.14
Days' sales in inventory	184	248	280	320
Receivables turnover	7.78	7.90	8.63	9.31
Days' sales in receivables	47	46	42	39

Look at the table 6, it is not good that the total asset turnover ratio of VTA decreased for period from 2015 to 2018. One of the most important causes is that VTA meets problems in managing inventory. The company's inventory accounts for 51% of the total assets in 2015, this rate increased to 66% in 2018. This problem will be considered more carefully when we analyze inventory turnover and days' sales in inventory of VTA.

The inventory turnover of VTA decreased significantly for period from 2015 to 2018. This ratio was 1.98 times in 2015 and decreased to 1.14 times in 2018. The days' sales in inventory increased from 184 days in 2015 to 320 days in 2018. It shows that VTA takes 320 days to sell all of it's inventory in 2018. This is the problems for a company in the children's toys industry. Because the toys for children are always renewed in style, color,.. to catch the tastes of children. The fact that the company keeps inventories for too long can lead to obsolete goods. Older, more obsolete goods are always worth less than new goods. The report from sales department shows that all goods that the company is currently selling, only about 60% of the goods are good-selling, 10% of goods are new product lines that the company is extending, 30% of the rest of goods are difficult to sell. VTA can not effectively sell the inventory it buys. VTA has overspent by buying too much inventory and wasted resources by storing non-salable inventory. Inventory is an expensive cost for the company. The company has spend too much by paying for renting the warehouse, employees and other equipments that protect inventory from theft and obsolete.

This measurement also shows investors how liquid the company's inventory is, in the other words, it shows how easily the company can turn it's inventory into cash. The inventory of VTA always accounts a significant proportion – 66% of total assets in 2018. If this inventory can not be sold, it is worthless to the company. The longer the inventory in stock, the less the company's cash. Inventory is important for the company, because it measures value, liquidity and cash flow.

Compared to those ratios average for the industry, it is similar with the total assets turnover ratio of the industry with 1.5 times in 2018. The inventory turnover of VTA is 1.14 times in 2018 while this ratio of the industry is 4.22 times. There is a big difference. VTA should has solutions for it's inventory.

There is a positive sign when the receivables turnover of VTA increased from 7.78 in 2015 to 9.31 in 2018 and the days' sales in receivables decreased from 47 days in 2015 to 39 days in 2018. Most of the company's revenue comes from 200 retail stores nationwide, which can collect money right after selling. It is advantageous with the company from the cash flow perspective. The sooner cash can be collected, the sooner this cash can be used to pay invoices and other obligations. It is similar with the receivables turnover ratio of the industry with 9.58 times in 2018.

9.2.3 Leverage Ratios

A leverage ratio is one of the financial measurements that consider how much capital comes in the form of debt. Debt ratio indicates the relative proportion of debt and the assets of the company. An enterprise with high debt is more risky if it can't meet short-term obligations with short-term assets.

Table 7: VTA Leverage ratios for period 2015 – 2018 (source: own processing).

	2015	2016	2017	2018
Debt equity ratio	1.29	2.12	1.52	1.32
Debt to total capital ratio	0.56	0.68	0.60	0.57
Interest coverage ratio	26.65	18.54	7.48	23.69

The debt ratios show that the capital structure of VTA is quite stable. The debt - equity ratio is often from 1.3 to 1.5 except in 2016. In 2016, the debt – equity ratio increased to 2.12 that means VTA's debts are double the owners' equity, and VTA's debts account for 68% in the total capital of the company. This ratios are improved in 2017 when VTA increased the owners' equity from 26.5 billion VND to 76.5 billion VND. The debt – equity ratio decreased to 1.32 and VTA's debts are account for 57% in the total capital of the company in 2018. A debt to total capital ratio of 0.57 is often considered to be less risky. This means that VTA's creditors own 57% of VTA's total assets and shareholders own the rest of the assets. Companies with a higher debt – equity ratio are considered more risky to creditors and investors. A high debt ratio is associated with a greater risk of bankruptcy.

In the other hand, it is good if the company can use the financial leverage effectively. Because interest on debts is a tax-deductible expense, the company can avoid income taxes compared with uses owners' equity.

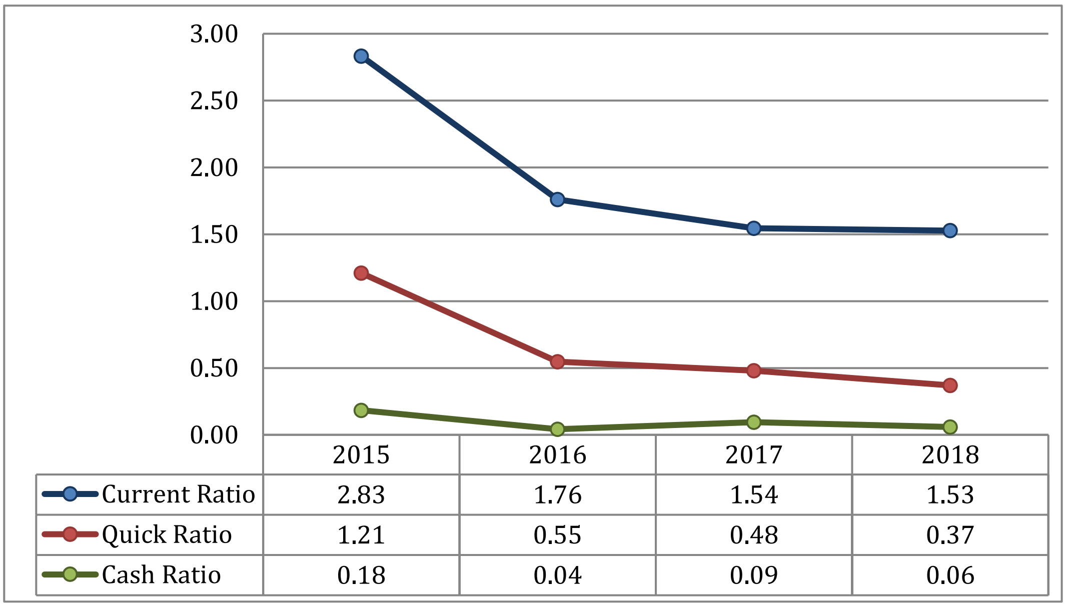
The interest coverage ratio measures the company's ability to meet interest payments on its debts in a timely manner. This is a positive sign that the interest coverage ratio of VTA is quite high, it means that the company has ability to pay interest on time. It is an advantageous, because creditors will consider whether they continue to give loans.

9.2.4 Liquidity Ratios

Liquidity ratios analyze the ability of a company to pay its short term obligation for the continuous operation. Liquidity ratios show the cash levels of a company and the ability to turn other assets into cash to pay off loans and other short-term obligations.

As mentioned in the theory part, the liquidity ability has primary importance for the survival of a firm both in short term and long term. It is often observed that a firm is very profitable in its books but it does not have sufficient cash and cash equivalent to pay its daily bills and due obligations. The empirical studies have proved it that a large number of the firms are bankrupt not because they are not profitable but they do not have sufficient liquidity.

Figure 18: VTA Liquidity ratios for period 2015 - 2018 (source: own processing).



	2015	2016	2017	2018
Current Ratio	2.83	1.76	1.54	1.53
Quick Ratio	1.21	0.55	0.48	0.37
Cash Ratio	0.18	0.04	0.09	0.06

The current ratio measures the company’s ability to pay short-term liabilities with its current assets. The current ratio is an important measurement of liquidity because short-term liabilities will mature within the next year. This means that the company has a limited time to raise capital to pay for these liabilities.

The quick ratio measures the company’s ability to pay short-term liabilities with only quick assets. Quick assets are current assets that can be converted into cash in the short-term. Cash, marketable securities and receivables are considered quick assets. Inventories will be excluded when calculating the quick ratio, because inventories are typically the least liquid of a company’s current assets.

Look at the figure 18, we can see that current ratio and the quick ratio of VTA decreased over the years. The current ratio of VTA was 2.83 in 2015 while it decreased to 1.53 in 2018. The quick ratio of VTA decreased significantly, it was 1.21 in 2015 and decreased to 0.37 in 2018. Those ratios are quite low compared to the ratios average of the industry. The current ratio of the industry is 5.12 and the quick ratio of the industry is 3.7 in 2018. This shows that VTA will have difficult in meeting its liabilities in the timely manner. It is really risky, when the company loses liquidity, it will lead to bankrupt.

The main reason for the current situation is the inventories of VTA. As mentioned when we analyze the assets utilization ratios of VTA, the company meets problems with inventory management, inventory increases significantly in recent years.

Looking back on VTA's business results, although the company's revenue increased slowly in 2018, the company's profit is improved by efforts in cost management. The biggest problem of the company is inventory. The company's inventory is too high that affects the profitability and liquidity of the company. Beside efforts in increasing revenue and cost management, the company needs to have appropriate solutions to handle its inventory.

9.3 Calculation of Economic Value Added

In this part, VTA's EVA will be computed according to the accounting approach for the analyzed 2015 – 2018 accounting years.

$$EVA = (ROE - \text{Cost of Equity}) \times \text{Shareholder's equity}$$

Cost of equity is the expected return rate of the investors. The Capital Assets Pricing Model (CAPM) is the most frequent approach to calculate the cost of equity. This method uses Beta – a coefficient of volatility of an organization's share price and represents a market risk. The cost of equity can be calculated as follows:

$$R_E = R_f + \beta\,(R_M - R_f)$$

In which: R_E is cost of equity; R_f is the risk-free rate; $R_M - R_f$ is the market risk premium; β is the stock's beta.

Because VTA is not a publically traded company, therefore the cost of equity will be computed by utilizing CAPM with the alternative asset Beta:

$$\text{Levered Beta} = \text{Unlevered Beta} \times (1 + (1 - \text{tax}) \times \frac{Total\ Liabilities}{Total\ Equity})$$

Table 8: Calculation of Cost of Equity for period 2015 – 2018 (source: own processing).

Accounting year	2015	2016	2017	2018
Risk free rate	6.78%	6.64%	5.20%	4.95%
Unlevered beta, times	0.69	0.82	0.77	0.88
Levered beta, times	1.40	2.21	1.71	1.80
Equity risk premium	6.75%	7.07%	6.40%	5.19%
Cost of equity	**16.26%**	**22.25%**	**16.16%**	**14.32%**

The risk free rate reflects the interest rate of Vietnam government bond 10 year. The unleveled asset Beta and equity risk premium are taken from Damodaran's source.

The calculations of EVA for the 2015 – 2018 accounting years are presented in the following table below:

Table 9: Calculation of EVA for the period 2015 – 2018 (source: own processing).

Accounting year	2015	2016	2017	2018
ROE	25.42%	20.27%	17.36%	20.93%
Cost of equity	16.26%	22.25%	16.16%	14.32%
Equity (million VND)	124,984	147,092	219,900	247,027
EVA (million VND)	**11,446**	**-2,912**	**2,649**	**16,327**

Look at the table 9, we can see that the EVA is negative in 2016. As mentioned above, the profit growth rate is the lowest at -6% in 2016 and the highest at 35% in 2018. Although the company's revenue increased slowly in 2018, the company's profit is improved by efforts in cost management. It shows that VTA has a good cost management in recent years. Reducing costs helps to optimize the profit of the company. ROE was 25% in 2015, it dropped to 20% in 2016 and 17% 2017 and is improved in 2018 with 21%. ROA was 14% in 2015, it dropped to 9% in 2016 and 2017 and is improved in 2018 with 10%. One of the most important causes is that VTA meets problems in managing inventory. VTA keeps a significant number of inventories in the total assets. If this inventory cannot be sold, it is worthless to the company. The longer the inventory is in stock, the less the company's cash. Inventory is important for the company, because it measures value, liquidity and cash flow.

10 PROPOSALS FOR IMPROVING FINANCIAL PERFORMANCE BASED ON BUDGETING

10.1 Evaluation of The Current Budget System of VTA

Understand the importance of budgeting in cost management which meets the management needs of the company, VTA had started the budgeting process for all company's activities from 2018, but VTA's budget system is designed to be very simple and limited.

Limitations of process:

VTA has not built a complete budgeting process. Currently, the finance department is mainly responsible for budgeting at the company. The budgeting process VTA does not have a close link between the departments. The budgeting process includes collecting detailed budgets from departments of the company, consolidated for the company as a whole, budget approval by top managers. However, the content of the work in each stage has not been sufficient and concretized, not clearly differentiated from the responsibility of budgeting for the relevant departments. Therefore, other departments have not understood the importance of budgeting.

The company's current budgeting process is the top-down process. Based on the previous year's actual results, considering growth over years, add new product factors, the top managers will set up the expected growth and the revenue target. The target revenue will be distributed by sales manager to each distribution channel and each store. The disadvantages of this approach is that it is heavy to impose from senior management, so it is easy to create discontent in the parts of the business, not attracting the participation of subordinate managers and individuals who understand the current situation and can contribute ideas. Indicators set by top managers sometimes do not properly reflect the potential and existing capabilities of the company, which does not encourage an increase in the productivity of parts within the organization.

We can see very clearly when considering the actual situation in 2018, the target revenues are always higher than the actual revenue. The company has set the target sales that are too high and aren't suitable for the actual situation. The sales budget is the foundation of all other budgets, since all final expenditures depend on the number of sales. When the sales budget isn't accurate, the other budgets are not reliable and it is a big problem. The sales budget is too high compared to the actual results, leading to the company buying too many goods as forecast, resulting in the large of inventories and affecting financial performance of the company.

The collection of information as a basis for budgeting has not been effectively, the sources of information from the external environment have not been focused. The company mainly relies on the past data, the expected growth rate to estimate figures for the budget period. This leads to the estimation do not accurately reflect the actual situation of the company, affecting the quality of the reports. Information on the general economic environment, competitors, consumer tastes,… should be collected and analyzed during the budgeting process.

Currently, the company is making budgets by year. The current year's budget will be set from the beginning of the year. With the current volatile economic situation, the estimation by year will not accurately reflect the actual situation at the company. So, control between actual results and budgets is necessary, but the company has not yet established a control system.

Limitations of the reports system:

The company's budgets system is quite simple. The reports are designed for the general purpose of the managers. The reports includes sales budget, purchasing budget, cost of goods sold budget, selling expenses budget, administration expenses budget and income statement budget. The company has not yet made some important budgets such as cash budget and the budget of balance sheet.

10.2 Objectives of Proposals

Based on analyzing the current budget system of VTA, the main objective of proposals is completing the budget system of the company. It includes:

➢ Establish a formal budgeting process for VTA. Inside, specify the steps to be taken and the department responsible for implementation.

➢ Complete the system of budgets in accordance with the structure and management requirements of the company.

The budget system must meet the following requirements:

✓ Planning annual operation: The annual budgeting process leads to the completion of those objectives of the organization, because managers must set up detailed plans for implementation long-term plans. The budgeting process ensures that managers plan for future activities. This budgeting process encourages managers to anticipate problems before they arise and how to fix problems when they happen. Budgets help managers have direction and decide to allocate resources effectively.

✓ Ensure the organization's goals are achieved: Budgets communicate the manager's plans, objectives and strategies to all parts of the company. It helps ensure each person is affected by the plans has a clear understanding of the part what they have to do to achieve the goals of their own departments and the overall goals of the company.

✓ Co-ordinate activities: The budgeting process forces coordination among activities of different departments to can be brought together and reconciled in the best interests of the entire company.

✓ Establish a system of control: A budget supports managers in managing and controlling the activities that they are responsible for. By comparing the actual results with the budgets for different types of costs, managers can determine which costs are inconsistent with the original plan and therefore require their attention. When the reasons for the inefficiencies were found, the appropriate actions should be taken to overcome the situation. Besides, the good results should continue to promote.

10.3 Completion Budget System of VTA

10.3.1 Organizing Project Team

The implementation project team should be created in order to clearly identify who is responsible for the project. Currently, the finance department is mainly responsible for budgeting at the company. It is good for the company to continue choosing these people who are working in budgeting to participate in completing the budget system. In addition, the team will be responsible for set up budgeting and controlling the annual budget. VTA's project team will include 3 people, the manager of financial department will be the leader of team, the other two are finance department staffs, in which one person will take the main responsibility for sales budget and financial statement budgets, the remaining person will take the main responsibility for expenses budgets.

Choosing members of the project team is very important because its wronging may lead to an inefficient budget system and waste time as well as money of the company. The manager of financial department should ensure that his staff has the knowledge and experience in budgeting as well as finance and accounting.

10.3.2 Identifying the System of Budgets that Meets Company Requirements

Firstly, the project team discussed with board of directors to clearly understand management requirements. Secondly, the project team conducts evaluation of the current budgets system, proposes amendments and supplements the missing budgets. Thirdly, the project team submits to board of directors the new budgets system and shows the function of each report. Finally, the system of budgets will be approved by board of directors.

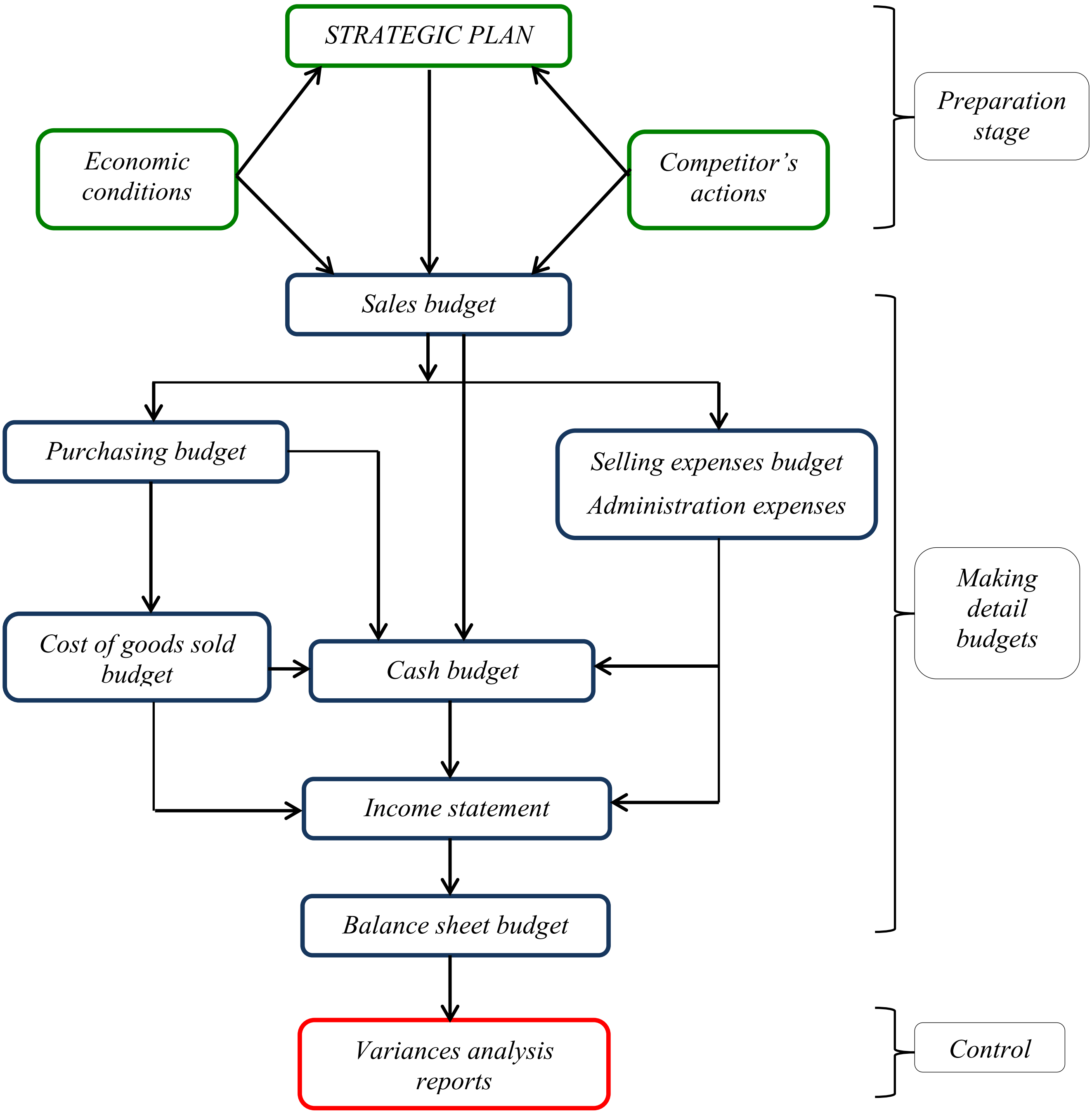
The system of budgets that is in accordance with the structure and management requirements of the company from the writer's point of view includes:

- Sales budget: shows the company's sales expectations during the budget period.
- Purchasing budget: shows purchasing goods which require to meet sales requirements.
- Cost of goods sold budget: forecases cost of goods which are expected to be sold based on the sales budget.
- Selling expenses budget: estimates selling expenses in the period.
- Administration budget: estimates administrative expenses in the period.
- Cash budget: the main function of cash budget is to make sure that there is always enough cash to meet the level of activities that are required in the different budgets.
- Income statement budget and Balance sheet budget: provide a the overall picture of the planned performance for the budget period.

10.3.3 Establishment of the Budgeting Process

To overcome the disadvantages of top-down process. The company should use “feedback” process. Firstly, the board of directors will set up the expected growth and the revenue target. The target revenue will be distributed by sales managers to each distribution channel and each store. The lower level managers who are responsible for each distribution channel or each store base on their capabilities and conditions to determine the feasible revenue targets which are feasible, or should be reduced, or increased to suit the potential of their parts. Then, the lower level managers will submit their budget, which is adjusted to the sales manager. The sales manager will summarize the adjusted budgets, with comprehensive review in order to determine the adjusted revenue targets. Then, the sales manager will submit the adjusted revenue target to the board of directors to approval. The process is similar for making other budgets.

Figure 19: The Budgeting Process of VTA (The budgeting process is referenced from Williams et al., 2018; Steven M. Bragg, 2017 and adjusted to fit with the company model from the perspective of the writer).



<u>The preparation stage:</u> The board of directors will base on the business results of the current year, combined with the reports about economic environments, the children toys

market, competitor's actions and the internal factors of the company in order to determine objectives, strategies for the next year. The objectives and strategies will be appropriate with the long-term plans of the company.

The making detail budgets stage: Based on the business objectives which determine by the board of directors, the company's departments making the detail budgets which they are responsible for. After the budgeting is completed, the board of directors and the manager of departments will meet to conduct a review and approve the budgets.

The control stage: Periodically, the related departments will make a comparison report between actual results and budget. All abnormal fluctuations should be find causes so that they can control and adjust in a timely.

10.3.4 Design the Detail Budgets

a) Sales Budget

In preparation stage of the budgeting process, the board of directors will decide the revenue target after considering the business results of the current year, internal and external impact factors to the company. Target revenue is then set for distribution channels by sales manager. Each distribution channel will make its sales budget based on the target revenue and adjust to fit its conditions.

Table 10: Form 1 - Sales Budget for Distribution Channels (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
REVENUE TARGET 20xx
Name of distribution channels/ stores Million VND

	Jan	**Feb**	**…**	**Dec**	**Total**
Quantity	15,000				
Selling price	0.30				
Total revenue	**4,500**				
CASH IN FLOW					
Receivables at the beginning of the period	3,000				
Collect receivables from Jan sales	2,500	2,000			
…..					
Collect receivables from Dec sales					
Total cash	**5,500**	**2,000**			

Sales department forecasts the number of goods sold while marketing department decides the selling prices for the forecast period. After sales department completes the sales budget for each distribution channels and stores, the financial department is responsible for aggregating the sales budget for the whole company.

Table 11: Form 2 - Sales Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
REVENUE TARGETS 20xx

Million VND

Distribution channels	**Revenue Target**				
	Jan	**Feb**	**…**	**Dec**	**Total**
Stores					
Bookstore					
…					
Total					
CASH INFLOWS					
Receivables at the beginning of the period					
Collect receivables from Jan sales					
…..					
Collect receivables from Dec sales					
Total cash					

Compared to the current sales budget form of the company, the new form is added the cash inflows according to the writer's point of view. Because forecasting cash inflows, which the company can collect and when the company can collect is very important. It related with expenditure plans and liquidity of the company. Forecasting cash inflows in the sales budget will be used in the cash budget in order to compare to cash outflows of the company. The company will have a forecast in advance if there are any cash shortages.

b) Purchasing Budget

Based on the sales budget, purchasing department will make purchase planning. To control the purchase price of goods, the target cost should be applied in purchase prices. Based on selling prices and the desired gross profit for each item, the purchasing department will be set target cost. The target cost of goods helps purchasing department have a basis for comparison when making a purchase. Any difference should be reviewed and approved before purchase. It makes sure that cost of goods sold does not exceed the allowed rate and threatens the company's profit.

Table 12: Form 3 – Purchasing Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
PURCHASING BUDGET 20xx

Million VND

	Jan	**Feb**	**…**	**Dec**	**Total**
Forecast unit sales					
+ Planned ending inventory units					
Total goods required					
- Beginning finished goods inventory					
Goods to be purchased					
Purchase price					
Total					
CASH OUTFLOWS					
Payables at the beginning of the period					
Payments for Jan purchasing					
…..					
Payments for Dec purchasing					
Total cash					

The similar with the sales budget, the purchasing budget should add the cash outflows in order to forecast the amount of money that spends to buy goods every month.

c) Cost of goods sold Budget

Cost of goods sold budget is set up by the financial department according to the number of sales forecast, purchasing prices from suppliers and the expected gross margin.

Table 13: Form 4 – Cost of Goods Sold Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
COST OF GOODS SOLD BUDGET 20xx

Million VND

	Jan	**Feb**	**…**	**Dec**	**Total**
Revenue target					
Cost of goods sold budget					
Gross profit of the budget period					
Gross profit of the previous period					

Compared to the current cost of goods sold form of the company, the new form is added the gross profit of the budget period and the previous period. It is easy for users to compare between the gross profits of the budget period with actual result of the previous year to determine if the cost of goods sold is reasonable.

d) Selling expenses Budget

As mentioned in part 7.2 above, the selling expenses budget is planned from many departments:

- Marketing department carries out to plan for marketing costs and schedule of marketing campaigns in the period.
- Other departments that related to selling activities like the chain of My Kingdom stores, sales department, warehouse,..will plan for expected costs in the period.
- Human resource department will plan for salary, insurance and bonus of all employees based on the number of employees, current salary, expected salary increase rate and bonus policy from the board of directors.
- Accounting department will plan for and rental fees based on tenancy contracts.

The financial department is responsible for aggregating the selling expenses budget from all departments for the whole company.

Table 14: Form 5 – Selling expenses Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
SELLING EXPENSES BUDGET 20xx

Million VND

	Jan	**Feb**	**…**	**Dec**	**Total**
Revenue Target					
Selling expenses budget					
Proportion					
Cash Outflows					

Compared to the current cost of goods sold form of the company, the new form is added the proportion and the cash outflows. The proportion is calculated by selling expenses budget divided to revenue target. It shows that the proportion of selling expense in revenue. It is a base to compare and determine if the selling expenses is reasonable.

Cash outflows shows that the amount of money that spend to pay all costs related to selling goods every month.

e) Administration expense Budget

Table 15: Form 6 – Administration expenses Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY

ADMINISTRATION EXPENSES BUDGET 20xx

Million VND

	Jan	**Feb**	**…**	**Dec**	**Total**
Revenue Target					
Administration expenses budget					
Proportion					
Cash Outflows					

The similar with selling expenses budget. The new form of administration expenses budegt is added the proportion and the cash outflows for purpose of comparison and making the cash budget.

f) Cash Budget

Cash budget is set based on cash inflows and cash outflows from the other budgets. The financial department will be responsible for making cash budget for the whole company.

Table 16: Form 7 – Cash Budget of VTA (source: own processing).

VIET TINH ANH JOINT STOCK COMPANY
CASH BUDGET 20xx

Million VND

		Jan	Feb	…	Dec	Total
I	**Cash at the beginning**					
II	**Cash inflows**					
	Cash collect from sales					
	…					
III	**Cash outflows**					
	Purchasing goods					
	Selling expenses					
	Administration expenses					
	Taxes					
	…					
IV	**Net cash flows**					
V	**Debts**					
	Short - term loans					
	Payment for loans due date					
	Payment for interest expenses					
VI	**Cash at the end of the period**					

g) Income statement Budget and Balance sheet Budget

The financial statement budget provide a the overall picture of the expected business performance for the budget period. It is set for the whole year. We can use the company's current financial report form. It should focus on the key indicators.

Table 17: The summary of budgeting process of VTA (source: own processing).

Stage	Scope of work	Performed by
Preparation	Financial statement reports	Finanial department
	The market report	Marketing department
	The sales report	Sales department
	Set up the objectives, strategies and the revenue target for the budget period	The board of directors
Making detail budgets	Sales budget	Sales department Marketing department Financial department
	Purchasing budget	Purchasing department Financial department
	Cost of goods sold budget	Purchasing department Financial department
	Selling expenses budget	Sales department Marketing department Administration department Financial department
	Administration budget	Sales department Marketing department Administration department Financial department
	Cash budget	Finanial department
	Income statement budget	Finanial department
	Balance sheet budget	Finanial department
Control	Quarterly, compare the actual results and the budget to understand the cause of abnormal fluctuations. Find solutions to overcome Review and adjust the budget to suit the actual situation	All departments

10.3.5 Implementation of the training program

After the project team has completed the budgeting process and the detail budget forms, the project team will conduct training for employees of the entire company who are responsible for making annual budgets.

The purposes of the training program:

- ✓ Help employees understand clearly the importance of making an annual budget.
- ✓ Helping employees understand the detail reports, understand the criteria and how to collect data for the indicators on the reports.
- ✓ Help employees know how to use reports during work.

Table 18: The plan of training program (source: writer's own estimation).

<table>
<tr><th>Regions</th><th>Schedule</th><th>Performed by</th><th>Participants</th><th>Weeks</th></tr>
<tr><td rowspan="4">The Headquarter</td><td>Sales budget</td><td>Project team</td><td>Sales department
Marketing department</td><td rowspan="4">1</td></tr>
<tr><td>Purchasing budget</td><td>Project team</td><td>Purchasing department</td></tr>
<tr><td>Selling expenses budget</td><td>Project team</td><td>Sales department
Marketing department
Administration department</td></tr>
<tr><td>Administration budget</td><td>Project team</td><td>Sales department
Marketing department
Administration department</td></tr>
<tr><td rowspan="3">The Northern region</td><td>Sales budget</td><td>Project team</td><td rowspan="3">The employees are ressponsible for budgeting in stores</td><td rowspan="3">1</td></tr>
<tr><td>Purchasing budget</td><td>Project team</td></tr>
<tr><td>Selling expenses budget</td><td>Project team</td></tr>
<tr><td rowspan="3">The Central region</td><td>Sales budget</td><td>Project team</td><td rowspan="3">The employees are ressponsible for budgeting in stores</td><td rowspan="3">1</td></tr>
<tr><td>Purchasing budget</td><td>Project team</td></tr>
<tr><td>Selling expenses budget</td><td>Project team</td></tr>
<tr><td rowspan="3">The Southern region</td><td>Sales budget</td><td>Project team</td><td rowspan="3">The employees are ressponsible for budgeting in stores</td><td rowspan="3">1</td></tr>
<tr><td>Purchasing budget</td><td>Project team</td></tr>
<tr><td>Selling expenses budget</td><td>Project team</td></tr>
</table>

Because the company has a chain of stores nationwide, it is have to organize training program in Northern region, Central region and Southern region.

10.4 Develop an Implementation Plan

The implementation plan will be prepared by the project team and approved by board of directors. The implementation plan can be created as follows:

Table 19: Implementation Plan of Budgeting (source: writer's own estimation).

No.	Activity	Jul-19				Aug-19				Sep-19				Oct-19				Nov-19				Dec-19				Ja n-10	
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
1	Establisment of project team																										
2	Meeting with the board of directors to identify the system of budgets																										
3	Establisment of the budgeting process																										
4	To design the detail budgets																										
5	Implementation of the training programs																										
6	Preparation state for budgeting in 2020																										
7	Making the detail budgets in 2020																										
8	Control (periodically every quarter)																										

10.5 Cost Analysis

In cost analysis part, all costs will be considered so that the company can minimize cost of project, while providing financial pre-diction for the project.

Cost of establish project team

Project team includes 3 members. The wages are estimated 50 million VND per month for the financial manager and 20 million VND per month for the rest of people. The working time for the project will be 4 months (from July to October), because we only charge for the process from step 1 to step 5 in the table 23 above, from step 6, we can see it as an annual job.

The financial manager will spend 2 hours a day for the project : 50/ 176 hours * 44 hours * 4 months = 50 million VND

The 2 staffs: 20 * 4 * 2 months = 160 million VND.

Total cost of the project team: 50 + 160 = 210 million VND.

Cost of the training program

Travelling cost for the project team includes transportation costs and accommodation costs.

- Estimate the transportation costs: 2 people * 6 air tickets * 2 million VND per ticket = 24 million VND
- Estimate the accommodation costs: 2 people * 3 weeks * 4 million VND per week = 24 million VND

Total cost of the training program: 48 million VND

➔ Total cost of the project is 258 million VND

10.6 Risk Analysis

Risks of the business environment, currently the market of children's toys in Vietnam is more volatile, the system of government regulations for children's toys is still much changed, highly competitive, so it is very difficult to forecast revenue correctly. The sales budget is the foundation of all other budgets, since all final expenditures depend on the number of sales. When the sales budget isn’t accurate, the other budgets will be not reliable and it will be a big problem.

The “feedback” process demonstrates the close coordination between the management levels in building budget estimates in the company, so budgeting will have high accuracy and reliability. However, it will take a lot of time and cost for draft, feedback, approve and acceptance process.

The company has about 10 distribution channels and more than 200 retail stores, so aggregating the total budget for the whole company is very time consuming. Besides the urgency is required when the company just has to complete the reports of the old year and make the budgets for the next year.

Risk of employees, it is very important that employees understand the importance of budgeting. If employees only follow coping strategies, the budgets will not be reliable.

CONCLUSION

The main objective of the thesis is find out the limitations of the current budgeting process that leading to inefficiencies in cost management and financial performance in the company through the analysis of cost structures, the current budgeting process and the impact of budgeting to the financial performance of VTA. From the limitations of current budgeting process, the author gives some solutions to complete the budgeting process that helps the company improve the financial performance.

The thesis is divided into theoretical and practical parts. The theoretical part of the thesis contains information relating to cost accounting, the budgeting process and financial performance. The practical part began with overview about general economic and the Vietnam children toys market. Then, some introductions about VTA and its business operation are presented. The author conducted analysis of cost structures, the current budgeting process and the impact of budgeting to the financial performance of VTA. The analysis part showed that the company has problems with the current budgeting process. The sales budget is too high compared to the actual results, leading to the company buying too many goods as forecast, resulting in the large of inventories and affecting financial performance of the company. In the final part, relying on theoretical knowledge and analysis of VTA, the author gives some solutions to complete the budgeting process that helps the company improve the financial performance.

I believe that this thesis will be useful for the company. However, with the limited of research time, the thesis still has many problems and needs to be improved. The author is looking forward to receiving valuable comments from the professors, lecturers and readers.

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LIST OF ABBREIVATIONS

ROA: Return on Assets

ROE: Return on Equity

ROS: Return on sales

VTA: Viet Tinh Anh Joint Stock Company

FOB: Free on board

CPI: Consumer Price Index

GDP: Gross Domestic Product

VND: Vietnam Dong

IT: Information Technology

EVA: Economic Value Added

WACC: Weighted Average Cost of Capital

NOPAT: Net Operating Profit After Taxes

SWOT: Strengths, Weaknesses, Opportunities, Threats

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APPENDIX P I: VTA COST OF GOODS SOLD STRUCTURE (source: internal documents of VTA Joint Stock Company).

Brand	Code	Name	Currency	FOB	%Sea Freight	%Clearing & handling	% Duty	Landed cost (Cost of goods)
ECOIFFIER	007801	Maxi abrick fire station box	EUR	2,95	8%	8%	0%	3,42
ECOIFFIER	000779	Golf bag	EUR	3,25	8%	8%	0%	3,77
PLAYDOH	B9739	PD BREAKFAST BAKERY	USD	6,83	6%	5%	5%	7,92
PLAYDOH	B9741	PD FROST N FUN CAKES	USD	4,9	6%	5%	5%	5,68
PLAYDOH	A7923	PD RAINBOW STARTER PACK	USD	2,1	6%	5%	5%	2,44
BABYALIVE	C2697	BA SNACKIN LILY BLONDE	USD	8,25	6%	5%	10%	9,98
BABYALIVE	C0957	BA SWEET TEARS BABY	USD	22,00	6%	5%	10%	26,62
BABYALIVE	E0499	BA LIL SIPS BABY BRUNETTE	USD	7,35	2%	2%	10%	8,38
Bruder	BRU02744	MAN TGA Cement mixer truck	EUR	13,87	5%	6%	10%	16,78
Bruder	BRU03524	MB Sprinter Ambulance with driver	EUR	21,25	5%	6%	10%	25,71
MYLITTLEPONY	C2869/A8330	MLP KIOSK PONY 7	USD	0,98	6%	5%	20%	1,28
MYLITTLEPONY	C3335/B8924	MLP RARITY	USD	2,2	6%	5%	20%	2,88
CRAYOLA	811324	My first 8ct washable Marker	USD	1,82	5%	6%	25%	2,48
CRAYOLA	811450	My first 3ct washable Egg	USD	2,6	5%	6%	25%	3,54
CRAYOLA	0468070000	TOOL KIT,TIP,SCARLET,8PK	USD	4,42	5%	6%	25%	6,01

APPENDIX P II: VTA – SALES BUDGET 2018 BY MONTH (source: internal documents of VTA Joint Stock Company).

REVENUE TARGETS 2018 (BY MONTH) -VTA
Million VND

Distribution channels	**Net sales**												
	1801	**1802**	**1803**	**1804**	**1805**	**1806**	**1807**	**1808**	**1809**	**1810**	**1811**	**1812**	**2018**
Stores	41,288	65,786	48,199	50,215	69,409	67,318	67,834	57,358	61,822	55,088	58,170	100,773	743,261
Bookstore	-	8,081	2,845	7,195	5,793	9,171	5,402	9,074	5,563	7,780	6,050	15,241	82,191
Convenient store	262	248	413	299	561	409	406	473	576	506	596	650	5,401
Super/Hyper market	2,693	4,534	4,047	4,125	7,294	5,942	5,888	5,310	6,950	5,406	6,587	9,548	68,326
FNLAND	0	495	362	380	517	479	538	419	461	395	427	960	5,432
School	697	134	434	2,010	3,750	2,080	3,740	6,190	10,330	4,700	2,382	3,554	40,000
Lower Trade	2,046	2,978	2,250	2,712	4,266	4,786	5,291	4,261	3,667	3,107	4,497	6,195	46,057
E-commerce	2,060	1,107	2,614	2,161	3,105	1,901	1,565	2,368	2,621	3,837	6,065	6,460	35,863
Others	10	10	10	10	10	10	10	10	10	10	10	10	120
Total	**49,057**	**83,372**	**61,173**	**69,107**	**94,705**	**92,095**	**90,674**	**85,462**	**92,000**	**80,829**	**84,785**	**143,392**	**1,026,652**

APPENDIX P III: VTA – COST OF GOODS SOLD BUDGET 2018 (source: internal documents of VTA Joint Stock Company).

COST OF GOODS SOLD BUDGET 2018 -VTA

Million VND

	1801	**1802**	**1803**	**1804**	**1805**	**1806**	**1807**	**1808**	**1809**	**1810**	**1811**	**1812**	**2018**
Target revenue	49,057	83,372	61,173	69,107	94,705	92,095	90,674	85,462	92,000	80,829	84,785	143,392	1,026,652
Cost of goods sold budget	22,360	38,001	27,882	31,499	43,167	41,977	41,329	38,954	41,934	36,842	38,645	65,358	467,947

APPENDIX P IV: VTA – SELLING EXPENSES BUDGET 2018 (source: internal documents of VTA Joint Stock Company).

	MKD-stores	Edu	Boy	Girl	Hasbro	Hottoy	LEGO	Accessories	Sales	MKT	Media	Online	Warehouse	Total
Salary and Bonus	66,563	3,074	1,166	2,321	2,125	1,651	2,117	1,240	12,313	4,711	2,963	4,192	1,800	106,238
Rental fees	140,456	-	29	31	31	29	29	-	231	116	-	-	6,259	147,212
Marketing	11,803	2,983	7,775	11,362	15,544	14,436	15,534	2,100	3,395	4,074	1,187	1,802	-	91,995
Transportation	6,995	104	231	302	444	372	184	45	112	7	4	396	10,977	20,173
Electricity, water, telephone, internet,..	8,018	-	-	-	-	-	-	-	183	0	-	14	479	8,693
Commission	371	475	0	13	1	0	2	-	275	495	40	17	11	1,702
Equipments	22,468	66	60	41	77	35	41	10	360	79	140	84	77	23,539
Depreciation	4,762	6	-	-	-	-	-	-	115	40	30	2	11	4,966
Travelling expenses	811	359	203	170	240	159	155	86	583	89	42	56	140	3,092
Tax and fees....	3,543	-	0	1	-	1	-	-	5	-	-	-	20	3,569
Others	5,054	39	138	186	131	100	125	30	652	29	6	38	1,952	8,478
Total	**270,844**	**7,108**	**9,603**	**14,427**	**18,593**	**16,782**	**18,188**	**3,510**	**18,223**	**9,639**	**4,411**	**6,601**	**21,725**	**419,656**

APPENDIX P V: VTA – SELLING EXPENSES BUDGET 2018 BY MONTH (source: internal documents of VTA Joint Stock Company).

SELLING EXPENSES BUDGET 2018 -VTA

Million VND

	1801	**1802**	**1803**	**1804**	**1805**	**1806**	**1807**	**1808**	**1809**	**1810**	**1811**	**1812**	**2018**
Target revenue	49,057	83,372	61,173	69,107	94,705	92,095	90,674	85,462	92,000	80,829	84,785	143,392	1,026,652
Selling expense budget	25,616	23,394	33,176	33,257	37,728	35,185	36,121	36,491	38,645	34,041	36,815	49,185	419,656

APPENDIX P VI: VTA – ADMINISTRATION EXPENSES BUDGET 2018 (source: internal documents of VTA Joint Stock Company).

ADMINISTRATION EXPENSES BUDGET
2018 -VTA
Million VND

	1801	**1802**	**1803**	**1804**	**1805**	**1806**	**1807**	**1808**	**1809**	**1810**	**1811**	**1812**	**2018**
Target revenue	49,057	83,372	61,173	69,107	94,705	92,095	90,674	85,462	92,000	80,829	84,785	143,392	1,026,652
Administration expenses budget	4,063	3,572	4,683	4,683	4,683	4,683	4,683	4,683	4,683	4,683	4,683	4,683	54,464