



Costs Controlled to Budget

Next PLC set budgets for many reasons. Some examples are:

- To motivate their staff to hit targets
- To manage costs/expenditure (prevent overspending and prioritise expenditure)
- For future records
- To avoid debt/potential bankruptcy
- To know what finances are needed in the future

Next setting budgets motivate their staff to hit targets as each department has their own section of the budget set to make improvements and expansion of the department and overall business. This could mean employing more staff, investing in buildings or facilities etc. They need to control this so that the expenditure doesn't go over the budget of the company, as this will reduce the profitability at the end of the financial year and will demoralise the staff within the company, which doesn't give them a good start to the new financial year. This then could have a domino effect and negatively affect the whole company, which again would decrease profitability.

Next set budgets to help them manage their costs and expenditure, this means that they aim to prevent overspending using budgets as well as prioritising their expenditure. They must make sure not to overspend their budget, as this will affect their profitability as well as their budget plans for the next financial year and possible more to come. Next must prioritise their expenditure to make sure they have enough funds to cover their most important and most beneficial investments. This means that they must use more money to invest in projects and ideas that are likely to bring them more profit, over ventures that won't benefit them much. If Next PLC spend too much money on trivial investments, there is likely to be not enough left for them for their larger investments. This could affect their business as it could reduce their profitability meaning less of a budget for the next year.

Next can refer back to budgets from previous years and can review their expenditure from the previous years because they keep records of all their budgets set for the future. This is useful to them as they can look back on their investments and see what cost them the most and what gained them the most benefit and profit. This helps them to set more budgets for the future and to identify trends and what were their strengths and weaknesses regarding trends. One problem that could occur would be that their investments could be outdated and whilst that investment once made them a lot of money, reinvesting in a similar project may not have the same effect years down the track.

In order to avoid debt and potential bankruptcy, Next PLC must set budgets and keep to these budgets and be in control of their outgoings. If Next overspend past their set budget, they are losing out on their profits and this could then put them in debt and if they don't have enough assets to cover their debt, this could end up in bankruptcy. This could lead to the company having to seize trade and would be a great loss to the owners and stakeholders. To avoid this, Next must budget around the money they already possess and know they are going to earn throughout the financial year. If they seem to not make much of a profit, they must try not to