The Half-Year Analysis

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Written by Prof Tommy du Plessis

"The half-year analysis is a barometer reading of how the business has been doing so far. Use it now to make the necessary adjustments."

The first of September marks not only the beginning of spring but also the start of the second half of the budget year for most South African businesses.

It is a suitable time to evaluate the performance of the business for the half-year and, if necessary, adjust financial and other budgets.

The operating cost budget is a good place to start. Operating costs are all those recurring expenses required to operate the business.

Now is the time to compare expenses of the past six months with your original operating cost budget and adjust your budgets for the remainder of the budget year accordingly.

Remember that interest rates have increased, and that gasoline no longer costs the same as it did at the beginning of the year. Consider the salary adjustments that have been made. There has been a decision to launch a promotional campaign later in the year for which not enough was budgeted.

In addition to the operating cost budget, the sales budget should also be revised. The sales trends of the past few months will be a good indication of what can be expected for the rest of the year.

If sales have been unsatisfactory, now is the time to decide if there are any special actions that can be taken to stimulate sales. However, these actions must be reflected in the operating cost budget.

Now is also a suitable time to rethink and review all past sales actions as well as planned actions.

Hand in hand with the sales budget, of course, is the purchasing budget. The new expected sales will require new inventory levels, and management must plan this carefully. It is just as bad to have too much or too little inventory on hand.

Now may also be the time to reconsider the product range that is kept or manufactured. The past six months will be a good indication of which products sell and which do not. Bet on the winners and forget about the losers!

At this stage, it is important to revisit the cash flow budget for the next six months. Although this tool should be reviewed at least monthly, the previous budget should now be incorporated into it.

Banks do not like to be informed late about cash flow problems. By warning them early that there are cash flow shortages on the way, as well as how they will be corrected, they become less nervous.

It is also good practice to prepare a pro forma income statement for the entire twelve-month period. It is important to already know what the tax implications will be at the end of the budget year if all the previous estimates materialise.

Try to gradually make provisions for the income tax that the company will have to pay so that cash flow shortages can be avoided.

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**Prof Du Plessis was the Director of the NWU Business School in Potchefstroom from 2003 to 2017.*