Which statement is correct as it relates to budgetary control

Chapter Objectives Chapter Budget Control Methods Management Action and Zero Cost Control Budgeting Base (ZBB) There are key conditions of two types of controls, namely budgetary and financial. This chapter focuses solely on budgetary control. This is because financial control was covered in detail in chapters one and two. Budget control is defined by the Institute of Cost accountants and management (CIMA): creating funds related to the responsibilities of executives to the requirements of a policy, and constantly comparing the actual with the results of the budget, either by individual action aimed at secured policy, or to provide the basis for its revision. Goals for this season's season are intended to deliver: · Indication and explanation of the importance of budget control in marketing as a key marketing control technique · A Review of The Advantages and Disadvantages of Budgeting · Introduction to Budget Preparation Methods · Appreciation of the use of funds. The structure of the season of all business activities, budgeting is one of the most important and, therefore, requires careful consideration. The chapter looks at the concept of responsibility centers, and the advantages and disadvantages of budgetary control. Then look at the details of the construction of the budget and the use of funds that can be put into it. Like all management tools, the chapter highlights the need for detailed information if the technique is to be used to its most complete advantage. Budget control methods a) Budget: · The official statement of financial resources for certain activities has been set aside over a specified period of time. · Helps coordinate the organization's activities. An example will be advertising budgets or sales force budgets. b) Budget control: · A control technique that reports real results are compared to budgets. · Any difference (variance) is made to the responsibility of key individuals who can either practice controlling the sport or revising the original budgets. The Centers for Budget Control and Responsibility, these enable managers to control organizational functions. A responsibility center can be defined to each functional unit headed by the manager who is responsible for the activities of that unit. There are four types of responsibility centers: a) organizational units of income centers where outputs are measured monetarily but not directly compared to input costs. b) Units of cost centers where inputs are measured monetaryly but not outputs.c) profit centers where performance is measured by differences in revenues (outputs) and expenditures (inputs). Inter-departmental sales are often carried out using the transfer price. d) Investment centers where outputs are compared to the assets used in their production, i.o. ROI. Advantages of And budget control there are a number of budgeting and budget control benefits: · It forces management to think about the future, which is probably the most important feature of a budgetary planning and control system. Force management will look forward, to set detailed plans to achieve goals for each department, operations and (ideally) each manager, to anticipate and give the organization the purpose and direction. · Promotes coordination and communication. · Clearly defines the areas of responsibility. Managers require budget centres to be responsible for achieving budget targets for operations under their personal control. · Provides the basis for performance evaluation (analysis of variance). The budget is basically a yardast, against which actual performance is measured and evaluated. Control is provided by comparing actual results against the budget plan. Then the withdrawal of funds can be examined and the reasons for the differences can be divided into manageable and uncontrollable factors. · Action therapy enables it to emerge as variances. · It motivates employees by contributing to the regulation of budgets. · Improves the allocation of scarce resources. · Makes management time using management with the principle of economic exceptions. Problems in budgeting while budgeting may be an essential part of any marketing activity they have a number of disadvantages, especially in terms of perception. · Budgets can be seen as pressure devices imposed by management and thus: a) bad working relationships) incorrect recording. · Departmental conflicts arise due to: a) disputes over resource allocation) of sectors that blame each other if they do not achieve their goals. · It is difficult to reconcile personal/individual and corporate goals. · Waste may arise as managers adopt this view, We would have better spend it or we would lose it. It is often associated with building empires to enhance the credibility of a sector. Liability versus control, as one of the costs is influenced by more than one person, as is the case with electricity costs. · Managers may underestimate costs too much so they don't get to blame in the future they have to over-charge. The budget features of a good budget are marked by the following: · Participation: Involves as many people as possible in drawing funds.· Comprehensiveness: Embrace the whole organization.· Standards: It is based on established base performance standards.· Flexibility: Allows changing conditions.· Feedback: Continuous performance monitoring.· Cost and revenue analysis: This can be done based on product lines, departments or spending centers. Budget and Administration Organization: In organizing and administering a budget system the following features may apply: a) Budget centers: units responsible for budget preparation. Ali The center may include several cost centres. b) Budget Committee: This may consist of senior members of the organization, as such as department heads and executives (with the CEO as chairman). Each part of the organization must be represented in the committee, so it must be a representative of sales, production, marketing and ... Exist. The functions of the Budget Committee are: · Coordination of budget preparation, including the subject of a manual· Issuance of budget preparation timetables· Providing information to help prepare funds· Comparing real results with budget and analysis of variances. c) Budget Officer: Labor Budget Office control includes: · The relationship between the Budget Committee and the directors responsible for budget preparation· Dealing with budget control problems· Ensure deadlines are met· Educating people about budget control. d) Budget manual: This document: · Organization Chart· Details of budget procedures· Includes account codes for expense and income items· Process Timeline· Clearly defines the responsibility of those involved in the budgeting system. Preparing the budget firstly, determining the main budget factor. It is also known as a key factor in funding or limiting the budget factor, and is a factor that will limit the activities of a commitment. This limits output, such as sales, materials or work. a) Sales budget: This includes realistic sales forecasts. This is prepared in units of each product as well as at the value of the sale. Sales forecasting methods are: · Sales Force Reviews· market research· Statistical methods (correlation analysis and trend analysis)· Mathematical models. Consider using these techniques: · Company Pricing Policy· General economic and political conditions· Changes in population· Competition· Consumer Income and Tastes· Advertising and other sales promotion techniques· After-sales service· Credit terms provided. b) Production budget: Only slightly expressed and sold to the budget. The duties of the production manager are: · analysis of plant utilisation· Progressing labor budgets. If requirements exceed his capacity may: · subcontract· plan for overtime· Introducing Shift Work· Hiring or purchasing additional machinery· The purchase material is budgeted both quantitatively and financially. c) Raw materials and purchase budget: · The budget for the use of materials is amounted to.· The purchase material is budgeted both quantitatively and financially. Factors affecting a) and b) are: · Production Requirements· Stock Level Planning· Storage Space· Material price trends. d) Labor budget: both quantitative and financial. This is influenced by: · Production Requirements· man-hours available· Required work grades· Wage Rates (Union) Requires incentives. (d) Cash budget: cash plan for a defined period of time. Summarizes monthly bills and payments. It therefore highlights the monthly surplus and real cash deficit. Its main uses: · To maintain control over a company's cash requirements, as such as stocks and debtors · To enable a company to take precautions and arrange in advance for investment and loan facilities whenever a cash surplus or deficit arises · To demonstrate the feasibility of management programs in cash terms · To demonstrate the financial impact of changes in management policy, e.g. changing credit terms offered to customers. Cash jacks may come from one of the following: · Cash Sales· Payment by debtors· Sale of fixed assets· New Stock Issue· Get dividends and dividends from investments. Cash payments may be for one or more of the following: · Buy shares· Pay wages or other expenses· Buy capital items· Paying interest, dividends or taxes. Steps in cash budget preparation i) Step 1: Set of Pro Ford cash budgets month by month. Below is a proposal. 1 month 2 months $3 cash receipts from debtors selling loan capital items received income from share issues any other cash receipts paid cash to creditors wages and loan rights repayment capital costs dividend tax any other cash payments pay less open cash balance b/f W X Y close cash balance c/c/f X Y Z II) Step 2: Sort cash receipts from third debtors) Step 3: Earn another fourth) Step 4: Sort cash payments to fifth suppliers) Step 5: Make other cash payments in figure 4.1 month indicating combined postgraduate budget analysis. Figure 4.1 Combined Budget Master Operating Funding Budget Consists of :- Consisting of P/L acc Funds: Received: Cash Budget Generate Balance Sheet Materials Budget Budget Statement Labor Budget Manager Budget And) Other Funds: This includes funds for: · administration· research and development· Sales and distribution costs· Capital Costs· Working capital (debtors and creditors). The master's budget (Fig 4.1) shows this. We have attempted exercise 4.1. Sports 4.1 funded I draw cash funds for D. Sithole showing balance at the end of each month, since the following information provided by him for the six months ended December 31, 19X2. a) Open cash $1,200. 19X2 19X3 sales at $20 per unit MAR APR June June July September October October November January 260 200 320 290 400 300 350 400 390 400 260 250 cash for sale after 3 months of sale received. c) Production per unit: 240 270 300 320 350 370 380 340 310 260 250 d) Raw materials $5 per unit cost. Of these 80% are produced in the month and 20% are paid after production. (s) Direct work costs of $8/unit payable Production month. (a) Variable costs are $2/unit. Of these 50 percent are produced in the same month and 50 percent are paid in the month after production. g) Fixed fees are payable $400 per month. h) The machines cost $2,000 to be paid for on October 19X2. i) Legacy will receive $2,500 on December 19X2. c) Painting to $300/month. An example of a sugarcane farm in the Lowolde region may coin operational funding as follows: · Cultivation· Irrigation· Field Maintenance· Withdrawal· Carry. By any operation, there will be costs for working, materials and using machines. So, for like harvesting, these may contain four sources, namely: · Labour: -cutting-sundry · Tractors· Kahn Trailers· Implementation and sundries. Once the cost centers are identified, the next step will be to make a small calculation of the resources used, and to further break this into shorter periods, say, a month or three months. The length of the selected period is important in terms of the shorter the control that can be applied by budget, but the higher the cost in preparing the budget and reporting any variance. A small budget for withdrawal may be calculated as shown in Figure 4.2. Figure 4.2 Picked up a little budget first quarter fourth quarter work cut Neil 9,000 tons 16,000 tons 10,000 tons Nil Saunders 300 men a day 450 men a day 450 Man Of The Day Tractor Nile 630 Watches 1,1,00 100 Hours 700 Hours Nile Trailer 9,000 Tons 16,000 Tons 10,000 Tons Imp, & sundries nil 9,000 tons 16,000 tons 10,000 tons each item is measured in different units slightly - tons of lotus, Man's day etc. depends on the individual judgment that is the best unit to use. Once the budget is prepared in little condition, unit costs can then be allocated to individual items to reach a budget for withdrawals in financial terms as shown in Table 4.2. Charging fees in table 4.2 tractors cost $7.50 per hour - machines such as tractors have a range of costs such as fuel and oil, repairs and maintenance, driver, license, road tax and insurance and depreciation. Some costs are fixed, such as depreciation and insurance, while some vary directly using tractors, such as fuel and oil. Other costs such as repairs are unpredictable and may be very high or low - an estimated figure based on past experience. Figure 4.3 Withdrawal Funding Cost Case Withdrawal Unit First Quarter 2 Third Quarter Total Work Cut $0.75 Per Tonne - 6,750 12,000 7,500 26,250 Sundry $2.50 per day - 750 1,125 1,1 25 3,000 Tractors $7.50 per hour - 4,725 8,250 5,250 18,225 Kahn trailers $0.15 per tonne - 1,350 2,400 1,500 5,250 Imp& sundries $0.25 per tonne - 2,250 4,000 2,500 8,750 - $15,825 $27,775 $17,875 $61,475 so, The cost of operating tractors for the year may be funded as shown in Figure 4.4. If the tractor is used for more than 1,000 hours then there will be more than improvements in its operating costs and if used for less than 1,000 hours there will be undergoing improvement, for example in the first instance of making internal 'profits' and in the second 'loss'. Figure 4.4 Tractor unit rate cost per year (1,000 hours) ($) ($) fixed depreciation costs 2,000.00 2,000,000 licenses and insurance 200.00 200.00 drivers 100.00 per month 1,00 200.00 Repairs 600.00 per year 600.00 fuel and oil costs 2.00 per hour 2,000.00 maintenance 3.00 per 200 hours 1,500.00 7,500.00 No. Of the hours used to cost 1,000,000 per hour 7.50 masters funding for the sugarcane farm may be as shown in Figure 4.5. The budget represents a general goal for the farm for the whole year ahead, expressed in financial terms. Table 4.5 Operating Budget for SugarCane Farm 19X4 Q II Q4 Total Revenue of $130,000 250,000 120,000 500,000 Less: Cultivation Cost 37,261 48,268 42,368 55,416 183,313 Irrigation 7,278 15,297 18,473 11,329 5 2,377 Maintenance Square 4,826 12,923 15,991 7,262 41,002 Withdrawals - 15,825 27,775 17,875 61,475 Transportation - 3 14,100 24,750 15,750 54,600 49,365 106,413 129,357 107,632 392,767 Add-on : Opening valuation 85,800 135,165 112,240 94,260 85,800 135,165 241,578 241,597 201,201,20 1,201 892 478,567 less: closing valuation 135,165 112,240 94,260 90,290 90,290 net product cost - 129,33 8 147,3 37 111,602 388,277 Gross surplus - 66,200 102,663 8,398 111,723 less: overhead 5,876 7,3 361 7,4 86 5,321 26,044 Net For no profit) (5,876) (6,699) 95,177 3,077 85,679 when operating budget is prepared , two other funds can be made, namely: i. Balance sheet at the end of the year. 2. Cash flow budget, which shows the amount of cash necessary to support the operating budget. It is of great importance that the business has enough funding to support the planned operating budget. Report back year-over-year accountant management prepared statements, as soon as possible after each operating period, for example we, each quarter, adjust real operating costs against budget costs. This statement calculates the difference between 'budget' and 'real' cost, which is called 'variance'. There are many ways to get management accounts. To continue with our example of harvesting at the sugarcane farm, management accounts at the end of the third quarter can be provided as shown in Figure 4.6. Figure 4.6 Management Accounts - Real costs against the cost of funding management accounts for sugarcane farm Quarter 3 19X4 harvested the third quarter of the year to date the variance of the actual budget variance of the actual labor budget - cut 12,1 2 00 12,000 (200) 19,060 18,750 (310) - Sundry 742 1,125 383 1,875 291 Tractor 9,375 8,250 (1,125) 13,500 12,975 (525) Trailer Kahn 1,678 2,400 722 2,505 3,750 1,245 Imp & sundries 4,270 4,000 (270) 6,513 6,250 (263) 28,265 27,775 (490) 43,162 43,600 438 here, Actual withdrawal costs for the third quarter of $28,265 against a budget of $27,775 show an increase of $490 while the cumulative figure for the year to date shows an overall saving of $438. Real spending seems to be lower than budgeted spending, so withdrawal operations go ahead within the budgetary and satisfactory set. However, a further look may suggest that this may not be the case. The budget was based on a reduction of 16.0 tonnes for Canna in the third quarter and a cumulative tonnage of 25.0 tonnes. If these tonnages have been obtained, the statement will be satisfactory. If real production was much higher than the budget then these costs represent a very significant savings, even if only marginal savings are represented by variance. Similarly, if the actual tonnage was significantly less than the budget, then what is shown as a marginal savings in variance is, in fact, a significant overplow. The variance of price and quantity just to state that there is variance in a particular item of cost doesn't really make much sense. Most costs are composed of two elements - the quantity used and the price of each unit. The variance between the actual cost of an item and its budgeted cost may be due to one or both of these factors. The apparent similarity between budgetary and actual costs may hide significant compensatory variances between price and usage. For example, say the budget will make it 300 days male at $3.00 per day - giving the total budget cost $900.00. The actual cost in completion was $875.00, indicating a saving of $25.00. Further research may indicate that this took a 250-day man at a daily rate of $3.50 - a variance of optimal use but a very inclement price variance. So management may need to examine some of the significant variances shown by further analysis, which a comparison of total costs would not have been revealed. Price variance and usage for major cost items are discussed below. The difference between actual labor costs and budgetary or standard labor costs is known as direct wage variance. This variance may be caused by differences in the amount of work used or the price of each unit of work, i.o. the wage rate. The variance of direct wages can be divided into: i) the variance of the wage rate: the wage rate was higher or lower than the budget, as such as the use of unsealed work, or higher-rate overtime work. Second) The variance of work efficiency: There is a time when the real time spent in a particular job is higher or lower than the standard working hours specified, such as the decomposition of a machine. Variance materials for material cost can also be divided into price elements and use: i) Price variance: There is a time when the actual unit price is more or below the budget. Can be due to inflation, discounts, alternative suppliers, etc.) material quantity variance: when the actual amount of materials used is greater or lower than the amount specified in the budget, for example a budget fertilizer at 350 kg per hectare may increase or decrease when the actual fertilizer is applied, the variance increases. Overhead again, overhead variance can be divided into: i) Overhead volume variance: where overhead is taken to cost centers, production above or below the budget will attract too much or below overhead. Second) variance of overhead costs: where the actual overhead cost is higher or lower than that budget for the output level actually generated. The price variance and the use of price and usage variances are calculated as follows: price variance = (budgetary price - real price) x real quantity variance = (budgetary quantity - real quantity) x budget price is currently struggling exercise 4.2. Sports 4.2 calculations were the variance of budget work when it took 200 male days at $10.00 a day to complete the duty costing $2,000.00 when the actual cost was $1,875.00, being a 150-day man at $12.50 a day. Calculation: i) Price variance) View the variance used briefly about the results of your calculation. Management action and cost control of information production in management accounting form in terms of time and effort involved is expensive. This will be very wasted if the information once generated is not put into effective use. There are five parts to an effective cost control system. These: a) Preparing budget b) communicating and agreeing budgets with all concerned c) having an accounting system that has all the actual costs of d-registration) preparing statements that compare actual costs with the budget, showing any variance and disclosing the reasons for them, and s) taking any appropriate action based on analysis of variance in d) above. The action(s) that can be taken when significant variances are revealed depends on the nature of your variance. Some variances can be identified into a specific section and it is in control of that section to take corrective action. Other variances may prove that it is much more difficult, and sometimes impossible to control. The revealed variances are historical. They show what happened last month or last quarter and no amount of analysis and discussion can change that. However, they can be used to influence management action in future periods. Zero Base Budgeting (ZBB) after some time that a budgeting system is in operation, it tends to justify next year's budget by pointing to the actual levels already achieved. In fact this is part of the financial analysis discussed so But the proper analysis process takes into account all the changes that should affect the company's future activities. Even with such an analytical base, some businesses see that historical comparisons, and especially the current level of constraints on resources, can inhibit truly innovative changes in budgets. This could create severe handicapping for businesses as the budget should be the first year of the long win scheme. In this way, if changes have not begun in the budget period, it will be difficult for businesses to make the necessary progress to achieve longer-term goals. One way out of this problem is cyclic budgeting, a return to the basics and the development of funding from the assumption of no available resources (which is ground zero). This means that all resources must be justified and the chosen way to achieve any specific goal should be compared with alternatives. For example, in the field of sales, the current existing field sales force will be ignored and the optimal way to achieve sales goals in that particular market for specific goods or services should be developed. This may include any field sales force, or a different size team, and the company will then plan how to implement this new strategy. The obvious problem with this zero base budgeting process is the massive amount of management time needed to practice. Therefore, some companies complete the process every five years, but that year the business can almost grind to a halt. Therefore, an alternative way is to look deeply at an area of business every year on a rolling basis, so that each basic budget sector does zero every five years or so. Key Budgeting ConditionsBudgetary controlBudget Preparation Action and Cost Control Master BudgetPrice and Quantity of Variance Of Accountability CentersZero Budgeting Based Budgeting