

**US Certified Management Accountant**

**- Budgeting**

How is inventory calculated for the cost of goods sold budget?

Beginning Inventory + Expected Budgeted Purchases or Production

= Expected Goods Available for Sale

− Desired Ending Inventory

= Budgeted Cost of Goods Sold

What are some advantages of budgets?

* Promote coordination and communication among an organization’s units and activities.
* Provide a framework for measuring performance.
* Provide motivation for managers and employees to achieve the company’s plans.
* Promote the efficient allocation of organizational resources.
* Provide a means for controlling operations.
* Provide a means to check on progress toward the organization’s goals.

What is rolling or continuous budget?

A rolling budget is continuously updated and always covers the same amount of time in the future.

What are the three main methods of developing a budget?

* A participative budget is developed from the bottom up.
* An authoritative budget is developed from the top down.
* A consultative budget is a combination of authoritative and participative budget development methods.

What are the steps in the budgeting process?

* Budget guidelines are set and communicated.
* Initial budget proposals are prepared by responsibility centers.
* Negotiation, review, and approval.
* Revisions
* Reporting on variances
* Using variance reports

What is budgetary slack?

The difference between the amount budgeted and the amount the manager actually expects. It is the practice of underestimating planned revenues and overestimating planned costs to make the overall budgeted profit more achievable.

What is the master budget?

The master budget (also called the comprehensive budget) is the culmination and the goal of the budgeting process. It is a summarized set of budgeted financial statements, including the budgeted balance sheet, budgeted income statement, and budgeted statement of cash flows.

What are operating budgets, and what do they include?

Operating budgets are used to identify the resources that will be needed to carry out the planned activities during the budget period, such as sales, services, production, purchasing, marketing, and R&D. The operating budgets for individual units are compiled into the budgeted income statement.

What are financial budgets, and what is included in them?

Financial budgets identify the sources and uses of funds for the budgeted operations. Financial budgets include the cash budget, budgeted statement of cash flows, budgeted balance sheet, and the capital expenditures budget.

What is the capital expenditures budget?

The capital expenditures budget is the budget for long-term capital expenditures such as property, plant, and equipment. Unlike the other budgets, the capital budget usually covers a period of several years and thus is often prepared years in advance of the budget year it affects.

What is the order of the budgets being prepared in the annual budget process?

* The sales budget
* Production budgets
* Ending inventory budgets
* Cost of goods sold budget
* Non-manufacturing budgets
* Cash budget

What budgets are prepared from the production budget?

* Direct materials usage budget
* Direct materials purchase budget
* Direct labor cost budget
* Factory overhead budget

What is a flexible budget?

A flexible budget is a budget that is prepared after the actual level of activity is known.

* A flexible budget for a production department will be adjusted to the actual volume of units produced.
* A flexible budget for an income statement will be adjusted to the actual volume of units sold.

What is zero-based budgeting?

Under zero-based budgeting, the budget is prepared without any reference to, or use of, the current period’s budget or the likely operating results for the current period. Every planned activity must be justified with a cost-benefit analysis.

What are the six steps of the budget control loop?

* Establish the budget or standards of performance.
* Measure the actual performance.
* Analyze and compare actual results with the budgeted results (this is the budget report).
* Investigate unexpected variances.
* Devise and implement any necessary corrective actions.
* Review and revise the budget or standards if necessary.

What are some of the best practices for budgeting?

* The development of the profit plan should be linked to corporate strategy.
* The firm’s management should assess the future as it pertains to the firm’s strategic goals and use the budgeting process to minimize the adverse effects that anticipated problems might have on operations.
* The profit plan must have the support of management at all levels.
* Communication is vital.
* The profit plan should be coordinated, and operating activities of diverse business units should be synchronized.
* Budgeting should not be rigid.
* The profit plan should be a motivating device.
* Design procedures to allocate funding resources strategically.
* Managers should be evaluated on performance measures other than simply meeting budget targets.
* Link cost management efforts to budgeting.
* The strategic use of variance analysis.
* Reduce budget complexity and budget cycle time.
* Develop budgets that can be revised if necessary.
* Review the profit plan on a regular basis throughout the year.

What are the advantages of continuous budgeting?

* Budgets are no longer done just once a year.
* A budget for the next full period (usually 12 months) is always in place.
* The budget is more likely to be up to date since the addition of a new quarter or month will often lead to revisions in the budget for the repeated periods.
* Managers are more likely to pay attention to budgeted operations for the full budget period.

What are the advantages of zero- based budgeting?

* In zero-based budgeting, all of the activities that a department undertakes are identified and then justified. Only revenues and costs from activities that are justified are included in the budget. Because the budget is built up from zero, each manager must justify all of the expenses in his or her department. This is preferable to the incremental approach because it enables the company to identify expenses that are not value-adding or that should be reduced due to some development in production methods or something similar.
* Having to justify every activity forces a prioritizing of activities because the activities are ranked on the basis of their cost-benefit analyses in order to determine which ones are justified. This ranking provides a systematic basis for resource allocation.
* Because a manager needs to examine every single expenditure and activity within the department, he or she is more likely to develop better and/or less costly methods of accomplishing the same objectives. This development of alternative methods is the chief benefit of zero-based budgeting.

What are the benefits and limitations of activity-based budgeting?

* The process of preparing an activity-based budget brings out information about opportunities for cost reduction and the elimination of wasteful activities. Thus, activity-based budgeting makes it possible to identify and enhance high value-added activities and eliminate low value-added activities. This promotes continuous improvement.
* It helps managers to identify resources needed and changes that will be needed in resources if changes are made in products offered, product design, product mix, manufacturing processes, and so forth.
* Budgeted costs are based on the costs for the resources required to perform the budgeted activities. This defines a clear relationship between resource consumption, costs, and output.
* It helps to identify budgetary slack.

Limitations of activity-based budgeting include:

* It must be used in conjunction with activity-based costing. Activity-based budgeting is an extension of the company’s activity-based costing system, and it uses the same activity cost pools for grouping costs as the activity-based costing system. In addition, activity-based budgeting and activity-based costing must be used together to make comparisons between actual results and budgeted results.
* Both ABC and ABB require more work than a traditional costing and budgeting system and so are more costly to implement. Costs include the research needed to do the cost allocations and the time required to educate managers about the cost allocations. The more complex the cost allocations, the higher the costs to educate.



Thank You!

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