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# **Class Notes**

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## **Budgeting and budget planning and control**

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### **Section 3**

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#### **Part A - Manufacturing and related budgets**

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## BUDGETS

These are necessary for management in a business for the following reasons

1. Compare budget results with actual results
2. Identify and difference (Variance) that might occur
3. Correct these variances between the budget
4. It helps to meet targets and company objectives

### Advantages

The following are some of the reasons why companies keep budget

1. A plan of what has to be done is drawn up
2. Responsibilities of who will do what is identified. This means that people will know what they have to do
3. If targets are met it can motivate staff
4. The resource the company has can be used efficiently
5. Comparisons can be made between actual and budget figure and corrective action can be made
6. It can improve communication

**Principal Budget Factor** <sup>Def</sup>

This prevents a company from expanding. It is a factor that restricts activity

## SALES BUDGET

**Sales Budget** <sup>Def</sup>

This budget shows the quantity and sales value of each product

**Sales Forecast** <sup>Def</sup>

This must be prepared before a sales budget is prepared. The sales figures are based on previous period sales, sales team, sales manager.

The sales budget is prepared by the sales manager. This is an important budget because if it is wrong then other budgets will also be wrong

**PRODUCTION BUDGET**

**Production Budget**<sup>Def</sup> This will decide the number of finished goods that must be made to meet demand.

**Production Manager**<sup>Def</sup> They prepare the production budget which is always in Quantities.

**DIRECT MATERIAL USAGE BUDGET**

**Direct Material Usage Budget**<sup>Def</sup> This is used to find the number of direct materials that is needed to meet the level of production

This budget is also prepared by the production manager and is expressed in quantities

**DIRECT MATERIAL PURCHASES BUDGET**

**Direct Material Purchases Budget**<sup>Def</sup> This budget is used to purchase the materials that are identified from the direct material usage budget

**DIRECT LABOUR BUDGET**

**Direct Labour Budget**<sup>Def</sup> This is used to calculate the number of direct labour hours and the direct labour wage costs

This budget is also prepared by the production manager and is expressed hours and value. It is based on the number of units and the required number of hours to make each unit. The direct labour wage rate must be known

**FACTORY OVERHEAD BUDGET**

**Factory Overhead Budget**<sup>Def</sup> This included the indirect material, labour and expenses

This budget is also prepared by the production manager and is expressed quantity and value.

This budget is also used to calculate the Overhead absorption rate

**ADMINISTRATION BUDGET**

**Administration Budget**<sup>Def</sup> This looks at the admin expense that are needed in the running of the business

This budget is prepared by the office manager and is expressed in value terms. It is all the admin expenses

**SELLING AND DISTRIBUTION BUDGET**

**Selling & Distribution Budget**<sup>Def</sup> This looks at the cost that are involved in selling and distribution of the budget sales to the customers

This budget is prepared by the sales manager and is expressed in value terms. It is all the selling and distribution expenses

**CAPITAL BUDGET**

**Capital Budget**<sup>Def</sup> This is a budget on any planned capital expenditure

This budget is prepared by the financial controller. It looks at any planned capital expenditure (Fixed Assets) or any capital receipts (Sale of Fixed Assets). The decision to purchase or sell would be made by the Board of Directors.

**MASTER BUDGET**

This is prepared when all budgets are ready. It will consist of

1. Budget profit and loss
2. Budget Balance Sheet

A manufacturing company would also include the following

1. Budget manufacturing account
2. Budget trading accounting

These budgets show an overview of the planned activities for the budget period