Profit Planing

* **Profit Planning**

→ Profit planning is a set of actions takes to achieve a targeted profit level.

→ simply, A plan to ~~act~~ acheive a target level.

* **Budget:**

→ A budget is a quantative plan for acquring and using resources over a specified time period.

Advantages of budget:

* Increase Communication management system throughout the organization.
* Increase activity

budget defines goals and objectives that can serve as benchmarks for evaluating.

self imposed budget

→ A self-imposed budget or participative budget is a budget that is prepared with the full cooperation and participation of managers at all levels.

Advantages of self-imposed budget.

→ All employees are recognized as team member

→ Budget will be more accurate & reliable.

→ Works flow motivation increase

→ No excuse in working.

Process of budget preparation :-

- Update budget assumptions
- Review bottlenecks
- Available funding
- Step costing point
- Create budget package
- Update the budget model
- Review the budget model
- Process budget iterations
- Issue the budget
- Load the budget

Step in preparing production budget,

Production Budget: It is a detailed plan showing the number of units that must be produced during a period in order to satisfy both sales & inventory needs.

- Production Planning
- Production capacity of plant
- Loading capacity of store
- Consideration of sales budget

Zero-base budget:

- Zero-based budget is budget-planning procedure for the reevaluation of an organization's programme & expenditure.
- It starts with the assumption that zero will be spent on activity, thus, the term Zero-Based.

* Cash Budget:

Cash budget is the projection or estimate of the anticipated receipts and cash disbursment and resulting cash balance within a specified period.

Master Budget:

- Master budget refers to a summery of a company's plan including specific targets of sales, production and financing activities.

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Flexible Budget

* A flexible budget is a budget ~~do~~ designed to change in accordance with level of activity attained.

Static Budget:

A static budget is prepared at the beginning of the budgeting period and is valid for only the planned level of activity.

* Predetermined Overhead Rate

$$= \frac{\text{Est. Total manuf. OH cost}}{\text{Est. Total Amount of the base}}$$

Variable overhead Spending variance,

$= AH(AR - SR)$

AH = Actual Hour
AR = Actual Rate
SR = Standard Rate

Variable Overhead Efficiency variance,

$= SR(AH - SH)$

fixed Overhead Volume Variance,

= fixed component of the predetermined overhead rate × (Denominator - SH allowed)

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Standard Costing

→ A standard cost card shows the standard quantities and costs of the inputs required to produce a unit of a ~~specific~~ product.

Advantages of standard Costs:

- Improve cost control
- More useful information for managerial planning and decesion making
- cost saving in Record Saving
- Possible Reduction in production cost.

* Material Price Variance, = AQ(AP x SP)

* Material Quantity Variance. = SP(AQ x SQ)
* Labor rate variance = AH(AR x SR)
* Labor Efficieny Variance = SR(AH x SH)
* ~~Labor E. OH. variance~~ =
* Variable overhead spending variance,
  = AH(AR x SR)
* Variable OH efficiency Variance,
  = SR(AH x SH)

MCE (Manufacturing Cycle Efficiency)

MCE = Value Added time (Process time) ÷ Throughput (Manufacturing cycle) time