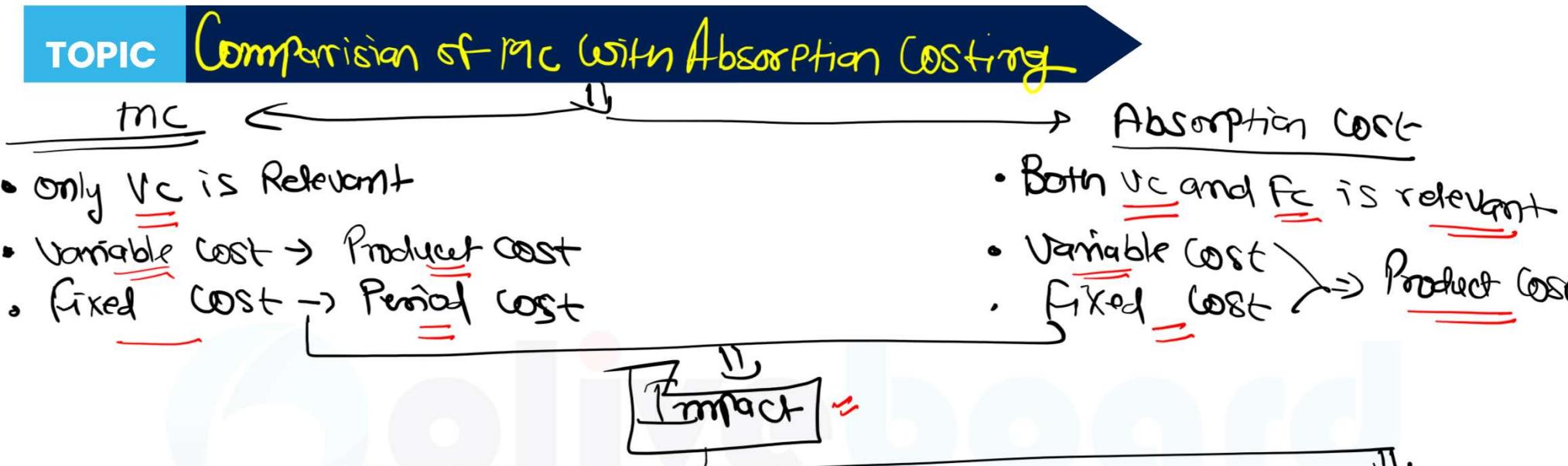


TOPIC

Comparison of MC with Absorption Costing

MC

- Only VC is Relevant
- Variable cost → Product cost
- Fixed cost → Period cost

Absorption Cost

- Both VC and FC is relevant
- Variable cost → Product cost
- Fixed cost → Product cost

Impact

Stock Value

Stock Value
[Absorption cost]

Stock Value
[Marginal cost]

Profit Calculation

Profit
(Absorption cost) > Profit
(Marginal cost)

B'coz Abs. Cost have addition of
Fixed Cost also.

TOPIC



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TOPIC

VC

$$P = (SxN) - [F + (VxN)] \Rightarrow \text{Sales} - VC - FC = \text{Profit}$$

BREAK-EVEN ANALYSIS**APPLICATIONS OF BREAK-EVEN/COST-VOLUME-PROFIT ANALYSIS****ABSORPTION COSTINT**

➤ Effect on stock valuation ↑

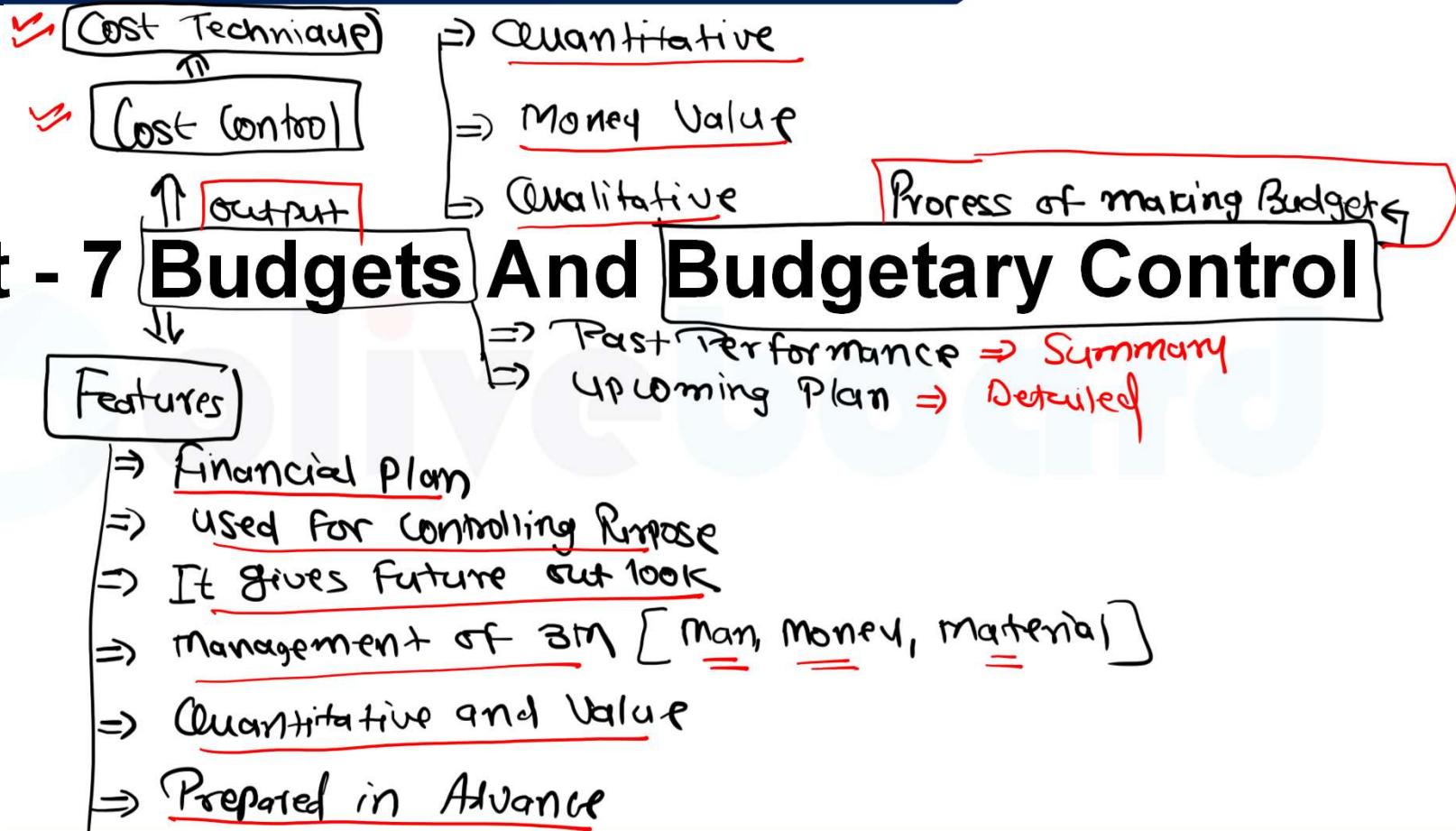
the costs allocated to each unit of the product, under the absorption costing will be more than that under the marginal costing. This will result in higher valuation of finished goods under the absorption costing than under marginal costing.

➤ Effect on profit ↑

As the valuation of finished goods under the absorption costing is higher than under marginal costing. if inventories increase during a period, higher profit will be shown under the absorption costing than marginal costing.

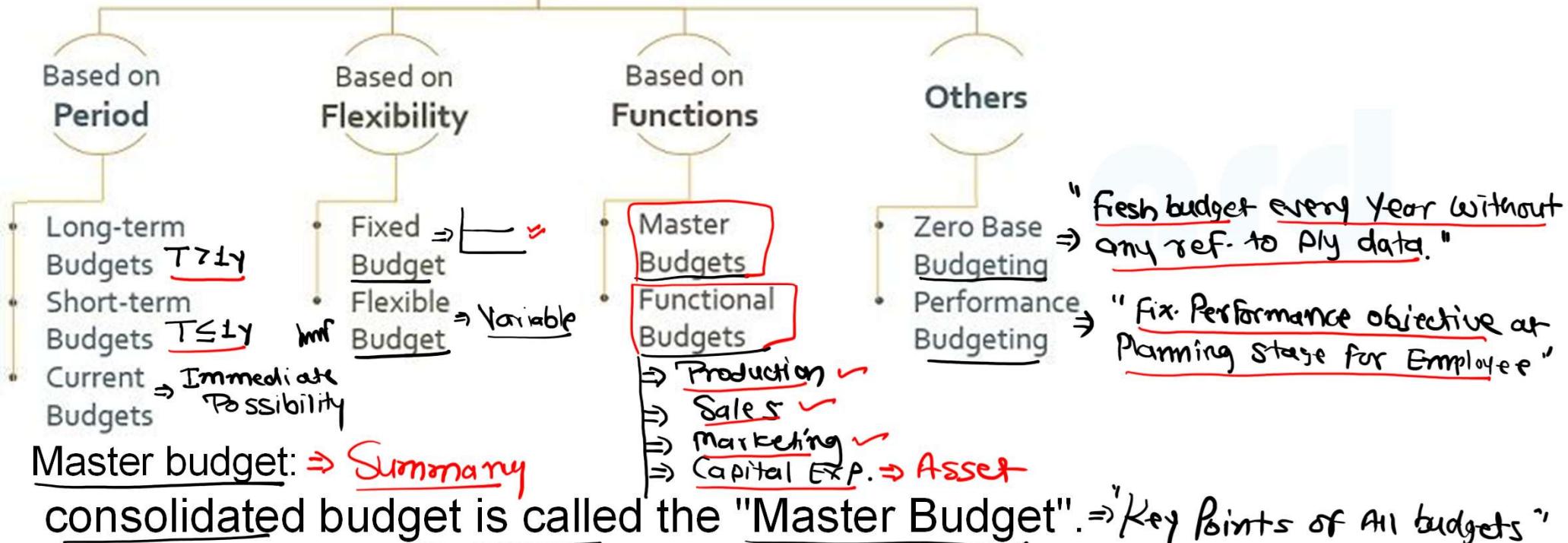
TOPIC

Unit - 7 Budgets And Budgetary Control



| | 2000 | 3000 | 4000 | 5000 |
|----------------|------|-------|-------|------|
| Level of Prod. | 2 L | 2.90L | 3.70L | 4.5L |
| Cost | | | | |

Types of Budgets



TOPIC

➤ Functional budgets

- 1. Sales Budget \Rightarrow Sales Qty \hookrightarrow Sales Value \hookrightarrow
- 2. Production Budget: \Rightarrow Production Qty. \hookrightarrow
- 3. Production Cost Budget: \Rightarrow Cost of Production \hookrightarrow Rent + DL + OG + FOH + Admin OH \Rightarrow COG
- 4. Cash Budget: \Rightarrow Liquidity \Rightarrow Inflow \Rightarrow Outflow \Rightarrow How much Cash is Req.
- 5. Capital Expenditure Budget: \Rightarrow Exp. to be done on fixed Asset Creation

TOPIC

Fixed and Flexible Budgets

Can't be
Adjusted

It Shows Different level of Cost at different level of Production

Basic and Current budgets \Rightarrow Level of Performance based on Available Resources.

min. level of Performance required to Survive in business \Rightarrow BEP

Long-term or Short-term budget

T > Ly

T \leq Ly

TOPIC

IMPLEMENTATION OF BUDGETARY CONTROL SYSTEM

1. Organisation Chart: Document defining Authority - Responsibility within org.
2. Budget Centre: Dedicated Space in office for budget making
3. Budget Manual: Detailed Guideline to be followed during budget making
4. Budget Committees: Team trusted with the task of budget making
5. Budget Controller: Supervising Person for budget Process
6. Budget Reports: Format of budget

Scalar chain

TOPIC

ZERO BASE BUDGETING ⇒ No prior data + Fresh Rational + like fresh budget

ZBB Providers look into possible Alternative use of org. Resource

No Previous Base + Complements traditional Budget

The concept of Zero base budgeting is a radically different concept of planning for future activities, compared to conventional budgeting. As the name suggests, the Zero base budgeting is budgeting from the beginning without any reference to any base.

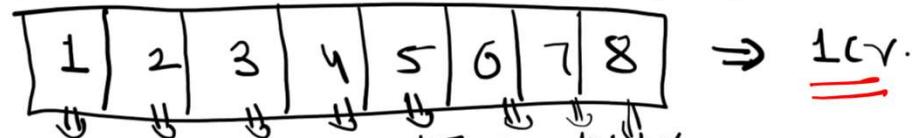
The salient characteristics of zero base budgeting can be summarised as under:

1. Under this, each programme and each of its constituent part needs fresh rationale for its inclusion in that year's budget, ignoring the fact that it was part of budget/s of the previous year/s.
2. Each of the budget objectives is also re-examined with a view to start things afresh. It requires review analysis and evaluation of each programme in order to justify its inclusion or exclusion from the budget.
3. It examines the alternative efficient methods of utilising limited resources in attainment of a objective.
4. It complements the existing processes involved in budgeting.

TOPIC

PROGRAMME BUDGETING

A budget prepared for a specific activity or program is called a Programme Budget.



| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | ⇒ LCY. |
|--|-----|-----|----|-----|-----|-----|----|-----|--------|
| | 20L | 10L | 5L | 10L | 15L | 30L | 6L | 10L | |

$$\Rightarrow \text{Sahoo} = \frac{\text{Unit Target}}{20,000} \\ \Rightarrow \text{Tiwari} = \frac{15000}{18000}$$

Actual
18000
18000

Decision
Training
Incentive

PERFORMANCE BUDGETING

According to National Institute of Bank Management, Mumbai, performance budgeting technique is the process of analysing, identifying, simplifying and controlling crystallising specific performance objectives of a job, to be achieved over a period, in the frame work of the organisational objectives, and the objectives of the job.

TOPIC

Thank You!

Good Luck!



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