TOPIC **Comparision 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, 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

TOPIC VC

P=(SxN)-[$\boxed{F+}$ $\boxed{(VxN)}$] ⇒ Sales − VC − FC = 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

Cost Technique

⇑

Cost Control

⇑ Output

⇑ Budgets

- ⇒ Quantitative
- ⇒ Money Value
- ⇒ Qualitative

Process of making Budget

- ⇒ Past Performance ⇒ Summary
- ⇒ Upcoming Plan ⇒ Detailed

⇓

Features

- ⇒ Financial plan
- ⇒ Used for controlling Purpose
- ⇒ It gives Future out look
- ⇒ Management of 3M [Man, Money, material]
- ⇒ Quantitative and Value
- ⇒ Prepared in Advance

Flexible Budget:

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

TOPIC

# Types of Budgets

## Based on Period
- Long-term Budgets T > 1y
- Short-term Budgets T ≤ 1y
- Current Budgets ⇒ Immediate Possibility

## Based on Flexibility
- Fixed Budget ⇒
- Flexible Budget ⇒ Variable

## Based on Functions
- Master Budgets
- Functional Budgets
  - ⇒ Production
  - ⇒ Sales
  - ⇒ Marketing
  - ⇒ Capital Exp. ⇒ Asset

## Others
- Zero Base Budgeting ⇒ "Fresh budget every year without any ref. to Ply data."
- Performance Budgeting ⇒ "Fix. Performance objective at Planning stage for Employee"

Master budget: ⇒ Summary

consolidated budget is called the "Master Budget". ⇒ "Key Points of All budgets"

TOPIC

➢ Functional budgets

1. Sales Budget ⇒ ⇒ Sales Qty ; ⇒ Sales Value
2. Production Budget: ⇒ Production Qty.
3. Production Cost Budget: ⇒ Cost of Production ⇒ [RM + DL + DE + FOH + Admin OH ⇒ COP]
4. Cash Budget: ⇒ Liquidity ⇒ [⇒ Inflow ; ⇒ Outflow] ⇒ How much Cash is Req.
5. Capital Expenditure Budget: ⇒ 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** ⇒ Level of Performance based on Available Resources.

"Immediatly Possible Performance"

↳ min. level of Performance required to Survive in business ⇒ BEP

**Long-term or Short-term budget**

T > 1y

T ≤ 1y

TOPIC

## IMPLEMENTATION OF BUDGETARY CONTROL SYSTEM

1. Organisation Chart 8= Document defining Authority – Responsibility within org. Scalar chain
2. Budget Centre 8 = "Dedicate Space in office for budget making"
3. Budget Manual: 8 => Detailed guideline to be followed during budget making
4. Budget Committees => Team trusted with the task of budget making
5. Budget Controller: 8=> Supervising Person for budget Process
6. Budget Reports: 8 => "Formate of budget"

TOPIC

ZBB Provides look into possible Alternative use of org. Resource

**ZERO BASE BUDGETING** ⇒ No Ply data + Fresh Rational + like fresh budget + No Previous Bases + Complements traditional Budget

The concept of Zero base budgeting is a radically deferent 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 |
|---|---|---|---|---|---|---|---|
| 20L | 10L | 5L | 10L | 15L | 30L | 6L | 4L |

⇒ 1 Cr.

## PERFORMANCE BUDGETING

| | | Unit target | Actual | | Decision |
|---|---|---|---|---|---|
| ⇒ Sahoo | = | 20,000 | 18000 | ⇒ | Training |
| ⇒ Tiwari | = | 15000 | 18000 | ⇒ | Incentive |

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!