

Advanced Management Accounting - Week 5

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1.

When using a flexible budget the calculation of variable costs is based on actual performance which helps look into variances more clearly. Flexed budgets are complex and require the correct classification of costs in order to be useful. This is something that must be watched out for. The flexed budget is calculated as follows: $\text{Fixed Costs} + (\text{Actual Units of Activity} \times \text{Variable Cost per Unit of Activity})$. This means that the business must be careful about fixed and variable costs. With this done correctly they can be combined with a variance analysis.

Incremental budgets are simple and consistent for use but, they may be over-simplified given the companies operations and this should be something the business is wary of. The incremental budget should be backed up by other costing activities and be measured for usefulness in each department in which they are used.

It may be advantageous for managers to prepare a more thorough budgeting system. Budgeting as done by senior employees is a better course of action to take in that the responsibility should be taken by someone in a position of trust. This may be time consuming, but there may be greater risk if the budgets are done by employees. There should also be an awareness of the segregation of duties, so that the marketing management do not skew the budget in their favour.

The management accountant could be further supported as he is within the business. It may be upsetting to have to handle the current situation if things are not provided for him to achieve his tasks. It might also be noted that this is a possible starting point from which he can take responsibility to move forward from to build a cohesive management plan. It would be in the best interest of the company to have some deliberation about this and think of a more strategically aligned system.

It should be assured that budgets and actuals are recorded on the same basis in order to mitigate any misunderstandings occurring.

A 10% allowance for variances is quite large and could be rounded down to have a more strictly managed system. It may though be useful to have such a wide margin to keep management focused on important matters that have reached a significant level and not be responding to too many noteworthy variances.

2.
ABB - False False False True True
Beyond Budgeting - True True True True True