ACC3200

Budgeting Systems (Week 0 and 1)

- **Competitive Advantage:**
    - A business strategy that a firm would implement in order to separate themselves from the competition and are unique advantages they have over the rest of the market.
    - There are two types of competitive advantages:
        - Cost leadership: involves being a producer/service provider that works around being a cheap solution, that can produce in masses. It requires them to keep cost to minimum and having very small margins in their sales.
        - Product differentiation: refers to creating a far superior quality product and providing customer service on an exceptional level.

- **Budgets:**
    - A detailed plan summarising the financial consequences of an organisation's operating activities for a specific future time period.
    - It helps by its ability to quantify a plan of action in financial terms. This controlling process allows for the company to implement benchmarks that allow for the company to do a comparison between budgeted amount and the actual performance.
    - Process:
        - Planning.
        - Facilitating communication and coordination.
        - Allocating resources.
        - Controlling profit and operations.
        - Evaluating performance and providing incentives.

- **Strategic planning** → deals with long term planning and it is aligned with the business's long term objectives and goals.
- **Corporate strategy** → decisions about the types of businesses in which to operate, which businesses to acquire and divest, and how best to structure and finance the firm.

- Sales + Closing – Opening = Produced (during the period)

- **Responsibility Accounting:**
    - Achieves to make people accountable for areas that they only have control over. It lets them control and budget target towards targets that they implement. This encourages individuals to work towards them and be encouraged by the fact that they are not responsible or do not have control over the set targets.

- **Budgetary slack:**
    - The underestimating of potential revenues and over estimation of cost. By doing this, revenues can be easily reached and costs can easily reduce. This makes the results in results looking more impressive than that it actually is.

Standard Costing and Variance Analysis (Week 2)

- Standard cost – the budget cost, based on estimates of the cost of material, labour and OH resources, that should be used to make one unit of product.
- Variance – difference between an actual and an expected (budgeted) amount.
- Static budget – based on the output planned at the start of the budget period.
- Flexible budget – calculates budgeted revenue/costs based on the actual output for the period.

- **Direct Material:**

DMPV = AQ (or PQ) (SP - AP)
DMQV = SP (SQ – AQ)

AQ = actual quantity used in production
PQ = quantity purchased
SQ = standard quantity used

AP = actual price
SP = standard price

* DM Price Variance – effect on cost of purchasing inventory at a price different from the standard.
DM Quantity Variance – effect on cost of using a different qty of material in production, compared with the standard qty that should have been used for the actual production output.

- **Direct Labour:**

DLRV = AH (SR – AR)
DLEV = SR (SH – AH)

AH = actual hours used
SH = standard hours allowed

AR = actual rate per hour
SR = standard rate per hour

DL Rate Variance – effect on cost of paying a different labour rate, compared with standard.
DL Efficiency Variance – effect of using a different number of direct labour hours compared with the number of standard hours that should be used for the actual production output.

- Factors that affect the significance of a variance:
  - Size of variance.
  - Recurring variance.
  - Trends.
  - Controllability of the variance.

*we only asses the significant variance as checking all variances are time consuming and because checking all of them can be very costly. Also other variances could be due to random variances which cannot be explained or worth investigating. Makes it difficult to assign responsibilities and create incentive programs for performance.

There are interactions between the variances. One variance may result in a favourable or unfavourable variance in another part.

1. Role of purchasing manager: development of standards includes establishing the standard cost for material required by the bill of materials; determining if the company should take advantage of price reductions available through quantity discounts; obtaining data regarding the availability of materials (DMPV).
2. Role of production manager: development of standards includes overseeing the preparation of bill of materials that specifies the types and quantities of material required for production; establishing any allowances for scrap, shrinkage, and waste; and managing any time studies and test runs to facilitate the establishment of labour time standards (DMQV, DLRV and DLEV).
3. Management accountant: development of standards includes reviewing all information regarding material and labour standards received from other departments; establishing the labour rate standards based on the type of labour required; determining application rates for indirect costs such as material handling and manufacturing overhead; converting physical standards such as hours and quantities to monetary equivalents.