BUDGETING

A formal written statement of management's plan for specified future time period expressed in financial terms

- Basis for controlling operations and evaluating performance + promotes efficiency
- Express management's goals/objs in financial terms, translates management's plans into monetary terms, communicating plans
- Accountants: measure performance and compare actual results with planned financial objectives

Effective budgeting

- Clearly defined areas of authority/responsibility
- Realistic goals
- Acceptance by all levels of management
- Participation by managers in setting budgets
- Review of diff between actual and expected results

Length of budget period: prepared for any period of time, most common = 1 year, annual budget often supplemented with quarterly and monthly budget

Master budget set of interrelated budgets that constitutes a plan of action for a specified period of time

1. Operating budgets – cash budget, statement P&L; goals for sales/production personnel
2. Budgeted financial statements – P&L, financial position, cash flows - cash resources needed to fund

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Wk 10: COST VOUME PROFIT ANALYSIS

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<tr><th>Variable</th><th>Fixed</th></tr>
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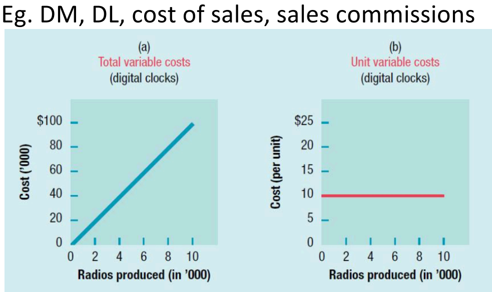
- *Vary in total directly and proportionately with changes in the activity level*
- Higher activity level, higher total variable costs
- Cost per unit is constant; total cost increases with volume increase
- Eg. DM, DL, cost of sales, sales commissions



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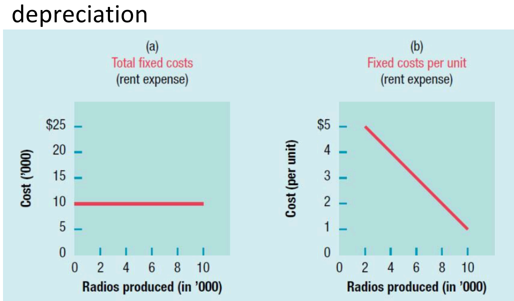
- *Costs remain constant regardless of activity level*
- Fixed cost/unit = total cost / by units of activity level
- Total cost is constant; cost per unit decreases with volume increase
- Eg. rent, rate, taxes, insurance, supervisory salaries, depreciation



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Cost-volume-profit (CVP) analysis

study of the effects of changes in costs and volume on an entity's profits

CVP answers:

1. Entity's breakeven point
2. Impact on sales volume and profit of increased costs
3. Sales level needed to make a profit
4. Impact of changes in selling price

5 CVP assumptions

1. Costs and revenues are **linear** within relevant range
2. All costs are identifiable as **variable** or **fixed**
3. Costs are affected only by changes in **activity level**
4. All units produced are sole
5. Sales mix is **constant** if there is more than on product