

# Contabilidade de Gestão Avançada

Mestrado CFFE

Aula 2



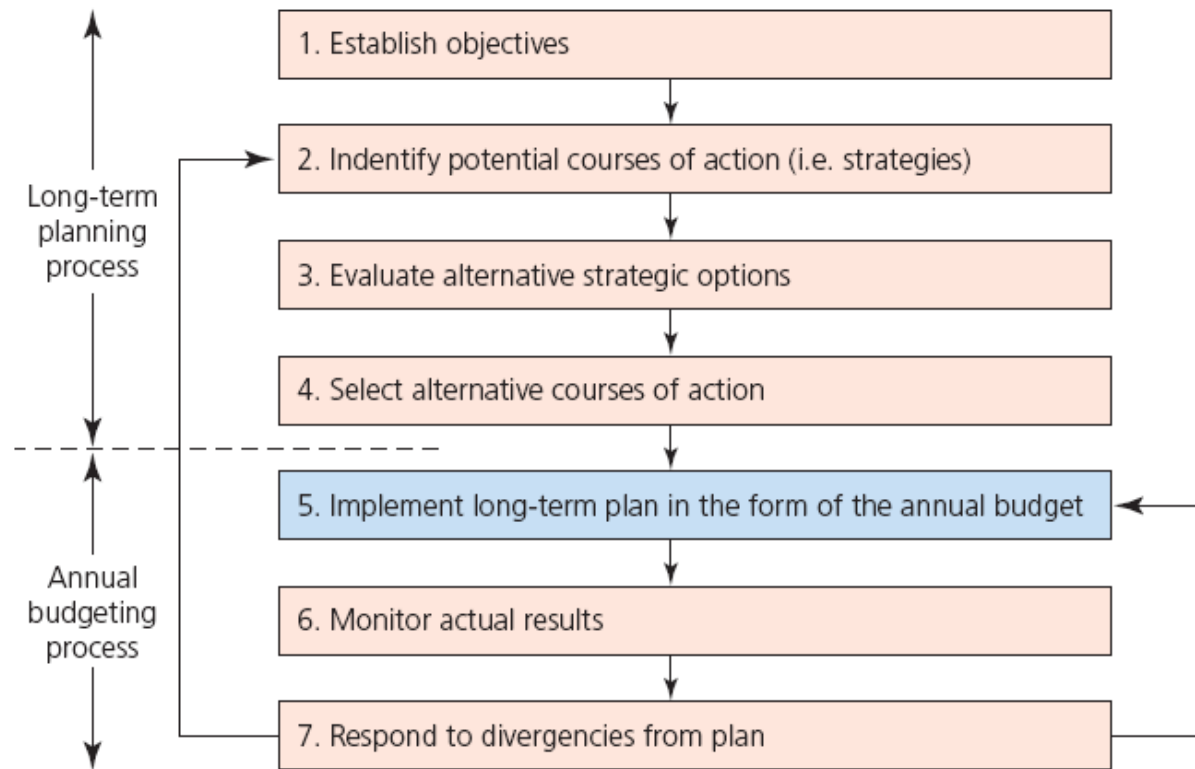
*idefe*



# 3. Budgeting

## 3.1 Planning

1. Identify the objectives of the organization.
2. Identify potential strategies.
3. Evaluate alternative strategic options.
4. Select course of action.
5. Implement the long-term plan in the form of the annual budget.
6. Monitor actual results.
7. Respond to divergencies from plan.



Source: Drury, 7<sup>th</sup> Edition, Management and Cost Accounting, Cengage Learning

# 3. Budgeting

## 3.1 Planning

- Why do we produce budgets?
  1. To aid the planning of actual operations:
    - by forcing managers to consider how conditions might change and what steps should be taken now
    - by encouraging managers to consider problems before they arise
  2. To co-ordinate the activities of the organization:
    - by compelling managers to examine relationships between their own operation and those of other departments.

# 3. Budgeting

## 3.1 Planning

- Why do we produce budgets?
  3. To communicate plans to various responsibility centre managers:
    - everyone in the organization should have a clear understanding of the part they are expected to play in achieving the annual budget
    - by ensuring appropriate individuals are made accountable for implementing the budget
  4. To motivate managers to strive to achieve the budget goals:
    - by focusing on participation (intrinsic)
    - by providing a challenge/target (extrinsic)

# 3. Budgeting

## 3.1 Planning

- Why do we produce budgets?
  5. To control activities:
    - by comparison of actual with budget (attention directing/management by exception).
  6. To evaluate the performance of managers:
    - by providing a means of informing managers of how well they are performing in meeting targets they have previously set.

# 3. Budgeting

## 3.1 Planning

- Major Roles of budgets? – conflict among roles  
– choose among alternatives
  - ❑ Learning:
    - Explicit analyze strategy; exchange ideas; communication; share best practice.
  - ❑ Control:
    - Obtain Commitment; Evaluate Performance; determine responsibilities; Pressure.

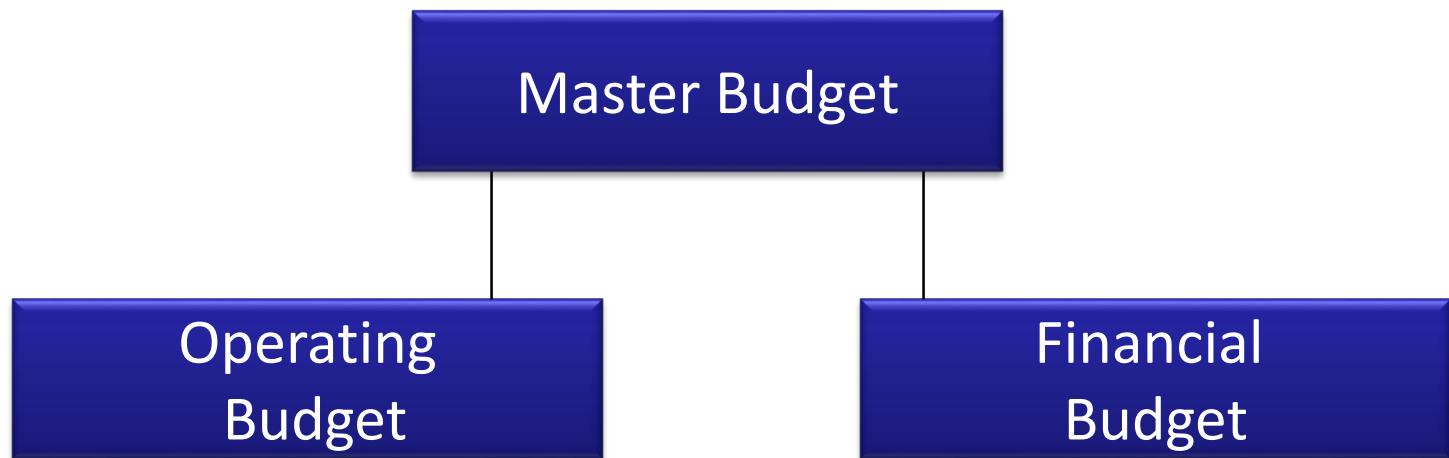
Choice: Information Infrastructure vs Control Infrastructure

- Information Asymmetry; Extrinsic motivation

# 3. Budgeting

## 3.2 Types of budgets

- Master budget
  - A master budget is a comprehensive expression of management's operating and financial plans for a future time period (usually one year)



# 3. Budgeting

## 3.2 Types of budgets

- Operating budget
  - Supporting budget schedules
  - Revenue budget
  - Production budget in units
  - Direct materials purchase budget
  - Direct labour budget
  - Cost of goods sold budget
  - Non-manufacturing costs budget
  - Budgeted P&L Account or Income Statement



# 3. Budgeting

## 3.2 Types of budgets

- Financial budget
  - Capital budget
  - Cash budget
  - Budgeted balance sheet
  - Budgeted statement of cash flows

# 3. Budgeting

## 3.3 The Budgeting Process

- Stages in the budgeting process
  - Communicate details of budget policy and guidelines to those people responsible for preparing the budget.
  - Determine the factor that restricts output. (\*)
  - Preparation of the sales budget.
  - Initial preparation of budgets.
  - Negotiation of budgets with higher management. (\*\*)
  - Co-ordination and review of budgets.
  - Final acceptance of budgets. (\*\*\*)
  - Ongoing review of the budgets.

# 3. Budgeting

## 3.3 The Budgeting Process

- Special Aspects
  - Determine the factor that restricts output. (\*)
    - Not-for-profit vs profit max. organizations – Line item Budgets; vs Planning, Programming Budgeting Systems (PPBS); vs Zero Base(d) Budgeting (ZBB) – decision Packages; vs Priority Based Incremental Budgets
  - Negotiation of budgets with higher management. (\*\*)
    - Budget Participation – High / Bottom-up (Environment uncertainty; Information asymmetry; unrelated to Performance; Less Budget Slack; Focus on innovation) vs Low /Top-down (Envir. Predictable; no info. Asymmetry; related to performance; more budget slack; focus on efficiency)

# 3. Budgeting

## 3.3 The Budgeting Process

- Special Aspects
  - Final acceptance of budgets. (\*\*\*)
    - 3 Wheels Profit planning: Profit – investment in assets – sales – operating expenses –
      - Profits – Shareholders equity /creditors – ROE /ROA – asset utilization
      - Sales – A/Receivables – Operating Cash - inventory
  - Rolling Budgets; Rolling Forecasts and “Beyond Budgeting” –Empowerment and Flexibility

# 3. Budgeting

## 3.3 The Budgeting Process

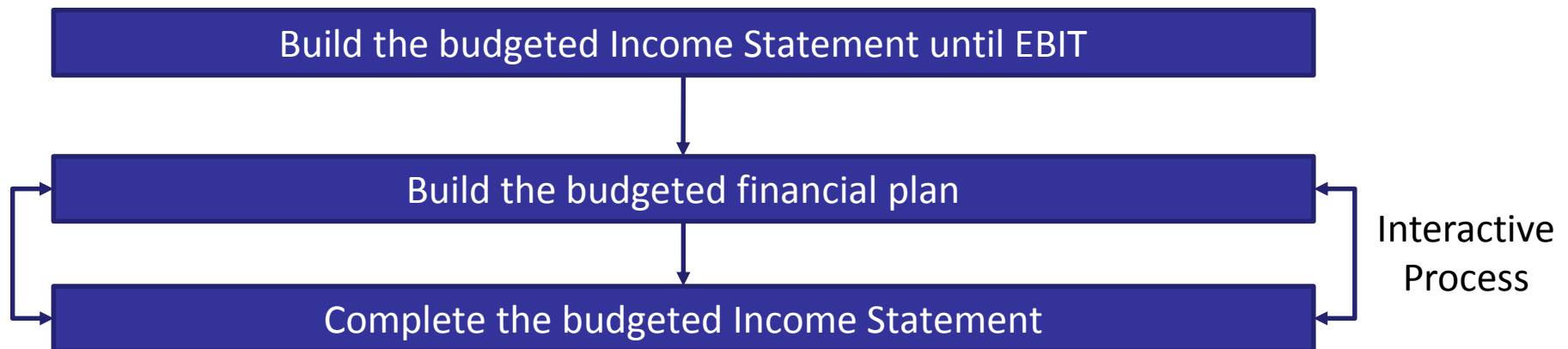
- Special Aspects
  - Kaizen Budgeting – incorporating continuous improvement into budgeting:
    - Detailing processes (kaizen units); improve processes; employees actions, equipment and materials; reduce time and waste.

<https://www.youtube.com/watch?v=NKK-yd8TPDE&sns=em> (Hospital de Santo Antonio)

- Budgetary Slack; Spending the Budget and Goal Congruence

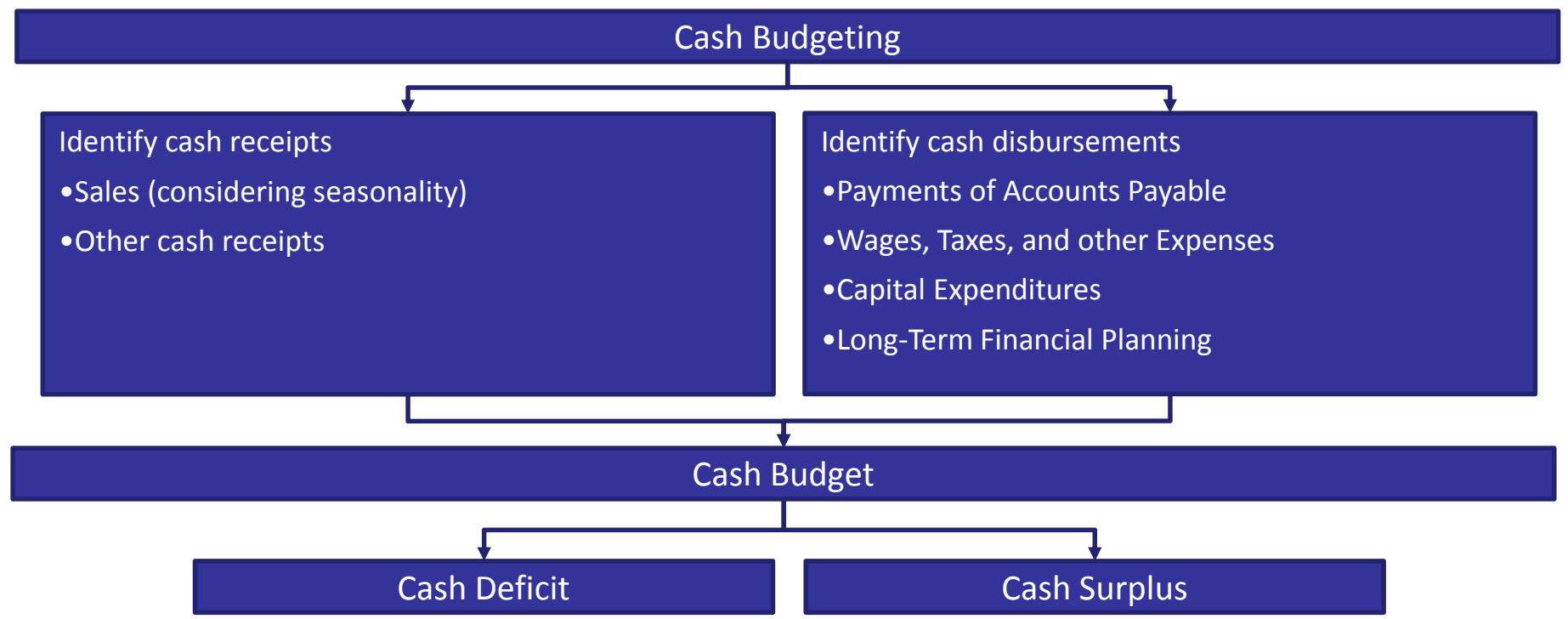
# 3. Budgeting

## 3.3 The Budgeting Process



# 3. Budgeting

## 3.3 The Budgeting Process



# 3. Budgeting

## 3.3 The Budgeting Process

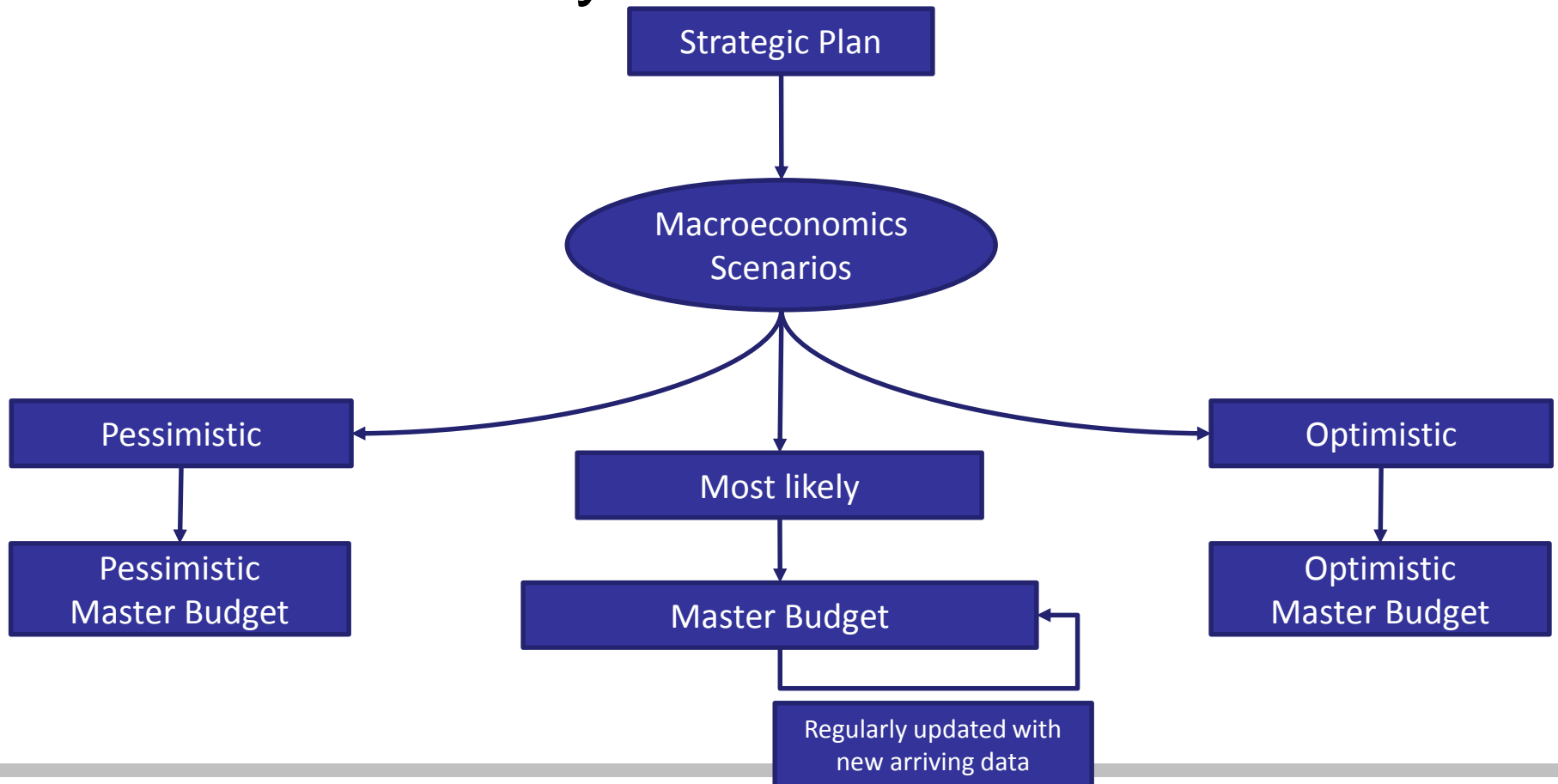
- Break-even analysis
  - The break-even level of an input is the level that causes the EBIT to equal zero.
- Sensitivity analysis
  - “What-if” technique that examines how a result will change if the original predicted data are not achieved or if an underlying assumption changes.



# 3. Budgeting

## 3.3 The Budgeting Process

- Scenario Analysis



# 3. Budgeting

## 3.3 Activity-based budgeting (ABB)

- Conventional budgeting is inappropriate for those activities where the consumption of resources does not vary proportionately with the volume of the final output of products or services
- For support activities conventional incremental budgets merely serve as authorization levels for certain levels of spending

# 3. Budgeting

## 3.4 Activity-based budgeting (ABB)

- Incremental budgeting results in the cost of non-unit level activities becoming fixed
- ABB aims to authorize only the supply of those resources that are needed to perform activities required to meet budgeted production and sales volumes

# 3. Budgeting

## 3.4 Activity-based budgeting (ABB)

- The ABB process is the reverse of the ABC process:

Budgeted output of cost objects



Determine the necessary activities



Determine the resources required for the budget period

# 3. Budgeting

## 3.4 Activity-based budgeting (ABB)

- ABB involves the following stages:
  1. Estimate the production and sales volume by individual products and customers
  2. Estimate the demand for organizational activities.  
(e.g. Process 5,000 customers' orders for the customer order processing activity)
  3. Determine the resources that are required to perform organizational activities.  
(e.g. 0.5 hours per order =  $5,000 \times 0.5$  hours = 2,500 labour hours for the customer processing activity must be supplied)

# 3. Budgeting

## 3.4 Activity-based budgeting (ABB)

- ABB involves the following stages:

4. Estimate for each resource the quantity that must be supplied to meet the demand

(e.g. Assume a step cost function with each person employed contracted to work 1,500 hours per year so that quantity of resources required =  $2,500/1,500 = 1.67$  persons meaning that 2 persons must be employed)

5. Take action to adjust the capacity of resources to match the projected supply

(e.g. If 3 persons are presently employed on the activity resources must be reduced or redeployed, by one person)