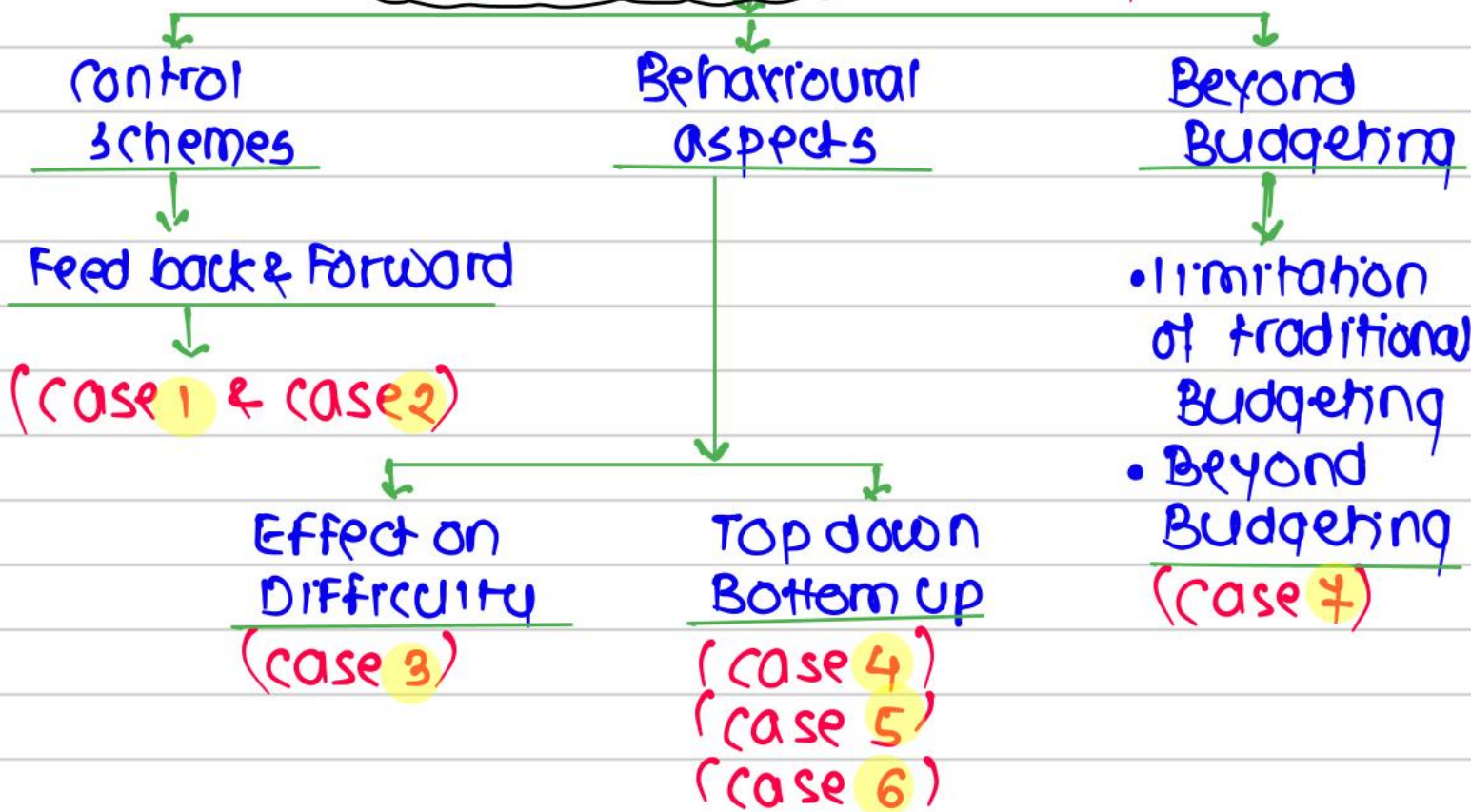




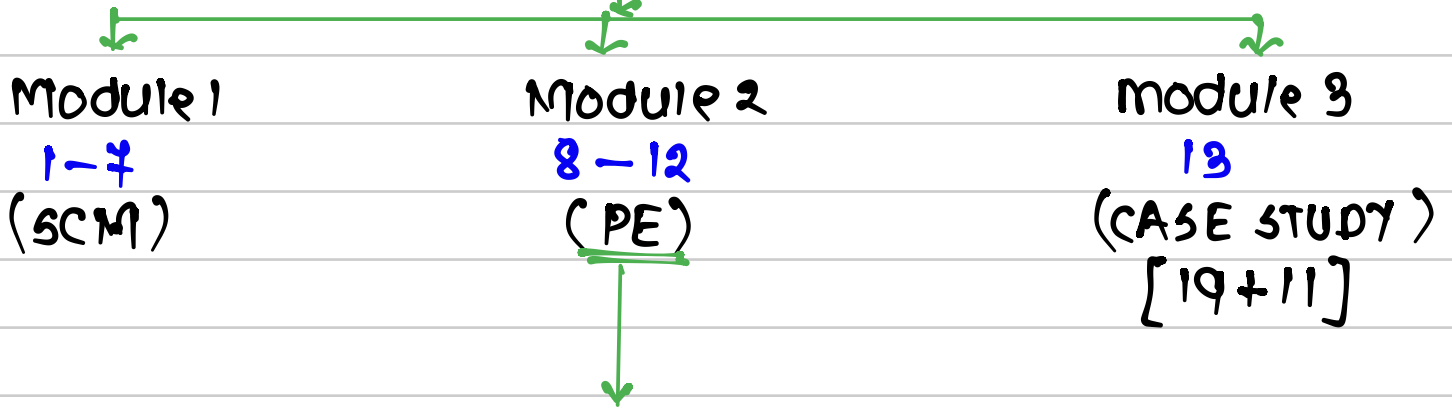
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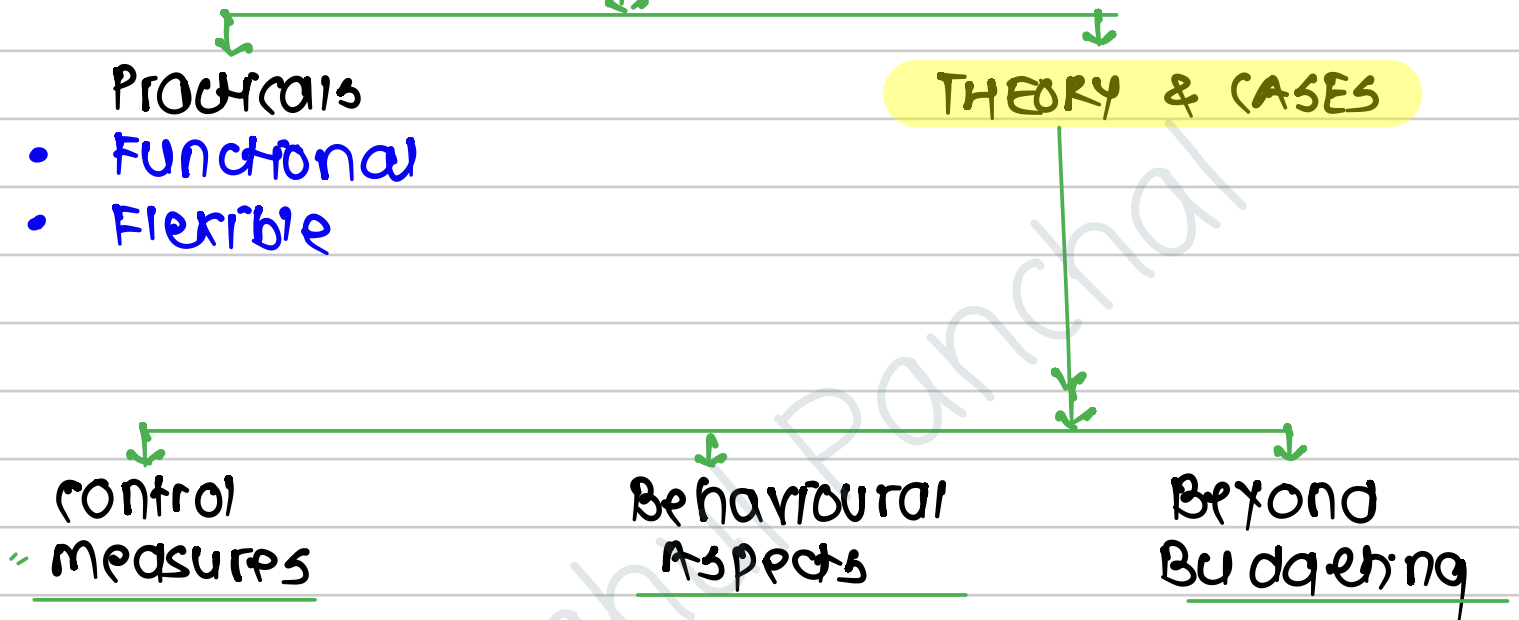
Budgetary Control Bird's eye view



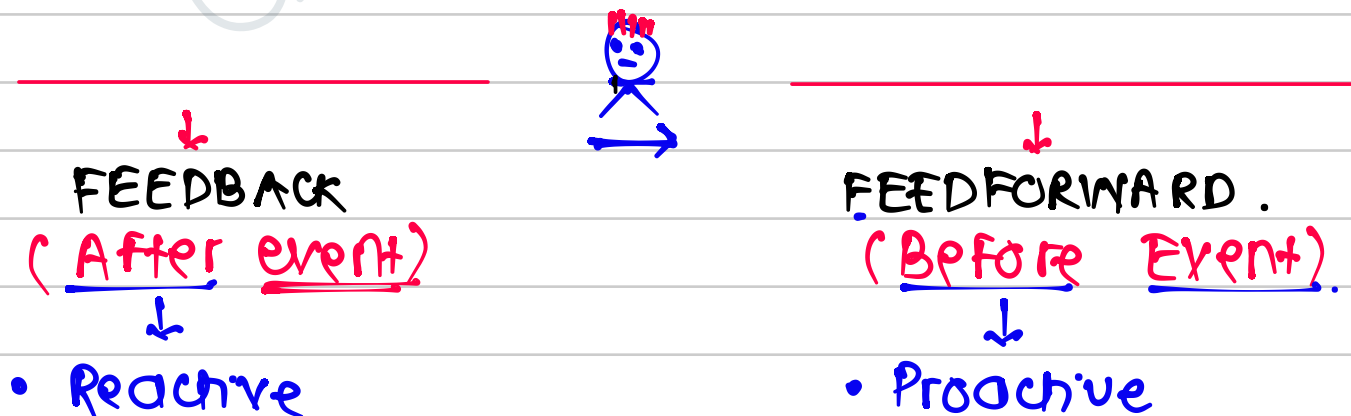
SCMPE



11. BUDGETARY CONTROL.



CONTROL MEASURES



Meaning**FEEDBACK**

- Measurement of Differences

Planned output Actual output

Modification of action and/or plan.

FEED FORWARD.

Forecasting of Differences

Planned outcome Actual outcome

control actions taken

Feedback Control ✓

Feedback as the name suggests is a reaction after an action has taken place. So, there has to be an error if we want to take corrective actions.

According to the CIMA's Official Terminology, It is defined as: 'Measurement of differences between planned outputs and actual outputs achieved, and the modification of subsequent action and/or plans to achieve future required results. Feedback control is an integral part of budgetary control and standard costing systems.'

A feedback system would simply compare the actual historical results with the budgeted results.

Feed-forward Control ✓

In certain cases, we may be able to measure the amount of error before it has actually taken place. We may thus be able to place a control mechanism before the error takes place. Feed-forward Control is one such Controlling system.

According to the CIMA's Official Terminology, It is defined as the 'forecasting of differences between actual and planned outcomes and the implementation of actions before the event, to avoid such differences.'

A feed-forward control system operates by comparing budgeted results against a forecast. Control action is triggered by differences between budgeted and forecasted results.

CASE STUDY: Real Ltd

Summary

RP Corporation

(RM)

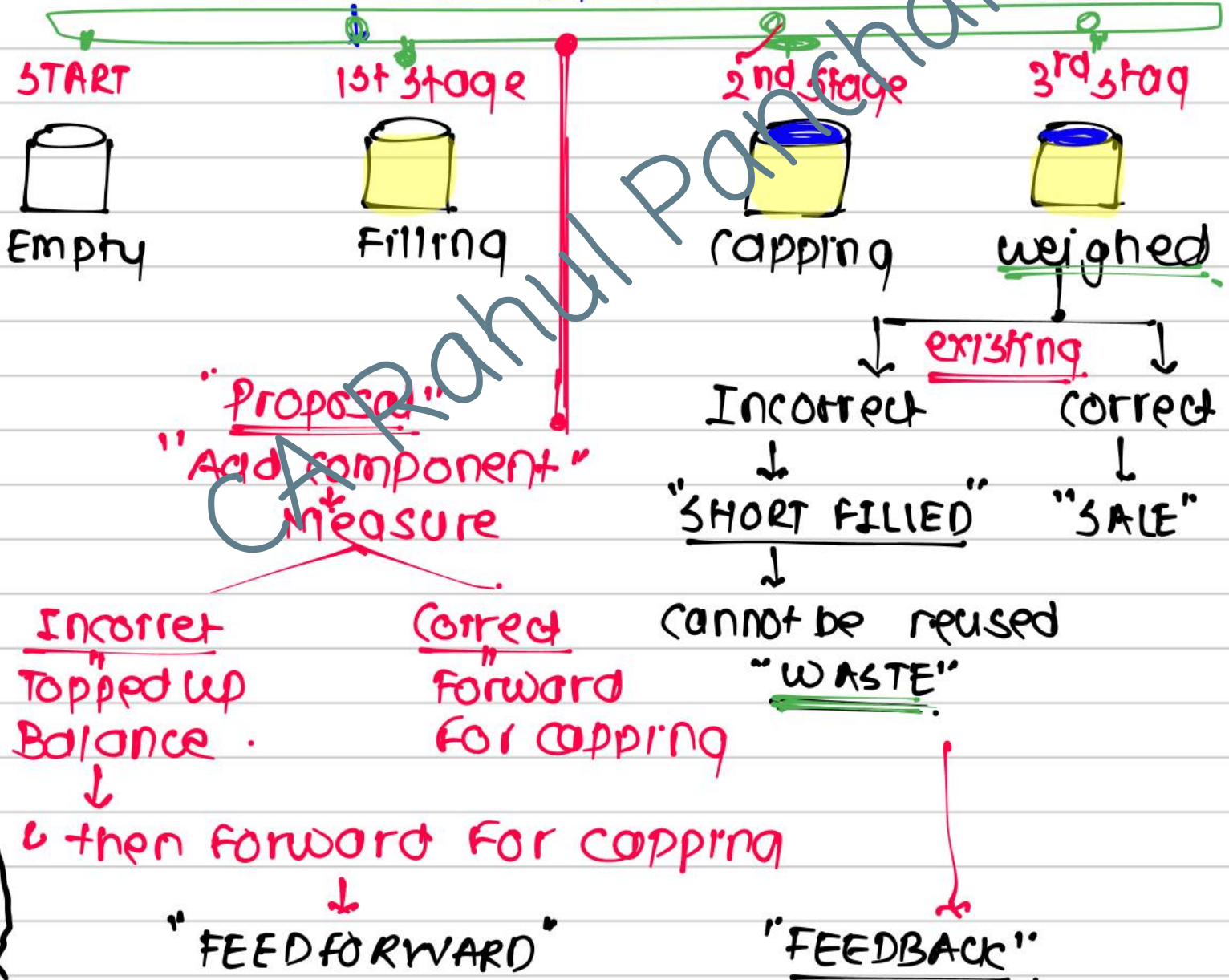
(FU)

Manufactures → Lubricant of

- Base oil imported
- Base oil blended
- Base oil stored.

70% (900 ml cans)
30% (100 ml 2ltr)

Automated System.



Ans:

- 1] Meaning of feedback ✓
- 2] - Existing policy (Feedback)
- 3] Meaning of feedforward
- 4] Proposed policy (Feedforward)
- 5] conclusion → Cost Benefit Analysis.

CASE 2: (TYK 1) EW Partners.

EW Partners.

↓
Budgets (B1/S1/20)

↓
Adequate liquidity

- Able to meet liability
- Reduced int outlay
- Increased int income.

Desire (Objective):

1st April 2019

30th Sept 2019

31st March 2020

(CC = 200)

(Cash = 145000)

⇒ 1) Meaning ——— FB ^{co-exist} ——— ✓ FF

2) Objective =

✓ 3) Conclusion: = "FF".

FB = Budget Actual

↳ Modification

FF = Cash Budget
Sept = + 145000

= FEEDBACK (MEAL) = FEEDFORWARD

M : Meaning

Meaning

E : After Event

Before Event

A : Re-active

Pro-active

L : Limitation

Limitation

- Heavily depends upon error detection system.
- Time lag.

- concerned with estimates of uncertain future.
- study of future not well developed.

TYPES OF FEEDBACK:

<u>Primary</u>	<u>Secondary</u>	<u>Negative</u>	<u>Positive.</u>
<ul style="list-style-type: none"> • Feedback reported to <u>line</u> management • <u>Small</u> variances. 	<ul style="list-style-type: none"> • Feedback reported to <u>Higher level</u> management. • <u>Large</u> variance. 	<ul style="list-style-type: none"> • Feedback taken to <u>reverse</u> the deviation. • <u>Alteration</u> in input & processes. 	<ul style="list-style-type: none"> • Feedback taken to <u>reinforce</u> the deviation. • <u>No alteration</u> in input & processes.

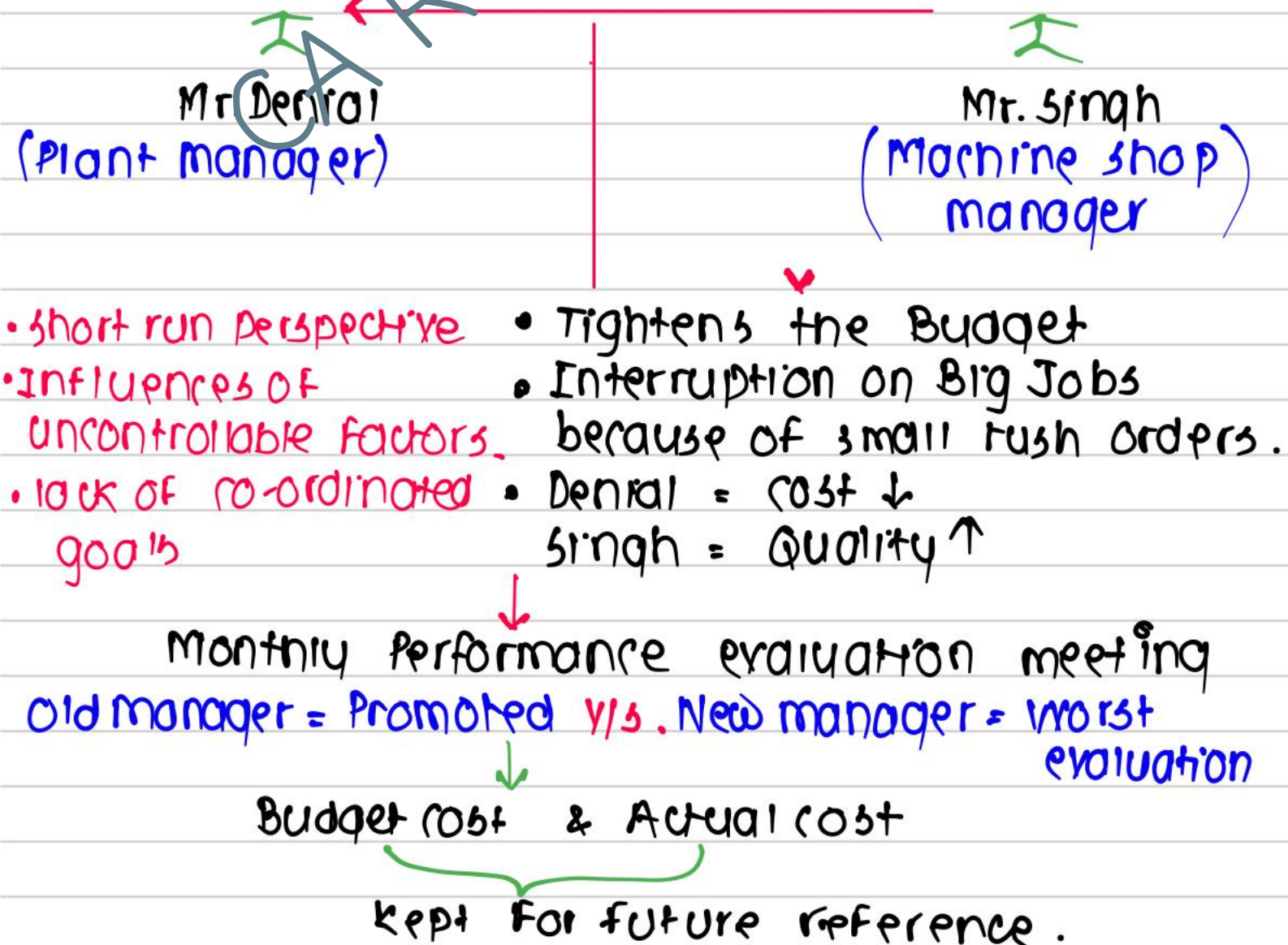
BEHAVIOURAL ASPECTS.

Effect of Budget difficulty on Budget Performance.

- Diagram given in module

"Budget level that motivates the best level of performance may not be achievable. In contrast, the budget that is expected to be achieved motivates a lower level of performance as managers no longer aspire to meet the budget target." ~~The balanced scorecard approach of Kaplan and Norton,~~

CASE 3: Denial & Singh.



SOLUTIONPROBLEMSOLUTION.

1] lack of co-ordinated goals.

clearly define company's objective

2] Influences of uncontrollable factors.

Develop accounting system which matches controllable factors with supervisors responsibility.

3] short run perspective.

- Establish appropriate time periods.
- Budgets values should not be changed simply based on previous periods performance.

Participation in Budget setting process

1] TOP DOWN approach:

There are two main approaches to budgeting, the top down approach and bottom up approach. Budgets can be prepared centrally and subordinates have little influence on the target setting. This called top down budget or **imposed style approach**. The benefit of top down approach is that it can be produced quickly and involve less management time than other options. However, there are significant risk of inaccurate budgets being set that are also not acceptable to the subordinate managers.

Budgets Prepared by Top level mgmt

Advantage

can be prepared quickly
less time consuming

Disadvantage

- risk of inaccurate budgets
- Not acceptable by operational level.

2) Bottom up approach (Participative approach)

An alternative to top-down approach is for the subordinate managers to participate in the preparation of their own budgets and then these budgets to be reviewed by senior management. This is called bottom up approach (sometimes referred **participative approach**).

Budgets prepared by operational level mgt (sub-ordinates) & reviewed by top level mgt

Advantages: [IUGOA]

(OLM)

I - Issues: Operational level mgt will get opportunity to discuss organisational issues.

U - Understanding: OLM have better understanding of what results can be achieved & at what cost.

G - Goals: OLM can not blame for unrealistic goals.

O - Ownership: OLM may agree to accept the target & take ownership.

A - Appreciation: OLM would feel appreciated. For their value & experience.

Disadvantages: [LPTB]

L = Lack of knowledge : OLM may lack practical knowledge to formulate budget.

P = Personality Traits : OLM may limit benefit of participation due to personality traits of participants.

T = Time consuming : OLM may consume time in arguing with each other.

B = Budget slack : OLM may create Budget slack.

CASE 4: (TYK-2): SPM School.

Advantages & Disadvantages of Bottom up approach.
(IUGOA) (LPTB)

CASE 5: Excellent woodcraft

EWPL

↓
manufacturer & supplier of furniture

↓
excellent blend of optimum quality & price

↓
world class infrastructure

Organisational structure.

(Top level) : J Donald (MD)



W Robert (Sales manager)



(Operational level) : salesgirl

Budgeting process:

- salesgirl determines overall sales goal
- W Robert (sales manager) modifies it bPt.
- J Donald (MD) :
 - Already decided sales expectation based on desired profit.
 - then discussion between W & J →
 - 7% to 10% increase in budget
 - Divided among sales girl.

Solution →

- meaning of Bottom up } with advantages
 - meaning of top down } & disadvantages.
 - current approach of company
 - Initially = Bottom up
 - But at end = top down
- ∴ Bottom up for name sake.
- conclusion: company should follow combination of Both.

SOLUTION:

1] Revision of Budgets:

- Revision shall be made only if there are uncontrollable factors.
- ∴ Budgets should be revised.

2] Comparability:

- Budgets made on 1st day not comparable with actual
- Reasons: [Uncontrollable] ← 2 months revenue. ↑ in fuel price

3] Statement showing revised budget & variances:

Particulars.	Original Budget	Revised Budget	Actual	Variances.
Revenue :	1,13,800	① 94,833	93,500	1333A
(-) Variable Cost				
Direct material	13,600	⑤ 19,879	19,600	279 F
Direct labour	40,500	② 33,750	37,700	3950 A
Variable OH	7,700	③ 6,417	6,200	217 F
(-) Fixed Cost:				
Operating OH	18,100	④ 20,300	20,150	150 F
Mkt & Admin	10,700	→ 10,700	10,100	
Profit/(Loss)	23,200	3787	(250)	4037 A

① $1,13,800 \times \frac{10}{12}$

④ $18,100 + 2200 = 20,300$ NO BONUS

② Sales wages	③ Sales. VOH	⑤ Sales Material
$\begin{array}{r} 1,13,800 \quad 40,500 \\ \times \quad \quad \quad ? \\ \hline 94833 \end{array}$	$\begin{array}{r} 1,13,800 \quad 7700 \\ \times \quad \quad \quad ? \\ \hline 94833 \end{array}$	$\begin{array}{r} 93500 \quad 19600 \\ \times \quad \quad \quad ? \\ \hline 94833 \end{array}$

BEYOND BUDGETING.

1] Limitations of Traditional Budgeting [CUTVA]

C = Cost reduction : Concentrate on cost reduction & not value creation.

U = Updated : Updated too infrequently. Usually annually.

T = Time consumption : Time consuming & costly to put together.

V = Value : Add little value, especially given the time required to prepare.

A = Assumptions : Based on unsupported assumptions & guesswork.

2] Definition of Beyond Budgeting (BB):

According to CIMA's Official Terminology- 'An idea that companies need to move beyond budgeting because of the inherent flaws in budgeting especially when used to set contracts. It is argued that a range of techniques, such as rolling forecasts and market related targets, can take the place of traditional budgeting.'

3] Advantages of BB:

A : Adaptive process

D : Decentralised process.

BB identifies its two main advantages.

- It is a more *adaptive process* than traditional budgeting.
- It is a *decentralised process*, unlike traditional budgeting where leaders plan and control organisations centrally.

4] Nature of BB: [SHEFI]

S: Shift: Shift from top down to Bottom up.

H: Highlights: Highlights level of improvement with simple modification.

E: Evolving: Evolving rather than becoming obsolete.

F: Forecasting: Forecasting in fact important.

I: Incremental Improvements.

Traditional Budget + new tools & techniques.

(iii) Nature of 'Beyond Budgeting'

- Budgeting is *evolving*, rather than becoming obsolete- it depends on trust and transparency.
- Shift from the top-down, centralised process to a more *participative*, bottom-up exercise in many firms.
- It highlights the *level of improvement* that can be achieved even with relatively simple modifications and a great deal of trust.
- Budgeting has changed, the change has been neither dramatic nor radical. Instead, *incremental improvements*, with traditional budgets being supplemented by *new tools and techniques*.
- *Forecasting* in fact is more important.

5] Benefits of BB: [CERED]

C: Coordination: Helps managers to work in coordination.

C: Customer: Establishes customer oriented teams.

R. Responsibility: Motivates by defining clear responsibilities & challenges.

E: Eliminates: Eliminates behavioural issues by making rewards team based.

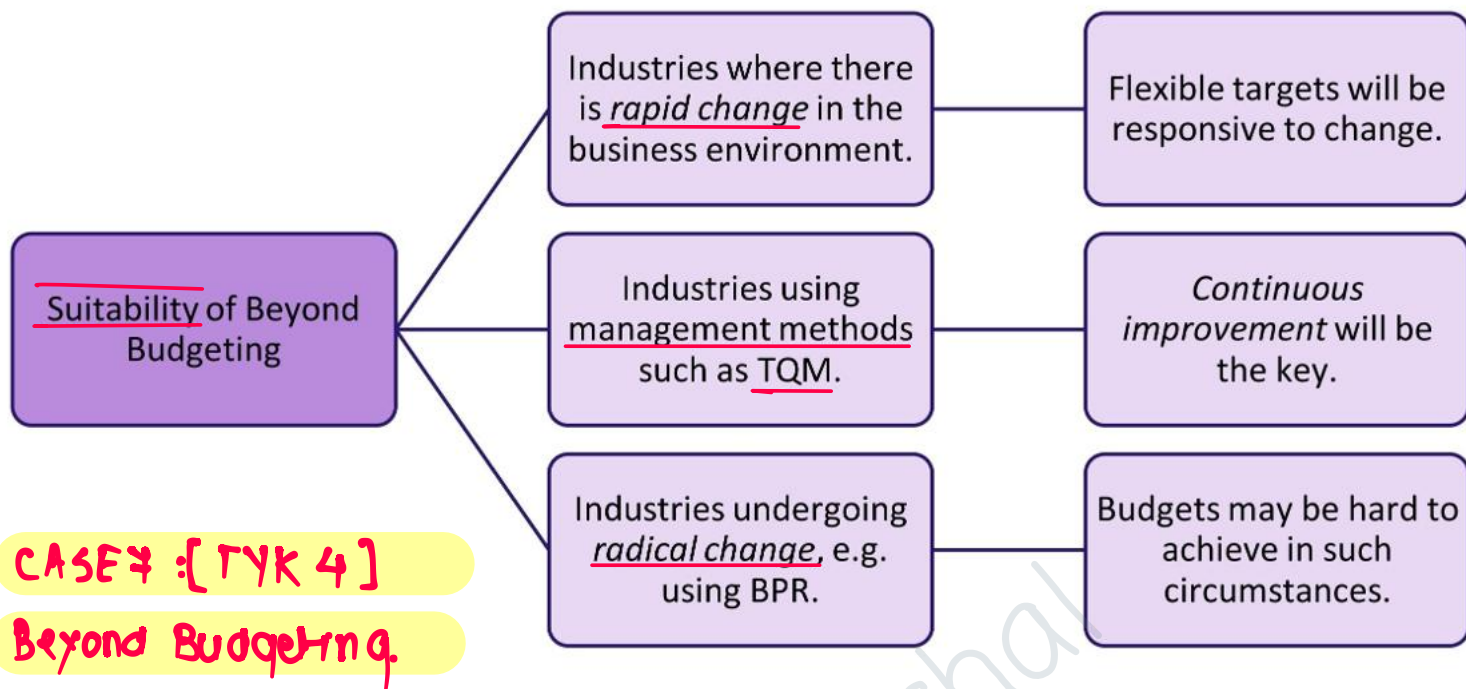
D: Delegation: Delegation of authority who are close to concerned action.

(iv) Benefits of the 'Beyond Budgeting' Model

- C** ▪ Beyond budgeting helps managers to work in coordination to beat the competition. Internal rivalry between managers is reduced as target shifts to competitors.
- R** ▪ Helps in motivating individuals by defining clear responsibilities and challenges.
- E** ▪ It eliminates some behavioural issues by making rewards team-based.
- D** ▪ Proper delegation of authority to operational managers who are close to the concerned action and can react quickly.
- C** ▪ It establishes customer-orientated teams.

6] Suitability of BB:

Suitability



—:THE END:—

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