Budgetary Control

Unit level 4
Unit code J/650/9638
GLH 60
Credit value 15
Unit grading structure
Pass-Merit-Distinction

Unit aims

The aim of this unit is to develop knowledge and ability in identifying and evaluating sources of finance, managing and improving working capital, preparing budgets for functional departments and understand the importance of budgetary control for small and medium enterprises (SMEs) and small and medium practices (SMPs).

Learning outcomes The learner:	Assessment criteria The learner can: Pass	Merit	Distinction
1. Understands financing options for different organisations.	1. Describe the main forms of financing for organisations. 2. Explain how financing options can be accessed by different organisations. 3. Recommend most efficient financing options to a specific organisation.	1. Discuss benefits and problems of an organisation taking out long-term finance to aid cash flow issues.	1. Evaluate the usefulness of using the CAMPARI model to make effective financing decisions.
2. Understands how organisations manage cash flow and working capital.	1. Review how internal and external sources of information are used to evaluate the credit status of customers. 2. Analyse factors that affect the granting of credit to customers. 3. Explain the importance of liquidity management to organisations. 4. Analyse inventory control calculations used by organisations. 5. Use ratio analysis to assess a specific organisation's working capital cycle.	1. Assess management of efficiency and effectiveness of current cash and working capital positions of a specific organisation	1. Make justified recommendations to a specific organisation on how to improve their current cash and working capital positions.
3. Can prepare budgets and report on variances.	1. Assess factors and assumptions affecting forecast data used by business in the budget setting process. 2. Prepare budgets from given forecast data. 3. Calculate and analyse actual to budget variances for a specific organisation. 4. Set targets to enable a specific organisation to monitor its performance. 5. Analyse the behavioural aspects of budgeting.	1. Analyse how cost behaviour knowledge links to forecast costs and revenues for a forecasted volume.	1. Evaluate the usefulness of budgetary control to different organisations.

Indicative content

1. Understand financing options for different organisations

- Main forms of short-term and long-term financing available to SMEs and SMPs.

For example:

  - Loans
  - Debentures
  - Business grants
  - Business angels
  - Own savings
  - Mortgages
  - Share capital
  - Bank overdraft
  - Crowdfunding
  - Retained profits
  - Invoice financing
  - Leasing and asset finance.

- Advantages and disadvantages of differing financing methods.
- Explanation of main features of differing financing methods.
- Understanding of how organisations can access finance and explanations of the difficulties that organisations can face in accessing finance.
- Matching finance to long- and short-term funding needs.
- Use of the CAMPARI model or similar models to evaluate the viability of different finance options.

2. Understand how organisations manage cash flow and working capital

- Different factors that an organisation will consider before it allows credit to a customer including credit checks and referencing.
- Differentiation between the factors that are available within the organisation (internal) such as past orders and external such as credit referencing by an agency.
- Use the CAMPARI model or similar and relate the model to a scenario.
- Measurement of how effectively an organisation is measuring its liquidity position within a business with the calculation and interpretation of performance ratios.
- Understanding of how to control inventory effectively so that inventory shortages do not occur.
- Knowledge of Just in Time (JIT) along with costs associated with inventory holding and implications of inventory shortages.
- Inventory stock calculations, including FIFO, LIFO and AVCO.
- Purposes of economic order quantity and re-order levels.
- Application of investment knowledge to a scenario to discuss the alternative options for investing surplus cash including subscribing for shares in other companies to acquiring non-current assets.
- Measurement of the working capital cycle for an organisation considering inventory (stock) days, receivable (debtor) days and payables (creditor) days.
- Interpretation of financial information including annual financial statements with practical, relevant methods of improving an organisation.
- Comparison of organisational data with competitor/industry averages to track performance.

3. **Can prepare budgets and reports on variances**

- Consideration of the use and benefits of preparing budgets.
- Factors and assumptions affecting budget preparation: uncertainty, historical data, economic conditions; seasonal trends; technological changes, regulatory changes, foreign exchange rates, cost assumptions, effectiveness of sales and marketing, customer retention, competition, variations in efficiency.
- Preparation of the functional budgets to include:
  - Sales budgets
  - Production budgets
  - Material budgets
  - Labour budgets
  - Overhead budgets
  - Cash budgets
- Preparation of master/consolidated budgets including forecasted income statements and statements of financial position.
- Manipulation of cost figures using the different cost behaviours. The high low method will be required for isolating the fixed and variable elements of semi-variable costs.
  - Comparison of actual sales and revenue to flexed standards and calculate meaningful variances with relevant and logical reasoning.

  Variances to include:
  - Materials price
  - Material usage
  - Labour rate
  - Labour efficiency
  - Fixed overhead expenditure
  - Fixed overhead capacity, efficiency and volume.
- Splitting a variance between controllable and uncontrollable elements and make valid arguments as to why they have occurred and suggest realistic improvements.

Suggested resources

Textbooks

Atrill, P. & McLaney, E. (2021) *Financial Accounting for Decision-Makers* 10th Edition (Pearson)

Drury, J. C. (2007) *Management and Cost Accounting*; 7th edition, Chapman and Hall

Horngren, C.T. *Introduction to Management Accounting, 16th edition (Pearson)*

Wood, F. & Sangster, A. (2004) *Business Accounting*; Volume 2 (10th edition), FT Prentice Hall

Websites

Accounting Tools, Budgetary Control Definition, https://www.accountingtools.com/articles/budgetary-control

Finance Strategists, Budget and Budgetary Control, https://www.financestrategists.com/accounting/management-accounting/budget-and-budgetary-control/

My Accounting Course, What is Budgetary Control, https://www.myaccountingcourse.com/accounting-dictionary/budgetary-control

Kaplan Publishing, Study Text: Management Accounting – Costing https://kaplanpublishing.co.uk

Videos

https://youtube.com

Introduction to Cost and Management Accounting, Step-by-Step Guide, Mike Werner

What is Budgeting? | Budgetary control | Advantages & Limitations of Budgeting, Education leaves

Unit assessment

The assessment for each unit is based on the achievement of the learning outcomes at the standards set by the assessment criteria for that unit. The learner can achieve a Pass, Merit, Distinction or Fail for each unit based on the quality of the work submitted and the assessor's judgements made against the criteria provided.

The assessment is completed through the submission of internally assessed learner work which is subject to external moderation or verification.