Managing Financial Resources
MFR
Management control 2 (7)
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Management control / Part 2

Study guide section 5

Difficulties

- Building slack
- Lack of ownership
- Demotivational targets
- Use it or lose it
- Blame games

Budgetary control

- monthly comparison whether targets are met
- corrective actions initiated through rolling budgets or flexible budgets

Fixed budget / Flexible budget

- Fixed budgets remain unchanged irrespective of the level of activity
- Flexible budgeting allows to separate causes of variance between volume related and those related to efficiency or expenditure
  - Material Variances **(SP-AP)*AQ** — where SP = Standard Price (Budgeted) and AP = Actual Price and AQ = Actual quantity
  - Labour Variances **(SR-AR)*AH** — where SR = Standard Rate and AR = Actual Rate and AH = Actual hours

Incremental / Zero-Base Budgeting (ZBB)

- *Method of budgeting that requires all costs to be specifically justified by the benefits expected*
- Budget like for the first time, closely linked to need & benefit, questions status quo but is time consuming

Beyond budgeting

- abolish budgeting, change organisations from centralized hierarchies to devolved networks

Activity-based budgeting

- Matrix which combines major activities costs and resource inputs with identification of the cost driver activity

Rolling Budgets / Years Forecast or Out-turn

- *Continuosly updated forecast whereby each time actual results are reported, a further forecast period is added and intermediate period forecasts are updated*
- **gather actual results month for months and incorporate it into the years end budget --> Significance is growing over time**