



AAT

Management Accounting: Budgeting

Pocket Notes

These Pocket Notes supports study for the following AAT qualifications:

AAT Professional Diploma in Accounting – Level 4

AAT Level 4 Diploma in Business Skills

AAT Professional Diploma in Accounting at SCQF Level 8

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Preface

These Pocket Notes contain the key points you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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A guide to the assessment

The assessment

MABU is the management accounting unit studied on the Professional Diploma in Accounting qualification.

Examination

Management Accounting: Budgeting is assessed by means of a partially computer/partially human marked computer based assessment. The CBA will last for 2 hours 30 minutes and consist of 8 tasks.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

Learning outcomes and weighting

1. Prepare forecasts of income and expenditure	10%
2. Prepare budgets	35%
3. Demonstrate how budgeting can improve organisational performance	35%
4. Report budgetary information to management in a clear and appropriate format.	20%
Total	100%

Pass mark

To pass a unit assessment, students need to achieve a mark of 70% or more.

This unit contributes 15% of the total amount required for the Professional Diploma in Accounting qualification.

chapter

1

Responsibility centres and the behavioural aspects of budgeting

- Behavioural aspects of budgeting.
- Responsibility centres.

Behavioural aspects of budgeting

Target setting and motivation

Targets will assist motivation and appraisal if they are at the right level.

- Too hard and people give up.
- Too easy and people won't try hard enough.

An ideal target should be slightly above the anticipated performance level.

Targets should be:

- Communicated in advance.
- Dependent on factors controllable by the individual.
- Based on quantifiable factors.
- Linked to appropriate rewards and penalties.
- Chosen carefully to ensure goal congruence.
- Challenging but achievable.

Participation is generally agreed to help.

Participation

Top-down budgeting (non-participative)

A budget which is set without allowing the ultimate budget holder to have the opportunity to participate in the budgeting process.

Bottom-up budgeting (participative)

A system of budgeting in which budget holders have the opportunity to participate in setting their own budgets.

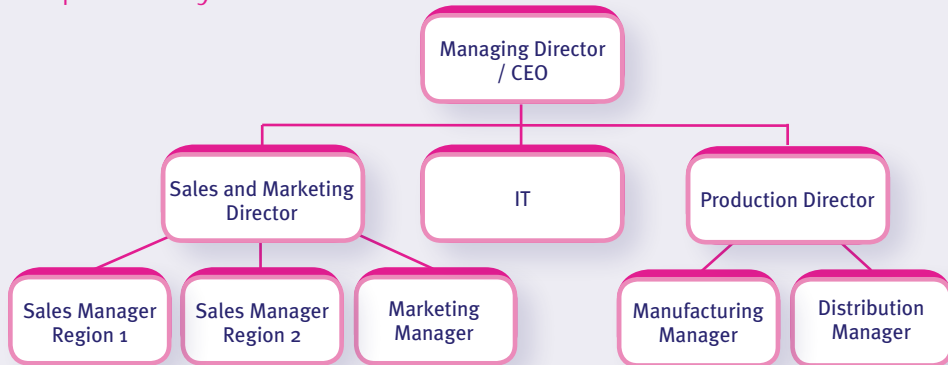
Advantages of participative budgets

1. Increased motivation.
2. Should contain better information, especially in a fast-moving or diverse business.
3. Increases managers' understanding and commitment.
4. Better communication.
5. Senior managers can concentrate on strategy.

Disadvantages of participative budgets

1. Senior managers may resent loss of control.
2. Bad decisions from inexperienced managers.
3. Budgets may not be in line with corporate objectives.
4. Budget preparation is slower and disputes can arise.
5. Figures may be subject to bias if junior managers either try to impress or set easily achievable targets (budgetary slack).
6. Certain environments may preclude participation, e.g. sales manager may be faced with long-term contracts already agreed.

Responsibility centres



The entire organisation should be divided into various responsibility centres. Each responsibility centre is held by a manager or head of the centre, who has been assigned the responsibility for its budget.

Each responsibility centre should be classified into one of the following categories:

1. Revenue and expense centres;
2. Profit centres;
3. Investment centres.