

# Effective Budgeting and Cost Control

## Why Attend

- Planning and budgeting are must-have skills for all professionals regardless of their function or managerial level. This course covers the concept of budgeting as a planning tool, a financial device and a control mechanism. In addition, it provides the necessary application tools required to making long-term and short-term planning decisions.

## Course Methodology

- This course focuses on exercises, case studies, and individual and group presentations.

## Course Objectives

By the end of the course, participants will be able to:

- Defend the importance of linking an organization's budget with its strategic plan
- Demonstrate how the budget relates to the key financial statements: balance sheet, income statement, and cash flow
- Prepare the key elements of an operating and capital budget and evaluate the different budgeting approaches used
- Apply cost control tools, analyze management variance reports and take proper corrective action
- Calculate different capital budgeting evaluation techniques as included in a capital expenditure proposal
- Utilize cost-volume-profit analysis in making budgeting decisions

## Target Audience

- All managers, supervisors and analysts who prepare or use management budgets.

## Target Competencies

- Interpreting financial statements
- Planning and budgeting
- Cost control
- Capital budgeting
- Applying cost-volume-profit analysis
- Utilizing breakeven analysis

## Planning and the functions of management

- The critical functions of management
- Aligning the budget with the strategy of the organization
- Road map to strategy
- Budget as a planning tool
- Control: the missing link
- Planning pitfalls

## The key financial statements

- The accounting system
- The income statement
- The balance sheet
- The cash flow statement

## Budgeting: process and approaches

- The advantages of budgeting
- The budget process
- Rolling budgets
- The master budget
- Operating and capital budgets
- The budgeted financial statements
- Approaches to budgeting:
  - Incremental budgeting
  - Zero based budgeting
  - Flexible budgeting
  - Kaizen budgeting and continuous improvement
  - Activity based budgeting
- Tools of forecasting
- Direct and indirect costs
- Characteristics of an effective budget
- Problems in budgeting



## Cost control

- Budget as a control tool
- The control process
- Characteristics of an effective control system
- Responsibility reporting
- Variance analysis: identifying the components of variance
- Variance analysis: taking the corrective action

## Capital expenditure budgeting and analysis

- Time value of money
- Simple versus compound interest
- Identifying and analyzing cash flows
- The discount rate: using cost of capital
- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Profitability Index (PI)
- Pay-Back Period (PBP)
- Accounting Rate of Return (ARR)
- Approval for Expenditure (AFE)
- Sensitivity and risk analysis

## Cost-Volume-Profit analysis (CVP)

- Identifying the fixed costs and variable costs
- Computing breakeven point in units
- Computing breakeven point in sales
- Assumptions of CVP analysis
- Using CVP in budgeting decisions

