BUDGETARY CONTROL

SALES BUDGET
- based on past performance (existing)
- based on market research (new)
- identify any relevant key factors

MARKETING AND PROMOTION COSTS:
- set as % of sales budget
- advertising, trade shows, samples surveys, sponsorships etc

MATERIAL PURCHASES BUDGET
- detemine average material cost of a unit
- cost for month is the expected unit production x material cost per unit
- purchases must be sufficient to meet production requirment for month
- purchases must also be in compliance with prescribed stock policy.

PRODUCTION BUDGET:
Monthly unit output required to meet sales targets.
Compliance with stock policy.

LABOUR COST BUDGET:
- determine average labour cost per unit
Cost for month is expected production x labour cost per unit
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VARIABLE MANUFACTURING COSTS:
- these include carriage, delivery, postage, packaging costs
-determine the average variable costs per unit
- cost for month is expected unit production x variable mfg. cost per unit.

FIXED ADMINISTRATIVE OVERHEADS BUDGET:
-determine annual fixed costs of the business.
- rent / phones / salaries / insurances / leasing / rates etc
- monthly cost is 1/12th of the annual amount.

Once cost and revenue budgets have been compiled, they are used to produce the master budget viz the Budgeted Profit and Loss Account and the Cash Flow Forecast.

As actual results become available for each month, there should be comparisson of actual against budget amounts to determine if the actual results are consistent with budgeted amounts.

Any adverse deviation from plan should be identified and quickly rectified, particularly in the areas of:
- Sales and Gross Profit Margin
- Cost items
- Adverse cash flow trends, particularly from sales (impact of credit control procedures).

KEY FACTOR: is that factor which inhibits a business from achieving its financial targets. Generally this is sales. But can also be restricted availability of key products or raw materials. Also can be restricted or limited availability of key skills. In retail, the limiting factor can be restriction on opening hours in a retaiil shoppring complex.