

# Budgeting

## Learning Area Overview



### Welcome to this learning area overview for Budgeting, prepared by AAT.

In this overview we'll explain what Budgeting is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

### What you'll learn in Budgeting

The main purpose of this learning area is to help you understand how and why an organisation prepares budgets. You'll be tested on the knowledge and skills you learn in a computer based assessment, which is two and a half hours long.

Budgeting is a complex process which is carried out by virtually all organisations.

You'll learn how the planning process is affected by the structure of the organisation, and the environment in which it operates.

Data for budgeting purposes is obtained from both internal and external sources, and you'll develop an understanding of how this determines the costs and revenue associated with a planned set of actions.

You'll also look at how different costs behave, and how they're allocated across the product or service range. This topic will lead on to you learning how and why budgets are flexed, both theoretically and by actual results.

Budgets usually cover a year, but another topic you'll cover is how they can be broken down into manageable periods, otherwise known as control periods. Control periods can be used to reflect both seasonal trends, if necessary, and a business's different demand and output levels.

The various uses of the budget are dealt with in this learning area, too. For example, budgets enable organisations to formulate and agree a target profit level, which is important for key staff members to be aware of.

Budgets are generally broken down into controllable chunks, with all staff involved in the budgeting process required to sign up to the agreed figures. The main reason for this is that individual performances will be evaluated on the outcomes.

This process of monitoring and feedback has many benefits, including the fact that it leads to better control, which should ultimately result in improvements to the ongoing budget process.

Finally in this learning area you'll learn about the difference between forecasts, planning and budgeting, as well as their respective durations and where they overlap.

### How Budgeting will help you in the workplace

There are several ways in which you're likely to come across budgeting in the workplace.

You might already have been involved in calculating the cost of products, and if you haven't there's a good chance this is something you'll need to do in the future. For this reason you'll need to know how to review pricing information from your suppliers, and calculate standard raw material costs. You'll also be expected to update figures for the current year based on changes that have occurred since the previous year.

In addition, you'll need to know how to allocate overheads to particular departments, or pieces of machinery to specific product lines. Similarly, it's important to be able to assess labour performance to determine whether there's enough time for people to perform different operations.

If an overall annual budget is produced for your organisation, you might be involved in breaking it down into control periods and making adjustments so that it reflects local conditions such as varying staff levels and differing levels of demands.

The budgeting process will have an effect on any organisation that offers performance-related bonuses. Many performance and profit related schemes tend to rely heavily on monitoring achievement against budgeted and forecast results, and this isn't always just restricted to sales staff. The amounts paid to staff in bonuses are often based on pre-agreed targets that have been drawn up as a result of the budgeting process.

## How Budgeting relates to other learning areas

Budgeting builds on both Basic Costing at level 2, and Costs and Revenues at level 3.

It's also closely linked to one of the other level 4 learning areas, Financial Performance, which considers how an organisation has performed against its budget.

While Budgeting deals with basic variances, Financial Performance goes deeper into the underlying reasons why variances turn out as they do, and what the consequences of this may be to a business.



Budgeting is one of the four compulsory learning areas at level 4. The other three compulsory learning areas are:

- Financial Statements
- Financial Performance
- Internal Control and Accounting Systems.

You'll also need to take two optional learning areas while studying for level 4.

You can choose these two learning areas from the following list of four:

- External Auditing
- Credit Management and Control
- Personal Tax
- Business Tax.