MOFPI
MINISTRY OF FOOD PROCESSING INDUSTRIES
GOVERNMENT OF INDIA

PMFME
सूक्ष्म उद्यमों का संबल

NIFTEM-K

FINANCIAL MANAGEMENT

AATMANIRBHAR BHARAT

PM Formalisation of Micro Food Processing Enterprises Scheme (PM FME Scheme)

Content

- Introduction
- Book keeping
- Financial Statements
- Production Management
- Purchasing
- Inventory Management
- Cost Control
- Budgeting

Overview of the Scheme

Brief

PMFME is a centrally sponsored scheme and is implemented in close collaboration with State Nodal Agencies of respective States. All the States/UTs have appointed Nodal Agencies for the implementation of the scheme. The MIS portal for PMFME Scheme is receiving individual applications for credit-linked subsidies the for upgradation of food processing units.

Time frame

The Scheme is to be implemented for a period of five years from 2020-21 to 2024- 25 with an outlay of Rs.10, 000 Crore.

Theme

The main theme of the Scheme is the One District One Product (ODOP) approach, a part of a broader strategy of concentrated agro and industrial development focused on each district

AIM

To support capital investment for gradation and formalization with registration for GST, FSSAI, Hygiene Standards, and Udyog Aadhaar

Capacity Building through skill training, Imparting technical Knowledge of food safety, standards & hygiene and quality improvement, handholding support for the preparation of DPR, availing bank loan and up gradation.

Support to Individual Micro Enterprises in terms of credit-linked capital subsidy @35% of the eligible project cost with a maximum ceiling of Rs. 10 lakhs Seed capital @ Rs. 40000/- per member of NHG for working capital and purchase of small tools would be provided under the scheme

Support to individual and groups of Micro Enterprises

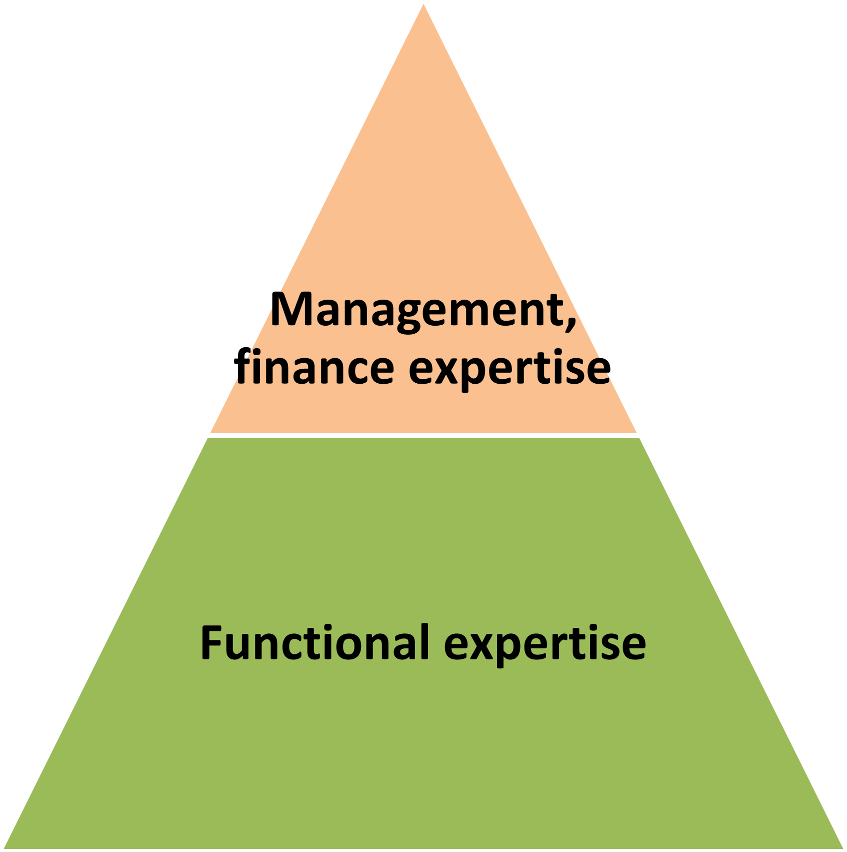
Branding and Marketing Support

Support for Strengthening of Institutions.

Setting of Robust Project Management Framework

BENEFICIARY COMPONENTS UNDER PM FORMALIZATION OF MICRO FOOD PROCESSING ENTERPRISES

Significance of Financial Management



- To understand costs incurred in the business so that unnecessary costs may be curtailed.
- To identify the sources and uses of funds so that financial efficiency may be achieved.
- To understand different inventory management and production management techniques to achieve operational efficiency.
- To aid in business planning, organization and control.

Financial management

- Financial management is concerned with the acquisition and use of funds.
- Fundraising may include decisions about the cost of capital, capital structure, capital markets, IPOs, and so on.
- Fund utilisation may include Capital Budgeting, Portfolio Management, Working Capital, Management, and other activities.

A basic Business Model

1. Create Value
2. Capture Value
3. Deliver Value
4. Revenue more than costs

Introduction to accounting

- Accounting is the system used to measure, record, analyses, and report on the effects of financial business transactions and other events that take place within an organization.
- It is a business language.
- Financial performance is reported and evaluated.
- It has three components:
  - Financial accounting
  - Cost accounting
  - Management accounting

Classification

Financial Accounting

- Financial Transactions are recorded.
- Financial Results Reporting
- Financial Statement Preparation
- External Users are the intended audience.

Cost Accounting

- Cost recording. Cost-benefit analysis
- Cost statement preparation
- Intended for internal users.

Management Accounting

- Keeping track of financial and other data. Financial and other information analysis Statement creation for managerial decisions.
- Intended for internal users at all levels of management.
- This is a broader term that includes Financial and Cost Accounting.

Fundamental (07) accounting concepts

- Accruals concept: When an asset is earned, revenue is recorded, and when it is used, expenses are recorded.
- Concept of conservatism: Expenses are recorded sooner than revenue whenever there is a reasonable likelihood that they will be incurred.
- Concept of consistency: When a business chooses to employ a certain accounting technique, it should continue to do so.
- Economic entity concept: The business dealings of a corporation and those owners/ founders must be kept apart.

Fundamental (07) accounting concepts

- Going concern concept: When preparing financial statements, it is necessary to make the judgment that the company will remain in business in the foreseeable future.
- Matching concept: To record expenses that are related to income in the same time that revenue is reported.
- Money measurement concept: the books of accounts must only contain entries for transactions that can be quantified in terms of money.

Book keeping

- Bookkeeping comprises the keeping of accurate records and books, as well as the recording of all the relevant details of any and all transactions that occur in the normal course of business.
- Transactions in a business can be broken down into a number of different primary operations and categories, such as sale, purchase, asset, and so on.
- For the purpose of recording transactions linked to these operations, separate books are maintained, and the specifics of each transaction are written down in those books.

Importance of book keeping

- They offer information that is as current as possible regarding the company.
- The results of transactions that were carried out within the time period under examination are reflected in them.
- At predetermined intervals, they report any relevant information regarding the state of the company.
- They provide assistance to governments and other authorities in determining the effect that different taxes have on a certain population.
- They are useful tools for analyzing the performance of businesses and comparing the results of the operations of other companies in the same industry.

Double entry book keeping

- Double Entry Bookkeeping System is predicated on the idea that every monetary exchange has countervailing results.
- There are just two possible outcomes to any given transaction: "debit" or "credit," and both are always equivalent.
- So, after the fiscal year is over, the total debits and total credits should be the same.
- One must input the debit entry data with the credit entry for a particular transaction.

Kinds of transactions recorded in books of accounts

- Only those transactions that include the transfer of money or the trade of goods or services having a monetary value are subject to the requirements of accounting treatment.
  - Exchanging goods for cash/credit
  - Service exchange for cash or credit
  - Exchanging assets for cash/credit
  - Paying cash to creditors
  - Receiving cash from debtors
  - Exchanging goods for cash
  - Trade of goods for services

Types of accounts

1. Income & Expenditure Account: All accounts that indicate the business's revenue income, and revenue expenditure are included in this category of accounts.
2. Personal Account or Individual Account: This category comprises all accounts held by both individuals and organisations, including businesses, corporations, societies, and others.
3. Assets Account: All asset kinds fall under this heading. All financial investments in tangible or intangible items with utility or use value are considered assets. Additionally, these assets can be sold and turned into cash.

Debit and Credit Rules

- Personal Accounts Rule:
  - *"Debit the Receiver and Credit the Giver."*
- Rule for ‘Assets Accounts’:
  - *"Debit what comes in and Credit what goes out."*
- Rule for ‘Income-Expenditure Accounts’:
  - *"Debit Expenses and Losses and Credit Incomes and Gains"*

Steps to recognize a Debit or Credit Effect

- Determine the extent of the accounting treatment that is required for the transaction.
- Determine which two accounts are being used for the transaction by looking at both of them.
- Apply the debit and credit rules to the accounts that have been identified, taking into account the accounts' respective categories.
- It ought to go without saying that "credit entries" and "debit entries" cannot coexist in the same transaction because they refer to opposite sides of the same transaction.
- A debit entry and a credit entry are essential components of every transaction.

Journal

- A journal entry is the first entry in the books of accounts, identifying and note down/ noting the debit and credit impacts of each transfer of funds on accounts, along with a proper description.
- Journal entries help to prepare several books of accounts.

Journal entries in the book of M/s.................				
Date	Particulars	Ledger Folio No.	Debit (Amount)	Credit (Amount)

Ledger

- A ledger is a book that contains information about all accounts in which transactions are recorded.
- It records all business transactions transferred from the journal or subsidiary books in a condensed and classified format.
- The ledger is the main book in the double entry bookkeeping system.
- It has current details on every account; for instance, if a business owner wants to know how much money they owe Mr. P, they may look up Mr. P's account in the Ledger.

Debit Side			Account(Name of the Account)				Credit Side
Date	Particulars	FolioNo.	Amount	Date	Particulars	FolioNo.	Amount

Balancing the account

- The total of the postings to the account's credit side and debit side are typically not equal.
- The "balance" of the account is the margin by which the sum of any side (debit or credit) exceeds the sum of the other side.
- The balance is referred to as a "debit balance" if the amount of the debit side is bigger, and a "credit balance" if the opposite is true.

Balancing the account

Following accounts always have debit balances:

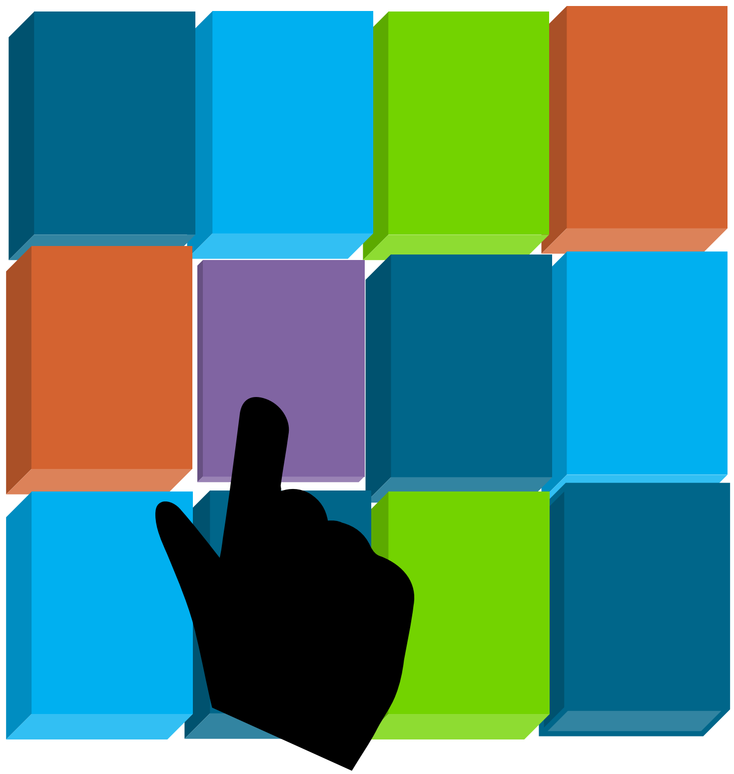
- •Asset’s Account
- •Debtor’s Account
- •Cash Account/Bank Account
- •Stocks Account
- •Losses Account
- •Revenue Expenses Account

Following accounts always have credit balances:

- •Creditor’s Account
- •Gain’s or Profit's Account
- •Revenue Income's Account
- •Interest Received
- •Bank Loan Account

Other books of accounts

- **Purchase book:** The purchase book contains all transactions relating to purchases, whether made with cash or credit. Additionally separately documented in this section are purchase returns.
- **Sales Book:** The sales book contains a record of all credit or cash sales transactions. Transactions related to sales returns are likewise kept separate.
- **Cash book:** The 'cash' account is kept in the cashbook, a subbook of the ledger. Petty cash transactions are also tracked individually in this section.
- **Bank book:** A bankbook is a subsidiary book of the ledger where the 'bank' account is kept.
- **Stock register:** This is a register that keeps track of stock movement.



Financial Statements

Financial Statements

- Recording all transactions in conformity with generally recognized accounting principles and procedures is bookkeeping's main objective.
- Simply documenting the transaction, though, is insufficient. Without appropriately classifying the numerous accounts reported for summary, it is difficult to see the business's overall image.
- Therefore, it is crucial to compile an overview of all the accounting information recorded in different books and to present it in a suitable manner.
- Accounting information is presented in financial statements to a variety of consumers, including owners, bankers, creditors, tax authorities, governments, suppliers, and others.
- One can have a meaningful understanding of the financial status of the organization with the aid of the financial statements.
- There are three types of primary financial statements i.e., trial balance, balance sheet and Profit & Loss Account.

Trial balance

- To ascertain the ledger entries' arithmetic accuracy is the trial balance's main objective.
- The fundamental tenet of double-entry bookkeeping is that every transaction has two equal and opposing effects.
- It indicates that there is a corresponding credit to every debit.
- As a result, at the end of the accounting period, the sum of all accounts having a "debit balance" and the sum of all accounts with a "credit balance" should be equal.
- If they are not equal, the accounts will not be accurate.
- Making a trial balance is a necessary step before accurately making the balance sheet and profit and loss account, the final two crucial financial statements.

LedgerFolio	Name of Account	Debit closing balance	Credit closing balance
Total			

Profit & Loss Account

- From the financial accounting system, the user is interested in learning the profitability of the business activities over a given time period as well as the status of the company at the end of that time.
- The statement known as a "Profit and Loss Account" (P & L A/c.) shows how profitable a company's operations were throughout the accounting period.
- All revenue expenditures and losses are transferred to the debit side of the P&L account, whilst all revenue gains and income is sent to the credit side.
- If a company's total revenue exceeds its total expenses, it is considered to have made a profit.
- The corporation is deemed to have lost money if its entire expenses for the accounting period outweigh its total revenues.
- If the P&L account has a credit balance, it means there was a net profit for the accounting period; if it has a debit balance, there was a net loss.

Format of a Profit & Loss Account

Particulars	Amount	Particulars	Amount
Net Profit (Balance Figure)		Net Loss (Balance Figure)	
Total:		Total:	

Assets and Liabilities

- Before making a balance sheet, lets understand about assets and liabilities:
  - Assets are defined as the things a company possesses, and liabilities are defined as the things a firm owes.
  - On the balance sheet, liabilities are displayed on the left and assets are listed on the right.

Assets

- **Fixed Assets:** Since fixed assets are long-term investments, the business's primary goal is to use them to create value.
- **Current Assets:** In contrast to fixed assets, current assets do not always have the same form. Whatever shape they take, they will almost certainly soon be changed to "Cash" or "Bank Balance.“
- **Investments:** The business will occasionally make investments in other enterprises or corporations.
- **Loans & Advances (Given):** On occasions, the business lends money or gives out advances to other people.
- **Fictitious Assets:** Fictitious assets are the debit balances of accounts like the Profit and Loss Account, the Accumulated Losses Account, the Expenses Not Written Off Account, and so on.

Liabilities

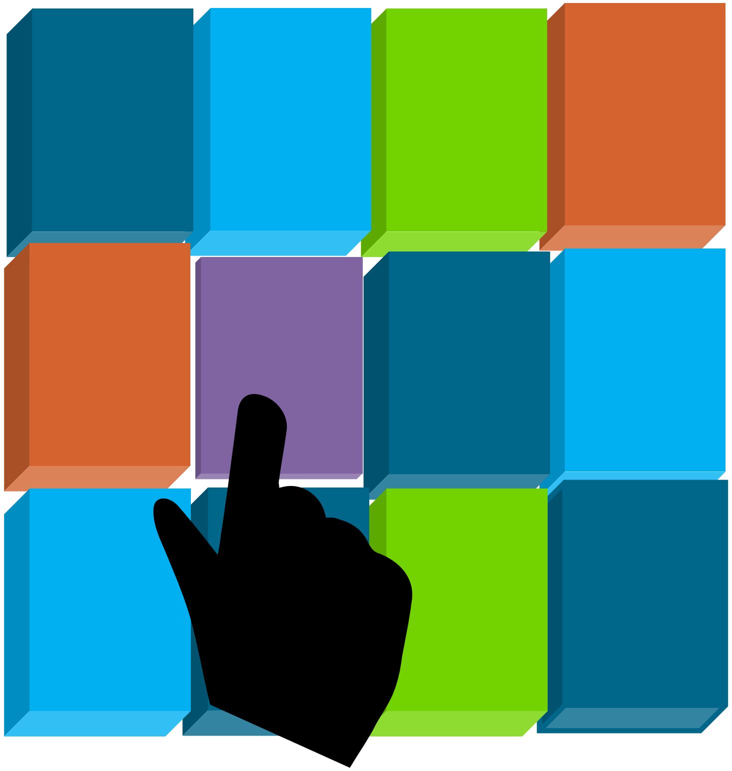
- **Capital:** The promoter's money is a liability in terms of capital. The company owes that sum to the owner.
- **Reserves and Surplus**: The promoter is also entitled to accumulated profit that is not withdrawn and is a component of profit that is set aside for particular uses (s). The company owes that sum to the owner. They are liabilities as a result.
- **Secured Loans (Received):** The total amount of loans that the company has received is a liability. Assets that have been offered as security or collateral to the institutions or people who have issued the loans are used as security for these loans.

Balance Sheet

- A balance sheet is a document created to assess the true financial status of a business at a certain point in time (normally the last day of the accounting period).
- The balance sheet is updated with the accounts from the remaining groups, "Personal or Individual Accounts" and "Assets Accounts."
- The accounts on the balance sheet remain open.
- Their closing balances on their balance sheet are carried over to the subsequent accounting period.

Format of a Balance Sheet

Liabilities	Amount	Assets	Amount
• Capital • Secured loans (Received) • Reserves & Surplus • Current Liabilities • Unsecured Loans & Deposits (Received) • Provisions • Profit Accumulated		• Fixed assets • Investments • Loans and Advances(Given) • Current Assets • Stocks------ • Debtors------ • Cash------ • Bank------	
		• Balance------	
		• Accumulated Losses	
Total		Total	



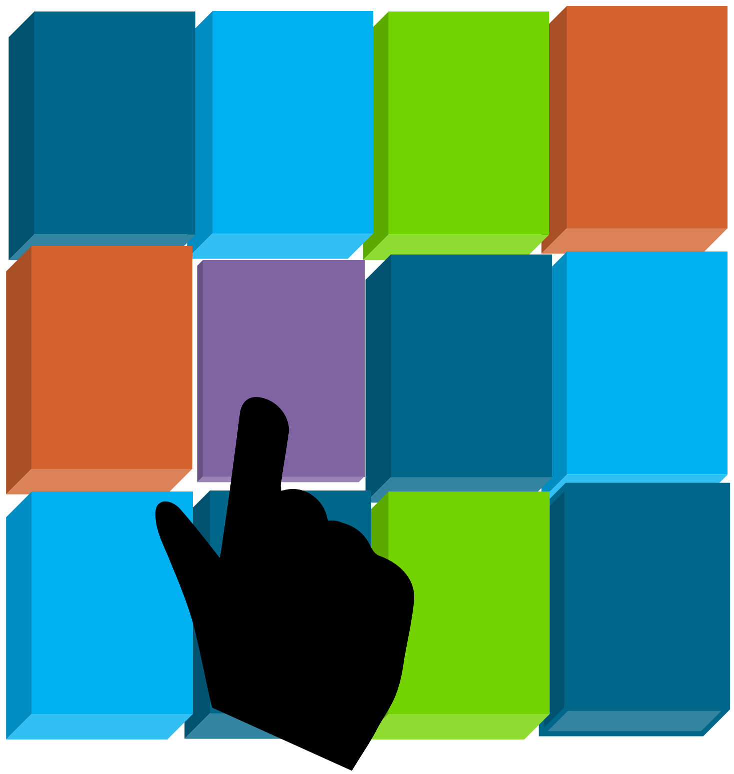
Production Management

Production Management

- The application of management principles to the production function in a factory is referred to as production management. In other words, production management entails the planning, organizing, directing, and controlling of the manufacturing process.
- Production Management is concerned with production-related decision-making. So that the resulting goods and services are produced at the lowest possible cost while adhering to the quantitative specifications and demand schedule.
- Primary activities:
  - Input resource specification and procurement, including management, material, and land, labor, equipment, and capital.
  - Product design and development to determine the manufacturing process for converting input factors into goods and services.
  - Monitoring and controlling the transformation process to ensure efficient production of goods and services.

Scope of Production Management

- Selection of a location
- Land acquisition
- Building construction
- Purchasing and installing machinery
- Purchasing and storing raw materials, and converting them into saleable products
- Quality management
- Maintenance management
- Production planning and control
- Method improvement
- Work simplification



Purchasing in an enterprise

Purchase procedures and methods

- The purchase procedure will be determined by the nature, size, standard, location of the establishment & future requirements forecast.
- The entire purchasing process could be divided into the following steps:
  - Purchase requisition form
  - Source of supply selection
  - signing a contract with the supplier
  - Acceptance of raw materials for food and beverages
  - Commodities are transferred to the ordering department or stores.

Purchasing contracts

- A contract is entered into with a supplier for the commodities to be supplied on a regular basis at a reasonable price.
- A contract is a legal document, and the terms of the contract should be carefully drafted, preferably by the firm's solicitors.
- Contracts are classified into two types:
  - **Specific period contract**: it is intended to determine the source of supply and the price of goods for a set period of time, such as three or six months. Bread, butter, milk, cream, and so on.
  - **Quantity Contract:** The goal of a quantity contract is to ensure the continuous supply of a specific quantity of an essential item at an agreed-upon price over a specific trading period. Most suitable for fruits and vegetables, for example.

Purchase clauses in contracts

- Purchase clauses could include:
  - the period,
  - estimated quantities,
  - reservation of the establishment to decide a contract between supplies,
  - purchase specification,
  - removal of rejected food by the supplier,
  - chargeable containers,
  - power to purchase in default,
  - in case of a dispute-an agreed party,
  - indemnity against damage,
  - prevention of corruption,
  - the place of delivery,
  - invoices,
  - payment of invoice,
  - service of notice to break a contract

Periodic purchase

- The establishment's needs are estimated on a regular basis, and regular orders are placed on a weekly/fortnightly/monthly basis.
- This method ensures that stocks are kept at a consistent level.
- On the basis of periodic requirements, a master quotation is prepared.
- Orders are placed based on the quoted price and available storage space.

Market purchase

- The establishment's needs are estimated.
- Quotes are requested from various commodity suppliers.
- The quantity and prices are compared, and orders are placed with the firm with the price and quantity of provisions in mind.
  - **Cash & Carry Market:** The cash and carry method is best suited for small and medium-sized establishments. The buyer has complete freedom to purchase from the market at a competitive price, and he or she can personally check the quantity and taste of the item.
  - **Paid reserve method:** This method is used when it is necessary to ensure the quantity of supply of an item for the menu that is especially important for a specialty restaurant/establishment, such as jumbo size prawns, frozen fillets of beef, and so on.

Market purchase (Contd..)

– **Cost Plus Method:** The cost-plus method is better suited for welfare catering institutions such as hospitals and boarding houses. The approved supplier is paid the same price he paid for the commodities plus an agreed percentage to cover handling costs, delivery charges, and a profit margin.

– **Total supply method**: Some suppliers are able to provide a full supply service for all commodities. Such a supplier may be agreed upon by a food and beverage establishment. This system has the advantage of only requiring one supplier to negotiate with, a lower volume of paperwork, and fewer deliveries. Before placing an order, a proper purchasing procedure requires obtaining at least two quotations from two dealers for each item.

Purchase indent

- Non-perishable items are purchased under the authority of a purchase indent, which can originate. If one of the following conditions occurs:
  - A regular storeroom inventory item has reached its pre-determined minimum stock level. The storekeeper/manager would determine the minimum stock level with the assistance of the consuming department head.
  - A department requires a non-storeroom inventory item, and the indent must come from the department head and be approved by the general manager.

Purchase order

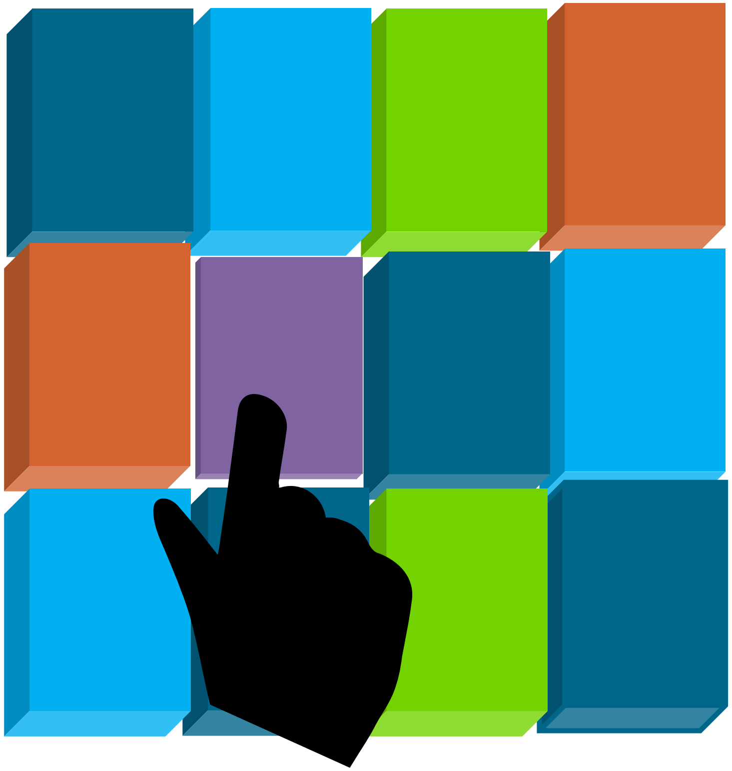
- This is another important document that must be issued for all ordered items.
- This should include all items ordered, the delivery time, payment terms, the agreed-upon price, and any other conditions/institutions.
- All purchases must be made in accordance with the purchase indent or standard list.
- Except for standing rate contact items, a purchase order is issued for all items.

Centralized purchasing system

- The centralized purchasing system is very popular in chain operations.
- The requirements of each individual unit are relayed to a central office in this system.
- The central office determines the total requirements for all units and then makes total purchases for either individual unit delivery by the dealer or centralized delivery.
- Top management makes the decision to centralize purchasing.
- The primary benefits of central purchasing are as follows:
  - Volume purchasing results in lower prices.
  - Possibility of obtaining desired quality due to a wider range of markets
  - Purchases made in accordance with specifications
  - Keeping a larger inventory to ensure consistent supply to individual units.
  - Individual food purchasers must be checked and controlled.

Competitive purchasing price method

- In this procedure, quotations are requested from one or more purveyors/suppliers, and orders are placed where terms are most advantageous to the buyer, after all price, quality, yield, and service elements have been considered.
  - Ensure that the purchasing agent is purchasing for use rather than stock
  - Mechanics of purchasing- must provide the necessary information
  - Daily perishables investment
  - Market quotations and purchase order sheets are distributed



Inventory Management

Inventory management

The process of ordering, storing, using, and selling a company's inventory is referred to as inventory management.

This includes raw material, component, and finished product management, as well as warehousing and processing of such items.

Inventory management attempts to streamline inventories in order to avoid both gluts and shortages.

Inventory : Asset or a liability?

One of a company's most valuable assets is its inventory. A company's inputs and finished products are the heart of its business in retail, manufacturing, food services, and other inventory-intensive industries. A lack of inventory when and where it is needed can be disastrous.

At the same time, inventory can be considered a liability (if not in an accounting sense). A large inventory is vulnerable to spoilage, theft, damage, or changes in demand. Inventory must be insured, and if it is not sold in a timely manner, it may be sold at a loss—or simply destroyed.

Inventory management

- Inventory management is critical for businesses of all sizes for these reasons.
- Knowing when to restock inventory, how much to buy or produce, how much to pay, and when to sell and at what price can all become complicated decisions.
- Small businesses frequently keep manual inventory records and use spreadsheet (Excel) formulas to determine reorder points and quantities.
- Larger companies will use enterprise resource planning (ERP) software.
- The largest corporations make extensive use of highly customized software as a service (SaaS) applications.

Inventory accounting

- Inventory is a current asset because a company intends to sell its finished goods within a short period of time, typically a year.
- Before inventory can be recorded on a balance sheet, it must be physically counted or measured. Companies usually keep sophisticated inventory management systems that can track real-time inventory levels.
- Inventory is accounted for in one of three ways: first-in-first-out (FIFO), last-in-first-out (LIFO), or weighted average.
- An inventory account is typically divided into four categories:
  - Raw Material: Raw materials are the various materials that a company purchases for its manufacturing process. Before a company can sell a finished good, these materials must go through extensive processing.
  - Work in process (also known as goods-in-process): Raw materials that are being transformed into a finished product.
  - Finished Goods: Finished goods are finished products that are ready for sale to a company's customers.
  - Merchandise: Finished goods purchased from a supplier for future resale.

Methods of Inventory Management : Just in Time (JIT)

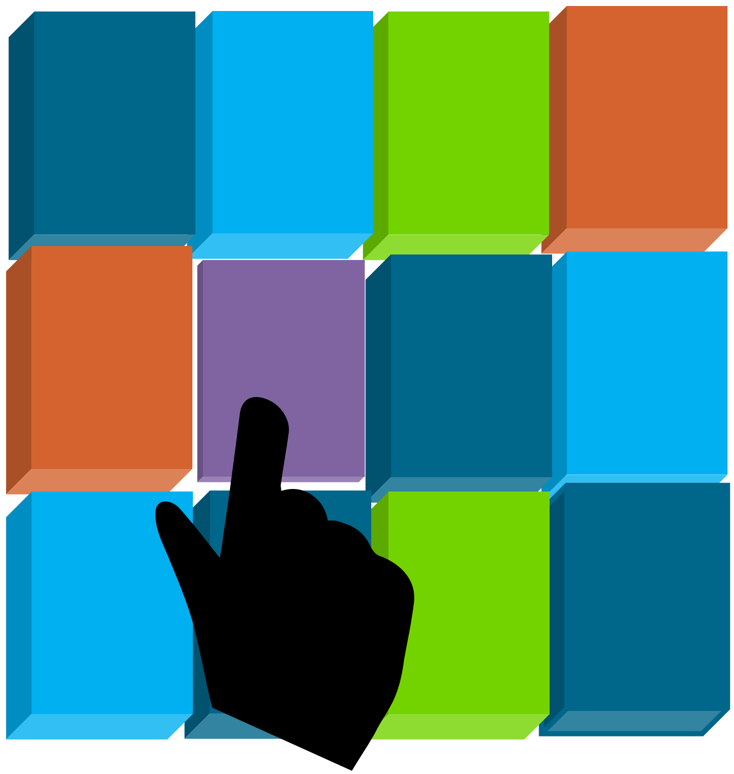
- In the 1960s and 1970s, Japan pioneered this manufacturing model.
- Toyota Motor (TM) made the greatest contribution to its development.
- By keeping only, the inventory required to produce and sell products, companies can save significant amounts of money and reduce waste.
- This method saves money on storage and insurance, as well as the cost of liquidating or discarding excess inventory.
- JIT inventory management can be dangerous as if demand unexpectedly spikes, the manufacturer may be unable to source the inventory required to meet that demand, harming its customer reputation and driving business to competitors.
- Even minor delays can be problematic; if a key input is not received "just in time," a bottleneck can occur.

Methods of Inventory Management : EOQ

- **Economic Order Quantity (EOQ)** —
- In inventory management, this model calculates the number of units a company should add to its inventory with each batch order in order to reduce total inventory costs while assuming constant consumer demand.
- In the model, inventory costs include holding and setup costs.
- The EOQ model aims to ensure that the appropriate amount of inventory is ordered per batch, so that a company does not have to place orders too frequently and does not have an excess of inventory on hand.
- It is assumed that there is a trade-off between inventory holding costs and inventory setup costs, and that total inventory costs are reduced when both setup and holding costs are reduced.

Methods of Inventory Management : DSI

- **Days Sales of Inventory (DSI)** —
- It is a financial ratio that indicates the average number of days it takes a company to turn its inventory, including work-in-process goods, into sales.
- DSI is also known as the average age of inventory, days inventory outstanding (DIO), days in inventory (DII), days sales in inventory, or days inventory.
- The figure represents how many days a company's current stock of inventory will last, indicating the liquidity of the inventory.
- A lower DSI is generally preferred because it indicates a shorter time to clear out inventory, though the average DSI varies by industry.



Cost Control

What is cost control?

- Cost control is an important aspect of growing a company's finances and increasing its profitability.
- Understanding cost control methods can help you keep your projects on budget and increase project profitability.
- Cost control is a professional practice that analyses a company's overall expenses and reduces project costs to increase profit.
- A company typically hires finance professionals to monitor cost performance, plan budgets for each project, and change projects that can improve a company's financial performance.
- Finance professionals also develop, maintain, and organize a project's budget from start to finish to ensure that employees adhere to the budget.
- The goal of cost control methods is to improve a project's financial performance while lowering its costs

Significance of cost control

- Budgets aid in project management:
  - Cost control methods frequently involve establishing a strict budget for a team to adhere to, which aids in project management. Employees may feel more compelled to complete a project by the budget's deadline if the budget calls for it to be completed by a certain time.
- Keeps project costs from rapidly increasing:
  - Using cost control methods can help keep project costs from rapidly increasing as the project progresses. If project members believe the budget does not cover all of the project's costs, they can consult a financial professional.
- Maintains profitability:
  - Cost control methods allow the revenue generated by projects to be greater than the cost of the project, thereby maintaining profitability and increasing a company's finances.

Cost cutting variables

- **Labor costs:**
  - The cost of labor is the total wages paid to employees working on a project, including employee benefits and taxes. When budgeting a project, it is critical to include the cost of labor because a project may involve multiple employees working at the same time.
- **Material costs:**
  - The cost of materials is the total cost of all supplies and equipment needed for a project. This includes materials ordered before the project begins, during the project's completion, and after the project is completed.
- **The cost differences:**
  - Cost variance refers to any price differences between the project's actual cost and the budget you've set.
- **ROI (Return on Investment):**
  - Return on investment (ROI) measures how profitable a project is in relation to the amount of money invested in it.

Cost cutting strategies: Budgeting

- Budget management is one method of cost control that most businesses use when starting a new project.
- Setting aside enough time to create an accurate budget for new projects is critical because budgeting helps estimate costs, organize finances, and ensure cost variance is kept to a minimum.
- When budgeting, businesses consider all aspects of the project, such as how many employees are required for the project, how long it may take to complete, and how much material is required.
- It is critical to leave enough room in your budget for any unexpected costs.

Cost cutting strategies: Using checkpoints, track all expenses

- Monitoring all project expenses is a common cost control method used by businesses to ensure that the budget is followed correctly.
- Businesses frequently have checkpoints that are analyzed on a regular basis throughout a project to ensure that team members are staying within budget and to determine if any changes need to be made, such as if team members request more time or material to complete the project.
- These checkpoints can be analyzed by professionals on a weekly to monthly basis.
- Using these checkpoints, finance professionals can analyze the changes that are required and adjust the budget accordingly.
- Using this cost-cutting method allows for changes that have a minor impact on the budget.

Cost cutting strategies: Change control systems

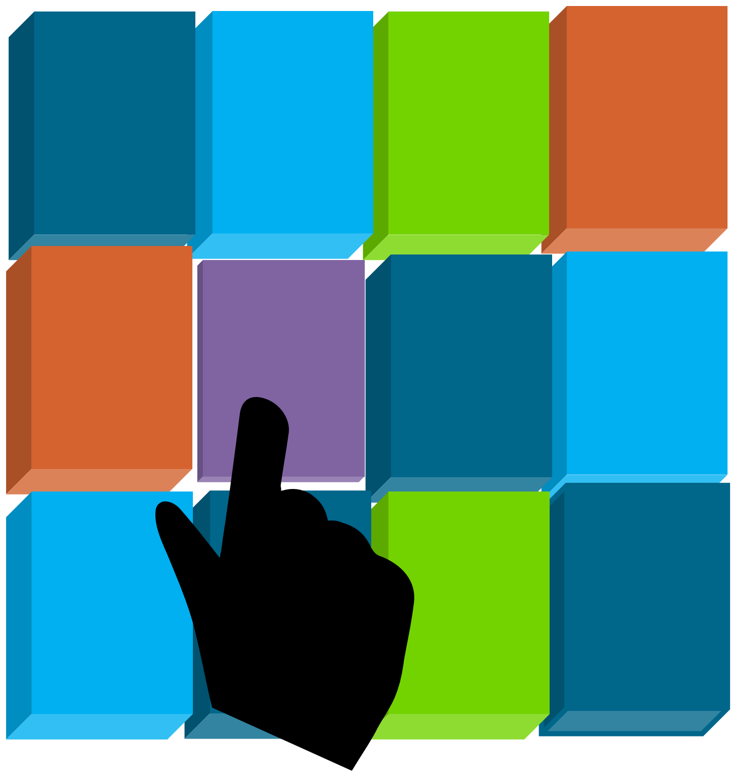
- Change control systems are cost-cutting methods that consider any changes that may have a significant impact on the budget.
- These changes can result from any issues that arise during the project or from significant delays that cause the project to miss the deadline, resulting in an increase in labor and material costs.
- Change control systems monitor all changes made to the project to ensure that professionals make budget adjustments.
- They also document changes and ensure that all changes are necessary for the project.

Cost cutting strategies: Effective time management

- Time management is a cost-cutting strategy that involves meeting project deadlines in order to keep project costs low.
- When a project is delayed, the cost of the overall project's expenses rises because they continue to use materials and employees to complete the project, lowering the project's profitability.

Cost cutting strategies: Keeping track of the earned value

- Earned value is a popular cost-cutting strategy among accountants.
- It entails multiplying the percentage of project work completed by the budget at the time of project completion.
- Earned value assists professionals in predicting the financial outcome of a project based on the project's completion time, total expense, and overall cost.



Budgeting

What is a Budget?

- A budget is an estimated statement.
- It is prepared by both businesses and the government.
- It is done to achieve a specific goal.
- A budget is a financial and/or quantitative statement prepared and approved prior to a specified period of time of the policy to be pursued during that period in order to achieve a specific goal.
- It may include income, expenditure, and capital employment.
- It is frequently used for control purposes.

Budgetary Management

- It is a process in which a budget is established and actual results are compared to the budget to determine variances.
- It entails the creation of budgets that link executives' responsibilities to the requirements of policy, as well as the continuous comparison of actual and budgeted results in order to secure the policy's goal through individual action or to provide a foundation for its revision.

Advantages of a Budgetary Management System

- Allows managers and administrators to carry out their duties more efficiently.
- Provides a yardstick for measuring and evaluating individual and department performance.
- By comparing actuals to the budget, it reveals deviations from the budget; this aids in the expedited review process.
- Creates a favorable environment for the implementation of a standard costing system.
- Serves as a systematic foundation for developing future policies and objectives.
- Instills a sense of cost consciousness and goal orientation.
- As activities are planned and executed effectively, various resources are effectively utilized.

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Budgetary control system components:

- **Master Budget:** The master budget represents a company's policy for a given time period, with details provided in a series of individual budgets known as functional budgets.
- Physical, cost and profit budgets are the three broad categories of functional budgets.

Functional budgets

- Physical budgets are those that contain information in physical units about sales, production, and so on, such as the number of sales, quantity of production, inventories, and manpower budgets.
- Cost budgets are those that provide cost information for manufacturing, selling, and administration, for example, manufacturing cost, selling cost, administration cost, and research and development cost budgets.
- Profit Margins are the budgets that allow for the calculation of profit, such as sales budgets, profit and loss budgets, and so on.

Types of budgets

- Fixed Budget.
- Flexible Budget.
- Master Budget.
- Functional Budget.
- Long-Term Budget.
- Short-Term Budget.
- Current Budget.

Fixed Budget

- A fixed budget is one that is intended to remain constant regardless of the level of activity attained.
- This budget is appropriate for Fixed Expenses. It is also referred to as a static budget.
- Because of its rigidity, a fixed budget is unsuitable in a dynamic environment or over a long period of time.
- It is not appropriate in situations where labour costs, material costs, and other factors are constantly changing.

Flexible budget

- The flexible budget displays the expected results of the responsibility center for various activity levels.
- A flexible budget is a collection of static budgets for various levels of activity.
- When creating a flexible budget, revenues and expenses are classified as Fixed, Variable, and Semi-variable.
- Most of the time, the level of activity varies from period to period due to changes in demand, seasonality, or changing circumstances.
- A flexible budget is appropriate in such industries/government organizations.

Long term and short term budget

- Long-term budgets are those that are prepared for periods longer than a year. Budgets of this type are useful for business forecasting and strategic planning. Budgets for capital expenditures and research and development etc.

- Short-term budgets are those that are prepared for periods of less than a year. For example, Cash Budget. Such budgets are prepared on a regular basis for comparison and action in order to keep variation under control.

Budgeting with no base (ZBB)

- It refers to creating a budget from scratch.
- ZBB is a budgeting method that requires each cost element to be specifically justified as if the budgeted activities were being undertaken for the first time.
- Each activity must be justified in terms of continued usefulness in order to receive funding during the budgeting process.
- Almost every activity's budget is initially set to zero under ZBB.

Advantages of ZBB

- Provides a systematic approach for evaluating various activities and ranking them in order of preference for scare resource allocation.
- Ensures that every activity/function performed is critical to the achievement of goals.
- Allows for the allocation of resources for various activities/functions only after a thorough cost-benefit analysis.
- Wasteful spending is simple to identify and eliminate.

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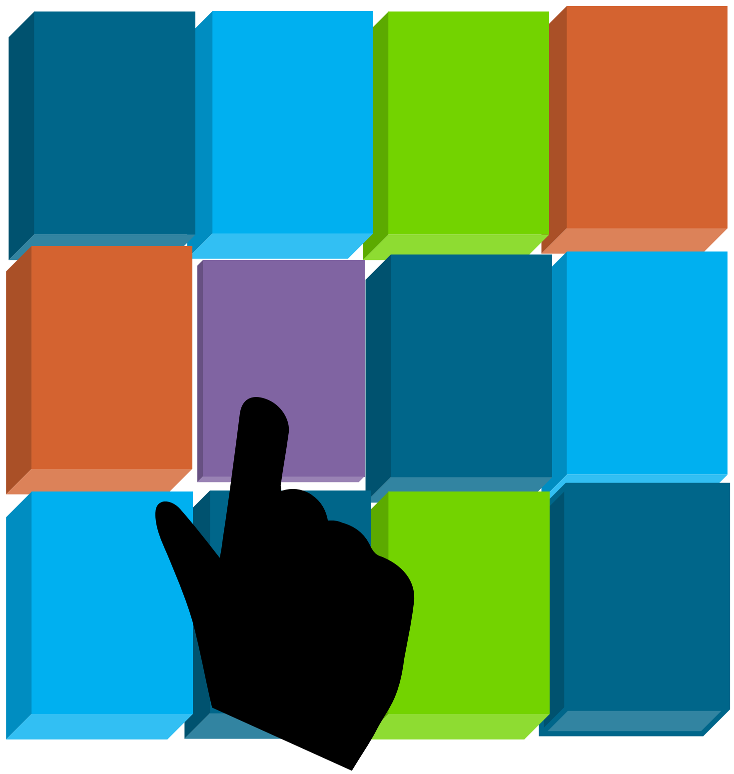

Thank you

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