

# Unit 13: Manage a Budget

**Unit reference number:** A/506/1995

**QCF level:** 4

**Credit value:** 4

**Guided learning hours:** 26

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## Unit summary

In this unit, you will learn how to set and manage a budget and evaluate how well it is meeting the organisation's needs. This will involve assessing how the budget is reflecting the organisation's key strategic objectives, and whether it is showing up operating problems effectively, or revealing inefficiencies.

You will be introduced to concepts relating to the financial management, control and planning of an organisation. This will help you to understand that budgets should be challenging but achievable in given conditions as well as being available when people need the information. You will examine the issues relating to budgeting, planning and costs and learn how these inform management decision making and future budget setting.

## Learning outcomes and assessment criteria

To pass this unit, the learner needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria outline the requirements the learner is expected to meet to achieve the unit.

Learning outcomes	Assessment criteria
1 Understand how to identify financial requirements	<ul style="list-style-type: none"><li>1.1 Explain how to calculate the estimated costs of activities, resources and overheads needed to achieve objectives</li><li>1.2 Analyse the components of a business case to meet organisational requirements</li><li>1.3 Analyse the factors to be taken into account to secure the support of stakeholders</li><li>1.4 Describe the business planning and budget-setting cycle</li></ul>

Learning outcomes	Assessment criteria
2 Understand how to set budgets	2.1 Explain the purposes of budget-setting 2.2 Analyse the information needed to enable realistic budgets to be set 2.3 Explain how to address contingencies 2.4 Explain organisational policies and procedures on budget-setting
3 Be able to manage a budget	3.1 Use the budget to control performance and expenditure 3.2 Identify the cause of variations from budget 3.3 Explain the actions to be taken to address variations from budget 3.4 Propose realistic revisions to budget, supporting recommendations with evidence 3.5 Provide budget-related reports and information within agreed timescales 3.6 Explain the actions to be taken in the event of suspected instances of fraud or malpractice
4 Be able to evaluate the use of a budget	4.1 Identify successes and areas for improvement in budget management 4.2 Make recommendations to improve future budget setting and management

## Unit amplification

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### **AC1.1: Explain how to calculate the estimated costs of activities, resources and overheads needed to achieve objectives**

- *Types of costs and classification:* materials; labour; overheads; direct and indirect; fixed; variable and semi-variable
- *Costing methods:* job costing; batch costing; process costing; contract costing; service costing
- *Cost measurement:* absorption and marginal costing; traditional overhead absorption and activity-based costing; stock valuation methods (FIFO, LIFO, AVCO, standard costing)

### **AC1.2: Analyse the components of a business case to meet organisational requirements**

- *Components of a business case:* problem statement; statement of the benefits that address the concerns of all relevant stakeholders; likely risks and how they will be addressed; basic plan of work with a timeline and key milestones; roles and responsibilities; alternatives; cost estimates and potential sources of funding

### **AC1.3: Analyse the factors to be taken into account to secure the support of stakeholders**

- *External factors:* competition; regulatory framework; economic factors and indicators; environment, e.g. green issues
- *Internal factors:* organisational objectives; management expertise; resources; financial position of the organisation

### **AC1.4: Describe the business planning and budget-setting cycle**

- *The business planning process:* purpose; benefits; links with organisational objectives/strategy; the budget manual; budgets as planning, coordinating, motivation and control devices
- *Budget-setting cycle:* limiting or key factors; master, subsidiary and functional budgets; cash budgets; the preparation of sales budget, debtors' budgets, creditors' budgets, production cost, raw materials and finished goods budgets

### **AC2.1: Explain the purposes of budget-setting**

- *Purposes:* e.g. planning the use of resources; forecasting; controlling the activities within the organisation; motivate individuals to achieve agreed performance levels; resolving conflict of interest between functional areas

**AC2.2: Analyse the information needed to enable realistic budgets to be set**

- *Information:* costs, e.g. staff costs, materials, overheads; capital expenditure on machinery and equipment; budgets and other financial statements from previous year; current and previous sales estimates; business plan and strategy; profitability and liquidity ratios

**AC2.3: Explain how to address contingencies**

- *Budget contingency:* covers unexpected costs; consideration of risk factors in budgeting process; advantages, e.g. risk management, budget performance; disadvantages, e.g. budgetary slack, strained

**AC2.4: Explain organisational policies and procedures on budget-setting**

- *The knowledge to meet this AC depends on the particular organisational requirements and context. Learners need to apply the knowledge specific to their organisation to meet this AC.*

## Information for tutors

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### Suggested resources

#### Books

Dyson, J.R. – *Accounting for non-Accounting Students (8th edition)* (Financial Times/Prentice Hall, 2010) ISBN 9780273722977

Secrett, M. – *Brilliant Budgets and Forecasts: Your Practical Guide to Preparing and Presenting Financial Information* (Pearson Business, 2010) ISBN 9780273730910

#### Assessment

To pass this unit the evidence that the learner presents for assessment must demonstrate that they have met the required standard specified in the learning outcomes and assessment criteria and the requirements of the Assessment Strategy.

To ensure that the assessment tasks and activities enable learners to produce valid, sufficient, authentic and appropriate evidence that meets the assessment criteria, centres should apply the *Unit Assessment guidance* and the requirements of the Assessment Strategy below.

Wherever possible, centres should adopt a holistic approach to assessing the units in the qualification. This gives the assessment process greater rigour and minimises repetition, time and the burden of assessment on all parties involved in the process.

#### Unit assessment requirements

This unit must be assessed in the workplace in accordance with the Skills CFA Assessment Strategy for Business Administration, Customer Service and Management and Leadership, in *Annexe A*. Simulation is not allowed for this unit. All evidence of occupational competence should be generated through performance under workplace conditions; this includes evidence of achievement for knowledge-based learning outcomes and associated assessment criteria.

## Unit assessment guidance

This guidance supports assessors in making decisions about how best to assess each unit and the evidence needed to meet the assessment requirements of the unit. Centres can adapt the guidance for learners and the particular assessment context, as appropriate.

Evidence to achieve this unit should come from the learner's work activities in managing a budget.

Evidence to demonstrate learning outcomes 3 and 4 is likely to come from a combination of reviewing the learner's work products, witness testimony and professional discussion or reflective account. The learner's work products could include records detailing how they have used the budget to control performance and expenditure, budget-related reports and information, with evidence that they were provided within agreed timescales, and reports detailing recommendations to improve future budget setting and management (AC3.1, AC3.4 and AC4.2). The work products should be reviewed by the assessor and used to support the professional discussion to evidence the knowledge and understanding underpinning the learner's performance. Within the professional discussion, the learner could discuss the actions which should be taken in the event of suspected instances of fraud or malpractice, the actions which would be taken to address variations from the budget and the process used for identifying successes and areas for improvement in budget management and then making recommendations to improve future budget setting and management (AC3.3, AC3.6, AC4.1 and AC4.2). Alternatively, a reflective account could be used in a similar manner to assess the underpinning knowledge and understanding. Witness testimony from colleagues and the line manager should also be used to confirm that the learner has consistently met the requirements over a period of time, as well as met organisational requirements.

Evidence to demonstrate achievement of learning outcomes 1 and 2, would best come from a reflective account due to the cognitive demand of the assessment criteria. If a reflective account is used for learning outcomes 3 and 4, it would be best to integrate the assessment of these learning outcomes, giving the learner the opportunity to link and apply their knowledge to workplace activities. For example, the learner could reflect on the method they used to calculate the estimated costs of activities, resources and overheads needed to achieve objectives, how they have addressed contingencies and the organisational policies and procedures that they had to adhere to when setting budgets (AC1.1, AC2.3 and AC2.4). The learner's reflective account to meet the requirements of AC1.1 to AC1.4 and AC2.1 to AC2.4) must be in sufficient depth and breadth to meet the level of demand of the operative command verbs.

Evidence of Recognition of Prior Learning (RPL) can also be used within the unit to confirm competence. Wherever possible, the learning outcomes in this unit should be assessed holistically across the qualification.