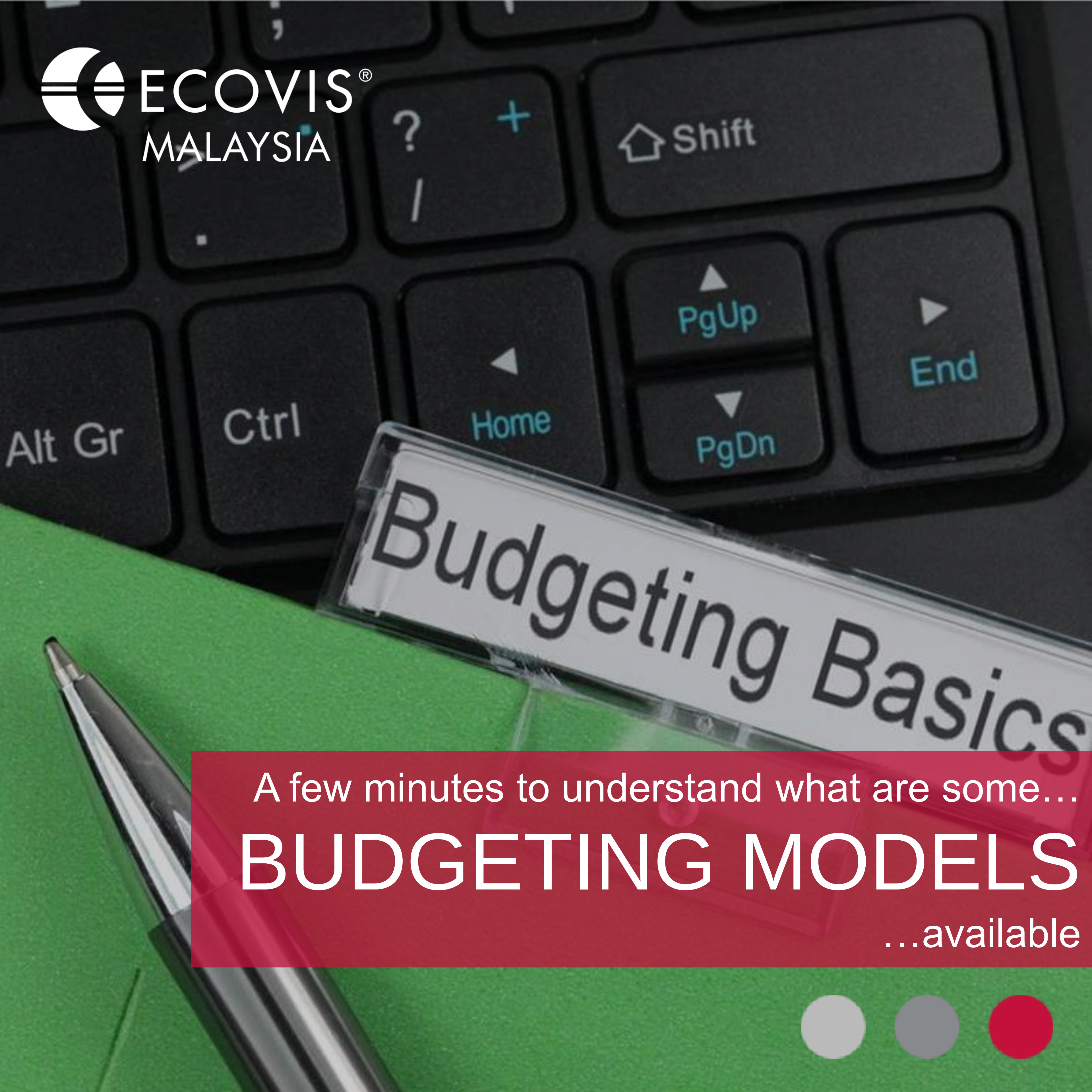
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Budgeting Basics
A few minutes to understand what are some…
BUDGETING MODELS
…available

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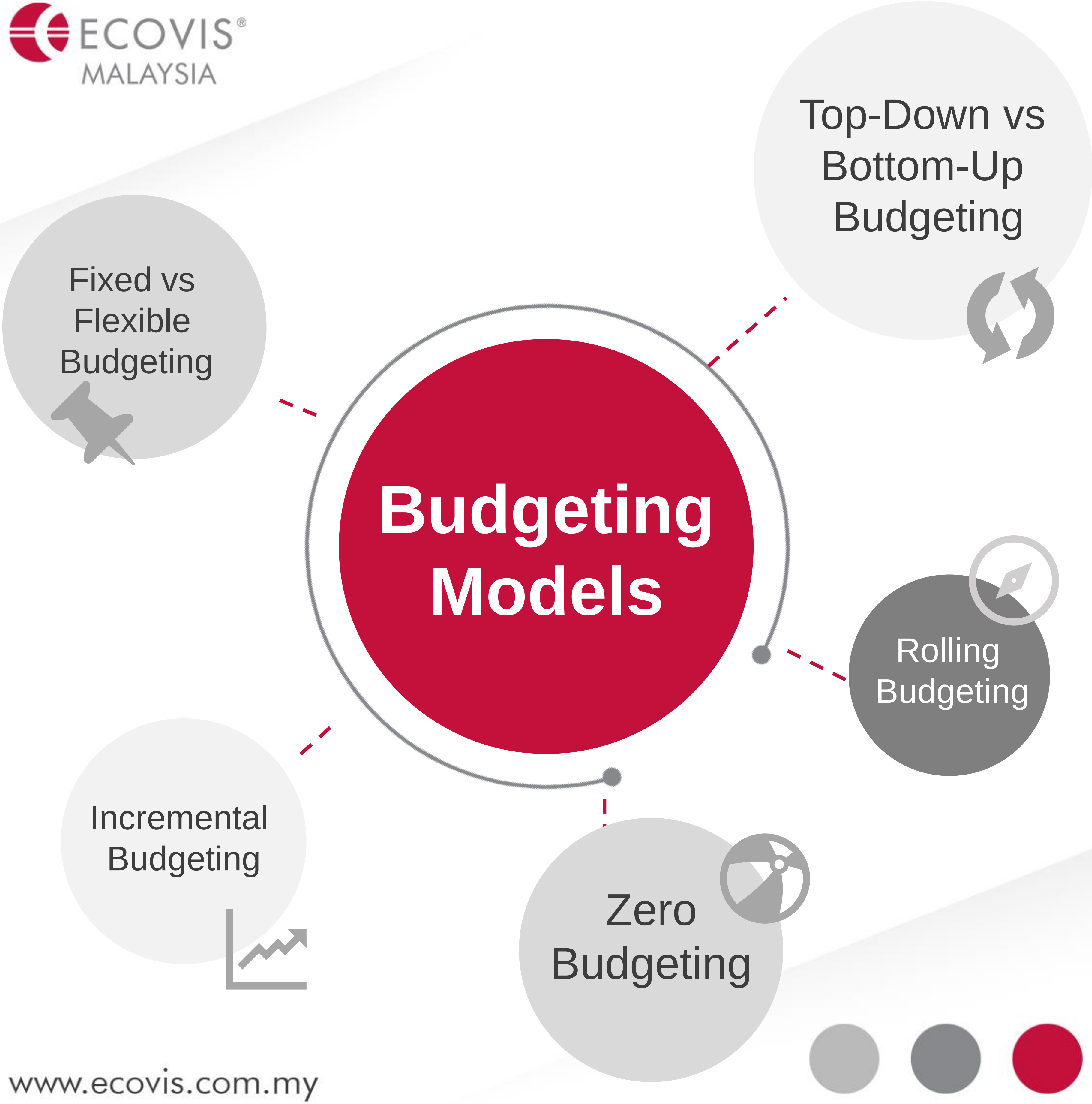

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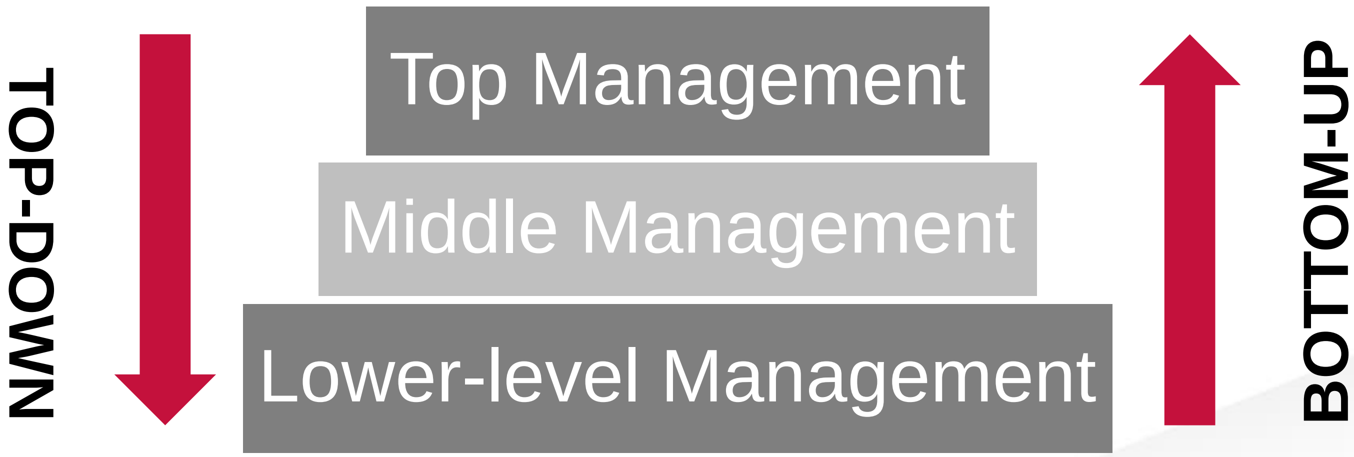
Top-Down vs Bottom-Up Budgeting

Top-down budgeting is where **budgets are prepared centrally**, normally by senior management. Then carried out on more junior managers.

Bottom-up budgeting is the managers will **make their own budgets** initially. Then reviewed by the finance department.



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Fixed vs Flexible Budgeting

Fixed Budget

- Prepared at the beginning of the year based on the expected activity level such as sales unit, production unit and etc.
- No amendment will be made at the end of the year when comparing actual result compared to the budget.

Flexible Budget

- The budget that is prepared based on several variations.
- For example, the budget may be prepared at 12,000 units and 14,000 units.
- At the end of the year, the budget that is closest to the actual activity level will be used for comparison against the actual result.

Rolling Budgeting

A system of the budgeting in which the budget is **constantly updated**. The budget horizon is kept continuous by adding another month or quarter to the end of the budgeted period as each month or quarter expires.

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Incremental Budgeting

The budget starts with previous period's budget or the actual results and adding or deducting an incremental amount to cover:

- any known changes to the business
- inflation

In this model, only the increment needs to be justified. However, it may only be suitable for those stable businesses with good cost control.

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Zero-Based Budgeting (ZBB)

It overcomes the weaknesses in incremental budgeting. In particular, the criticism that costs that are included in a budget just because they were in previous years' budgets.

The manager need to plan what projects they wish to undertake and base the budget on those projects.

- The manager should start with the assumption that the budget for next period is zero. Find out which project they want to undertake in the following year. After that, a "decision package" will be ready for the project that may include:

  a) Aim/Goal

  b) Level of funding required and benefits

  c) Consequence to the Company if they did not carry out its function

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Kuala Lumpur (HQ) 吉隆坡

Tel : 03 - 7981 1799
Fax : 03 - 7980 4796
Email : kuala-lumpur@ecovis.com.my

Johor Office 柔佛

Tel : 07 - 562 9000
Fax : 07 - 562 9090
Email : johor@ecovis.com.my

Penang Office 槟城

Tel : 04-226 7210
Fax : 04-226 2212
Email : penang@ecovis.com.my

Sabah Office 沙巴

Tel : 088 - 231 790
Fax : 088 - 266 842
Email : sabah@ecovis.com.my

www.ecovis.com.my