

MANAGEMENT ACCOUNTING

LCBB5002

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The upgradation in the technology has caused various changes in the business working environment. These changes are having a huge influence over the working of the business. Every day there is something new is coming up in regard to the advancement in the technology which makes it important for the businesses to make their business plan to be flexible enough so that the changes can be made in respect to the opportunity available which might require medium term plan to be converted to short term plan. This essay provides an insight about the usefulness of budgeting in decision making process.

Role of budgeting in changing business environment

The role of budgeting starts after the management effectively carries out the market analysis along with the factors having an impact over the business over which the business has no control (Henttu-Aho, 2016). Budgeting is an underlying step for providing help to the association in arriving at its key objectives by supporting the administration to plan and exercise control over the significant business exercises. Budgeting assumes a significant job in meeting with the changing industry condition. First is viable method of communication. Budgeting is fundamentally a proper way to deal with conveying the associations vital arrangement to its internal partners which incorporates managers, division head and others having interest and duty regarding checking the performance of the organization (Prohntchi and Cadri, 2018). It conveys everything about the income and the consumptions. Next is planning, getting ready the budget expands the prerequisite of the management to consider and assess the different part of the business. It incorporates certain presumptions dependent on which the budgeting plan is created, which includes both short and long-term related objectives, the situation of the organization in the market and the commitment of every division in supporting the key strategic plan. For this, every division is required to work as a team with one another for determining the feasible sales targets and the costs associated with it.

Budgeting also helps in assessing the real results with the planned ones which helps in deciding the cash flow level of the business for different degree of production alongside the extra prerequisite of the assets in the event that the need emerges (Di Francesco and Alford, 2016). The financial plan arranged gives help to the businesses in recognizing the gainful areas with the goal that more resources and focus can be put on it as opposed to the more weaker areas for achieving the objectives rapidly and productively. It likewise helps in recognizing the loopholes in different parts which resulted into not able to achieve the desired profitability and goals (Kovaleva and et.al, 2016). Budgeting additionally helps in setting benchmark dependent on which the performance can be additionally assessed concerning different organizations

inside a similar industry. Budgeting also helps in creating opportunities for the organizations in successfully meeting their business targets by making changes to it in regard to the changes in its business environmental factors. Along these lines, it helps in viably making changes in its business procedures and exercises by virtue of the changing industry condition with the goal that the progressions work benefit of it and it can exploit it by taking decisions in order to take competitive advantage.

Budgeting styles

The budgeting style being implemented in the organization is dependent upon the various factors and the requirement of the business. There are mainly 2 types of budgeting style which is static and flexible budgeting. **Static budget** is the process of budgeting in which the figures does not vary with the change in the level of activities (Aryshev and Ivanyuk, 2020). Therefore, if there is any change in the sales volume with respect to the expectations which is stated in the budget, then too amount cannot be changed. This budget is useful to the organizations having greater sales predictions and the expenditure is not going to vary much in that period. It is mainly used as the basis for evaluating the actual performance level with the budgeted one.

When the static budgeting plan is created the organization follows the equivalent yet in addition monitors the real costs being caused and consistently observing any spending fluctuation that may pop ups. On the off chance that the organization gets higher revenue than evaluated, at that point it is viewed as positive and in the reverse situation unfavourable. The advantage of utilizing static financial plan is that it is very easy to execute as it isn't required to be updated consistently through the timeframe for the which the budget plan is readied (Weigel and Hiebl, 2018). It likewise gives a solid understanding into the organization's expenses and the benefits while directing difference examination. This permits the organization in figuring out where it is over and underestimating little of the budgetary figures as for the income and costs dependent on which it can modify its business methodology and this additionally helps the organizations in making smart choices alongside practicing control over the expenses (Perkin and Abraham, 2017). The main drawback of this planning strategy is that it isn't adaptable. In the event that, if the financial plan depends on the specific level of sales and if the volume increases, in that circumstance, it can't assign the extra assets so as to get together with the changes. Likewise, in the circumstance where the organization discovers the underperforming areas, in that time likewise it can't designate extra assets to it which therefore can contrarily affect the organization's income.

For instance, the apple co. prepares its static budget for its operational cost. It includes the cost of designing software - £15000, agents fees - £35,000, network connection charges - £10,000, cloud storage cost - £5000. Thus, the total anticipated fixed cost is amounting to £65,000. Under the condition like, increase in revenue to £125,000 but the budget will remain the same. This budget can be utilized by the Apple co. for analysing the rise or fall in the cost of manufacturing.

Flexible budgeting is also used by the businesses because of its main advantage of change in the volume of production (Adilli, 2020). This is helpful to the management as the relevant changes can be made in the budget. This method is very useful in increasing the efficiency level of the management in respect of both planning and exercising control over it. This budget is more realistic as compared to the static budget and puts more focus on the changing cost behaviour at the different levels of business activities (Klimaitienė and Ramanauskaitė, 2019). For creating this budget, the management of the organization is taking into account the various factors and the impact of it over the cost and how the organization will respond to it.

For instance, the Apple company has expected the sales of £5mn and the COGS of £1mn. Of this amount, £400000 is fixed and remaining is variable which might change with change in the revenue. It means that the variable number of COGS is nearly 12% of sales. Towards the ending of the period, it is verified that the sales increased to £6mn. With the help of flexible budget, the variable segment of the COGS has been changed to £7.20mn (Marecki and Wieloch, 2019). Therefore, the company can infuse additional £1.20mn in its budget for representing additional sales. Therefore, this approach is recommended for the purpose of short term and quick decision making in the changing environment.

In **participative budgeting**, individuals who actualize the budgeting plan and the individuals who are influenced by it are engaged with the budgeting process. In this, the top administration imparts the duty to the lower level managers which gives better stake in the association. This technique has certain advantages, for example, it gives inspiration and furthermore supports the confidence of the representatives by given them duty (Yuliansyah and Khan, 2017). It additionally enables the workers in accomplishing higher expectations as what set for themselves which prompts increment in profitability. It upgrades innovativeness and makes the spending looks more practical. Then again, there are sure bad marks of its. It requires implementing huge amount of time for preparing the budget (DHIMITRI and BURDA, 2019).

It likewise includes large group of the individuals which subsequently prompts high labour cost. There are also chances of budgetary slack where the administrators purposely under or over appraisals the income and expenses.

Therefore, based on the analysis, it can be said that flexible budgeting style is more advantageous to the managing in the current scenario of rapid changing business environment. This will support the management in making variation in the budget with respect to the change in the working conditions and also in order to take the advantage of the opportunities that come across.

Thus, it can be summed up the above that budgeting is a crucial part of an organization planning which is used as the guiding tool by the management in order to attain success in the right possible way. Also, implementing right budgeting system in place is also important as it results into better and desired outcome working in favour of the management. Each style has its pros and cons but the best one is required to be implemented. It is recommended to use flexible budgeting in the situation given.

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