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The Budgeting - A Business Management tool

Introduction

The successful operation of an organization in today's business environment into the technology age is a consequence of the ability of managers of this organization to think strategically. This means taking action in the present, taking into account the influence of environmental factors and the goals that the organization seeks to achieve.

One of the tools for regulating and controlling the implementation of the business strategy is budgeting. A budget is a management tool, formulated as a strategic plan based on long-term goals and specifying its operational implementation

Budgeting

Budgeting in business is the condition without which forecasts cannot be made - a prerequisite for their more successful adaptation to the dynamic economic environment.

Today, finance is one of the main activities guaranteeing the success of business organizations. Managers must make daily investment and financial decisions that increase the value of the company and its owners.

Many companies go bankrupt because they do not plan their financial needs. A key element in this planning is the budget, and an important management tool is to focus on the desired future profit and the required future capital.

The budgeting process helps management achieve the business goals of the organization it manages. To cope with one of the most difficult tasks of business management, managers must be well acquainted and be able to handle the basic tools of financial management. To organize well the financial reporting (balance sheet, income statement), as well as to apply well the techniques for financial analysis. Using these financial instruments, the manager can assess the financial condition of the company and plan the desired profit. (Oncioiu, Ionica, 2020)

The company's budget is a financial plan and is an unitary part of its business plan. It breaks down in the short term, usually in one year, as well as in the medium and long term, for example, 3 and 5 year periods. As the forecast increases, more general financial and economic standards are used. In contrast to the one-year budget forecasts, analytical indicators are mostly used, allowing a precise rating of the factors on which the condition of the financial score depends.

Operating budgets are intended to illustrate the enterprise's plan for operating activities, including production, sales, and expenses. The process of their development in the business entity is subject to a logical sequence, which aims to achieve accuracy in the calculations. The planning activity begins with clarifying the production that will be produced next year by units. Only then will the operational budgets be drawn up. (Thomson, 2007).

The operating budget is based on the results obtained from the activity (revenues - expenses). It is usually developed for a period of one year because when developing for longer periods it is difficult to predict changes and risks in the external environment of the company.

Budgets play a multifunctional role in business management. They serve very useful purposes and help managers to forecast and make decisions related to the annual activities of the organization. To coordinate and control the various units of the organization and their activities and to ensure synchrony between them to work as a common mechanism. To motivate and evaluate the performance of managers to achieve organizational goals. As well as for communication between the various units. (Oncioiu, Ionica, 2020)

Budgeting Styles

The fixed budget and a flexible budget are two styles of the budgeting. A fixed budget helps management determine revenue and expenses for the period, but there is a lack of accuracy as it is not always possible to correctly determine future needs and requirements. Besides, it operates at only one level of activity under only one condition. (Shim, Joel, 2005)

When drawing up the fixed budget, it is assumed that the existing conditions will not change soon, which turns out to be incorrect. Thus, it is difficult to measure efficiency, effectiveness, or capacity. The fixed budget operates only on the production line and only under one condition, and the flexible budget operates under different conditions because it is a combination of several budgets.

A flexible budget is a financial plan designed for different levels of activity. The activity can be freely regulated or re-equipped based on the produced products. This is logical and practical because the price can be easily determined at different levels of activity. The static budget is developed for one level of activity based on established standards, and the real results are measured only with the budgeted parameters. (Atrill, McLaney, 2018)

The flexible budget is prepared for the entire company activity and allows to consistently eliminate all factors that cause adverse deviations from standard costs. It is aimed at covering all levels of management of the operation and management of the company, which is expressed in the development of separate budgets for each desired level of sales and production for individual company activities and structural units. (Thomson, 2007)

An example of this could be the HP Inc. company operating in the IT sector in the situation of the COVID-19 epidemic, making progress, and increased the manufacturing of the products through 3D printing. (HP Development Company, 2020)

3D printing is proving to be an exceptional technology in times of crisis, which can quickly produce components and products that are most in-demand by health authorities. That is, the company directs a large percentage of budgeting in this production, as demand has increased.

Another example is the Apple Company, which increased sales of mobile phones and other devices during the epidemic. That is, the company changes the budgeting in this activity to increase the production of these products to meet the needs of its customers. (BBC News, 2020)

Only flexible budgeting can respond to rapid changes caused by external factors and redirect available resources to achieve business goals.

Online platforms, such as Microsoft's Teams and Zoom, have seen a huge increase in meetings, calls, and conferences since the beginning of the Kovid-19 epidemic in China. I.e. the companies producing these software products are concentrating resources on improving and maintaining programs that are being used as a means of mass communication around the world at the time of an epidemic. (Rani Molla, 2020)

Budgeting systems

There are two types of budgeting systems- Top-down and Participative (as known as Bottom-up). The Participative budgeting process begins with the smallest components of the organization, usually individual projects at a lower level, which together create a budget for the organization. Communication and work with managers at each level is an important factor in the implementation of this process, to maintain up-to-date information related to the cost of projects under their supervision. (Weetman, Pauline, 2013)

The advantage of participating in the budget is that managers can plan exactly every stage of the project. Bottom-up budgeting involves employees from different levels, with different job positions in the company. In this way the morale of the employees is built, which becomes an advantage for most companies. One of the disadvantages of bottom-up budgeting is that lower-level employees can ask management for more funding than is needed. Another drawback is that a gap in the process can easily be allowed, which can lead to incorrect calculation of budget requirements. (Weetman, 2011)

The advantage of top-down budgeting is that management encourages employees to strictly follow the sales volume plan to achieve the company's business goals. A disadvantage of the top-down process is that it forces lower-level employees in the organization to make budgets with which they do not agree. lower-level employees do not participate in the budgeting process, which can weaken their morale. (Thomson, 2007).

Conclusion

The active use of the budget approach in the management of the enterprise favors the managers to more accurately assess the individual aspects of the business and to achieve higher efficiency in the implementation of the formulated goals of the company according to the available resources. In particular, accounting budgeting is gradually imposed naturally as a need, especially by the need for information of the manager regarding the future reporting period. Analyzing and evaluating the results of the company's activities and its centers of responsibility for the previous reporting period through the budgets for the same period, protect the accounting budgeting.

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