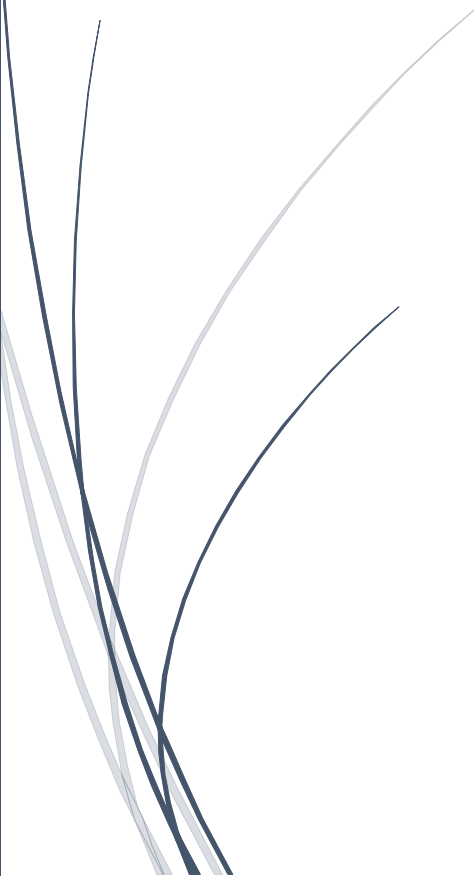




[Date]

University of Wales Trinity Saint David

Management accounting



Jonait Hossain (1714796)

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INTRODUCTION

Budgeting refers to prepare the plan for future growth and arrangement of finance to accomplish the organisation goal and objectives. It helps them to take the right decision for the growth of the company. The report highlights the role of budgeting in management of organisational activity and the different budgets like sales budget, operational budget, material budget etc. It explains the different types of traditional budgeting and the various new budget like balance score card, Activity based budgeting etc. The aim of the study is to explain the advantages and limitation of budgeting. Budgeting provides a guideline to accomplish the goal and work towards the vision of the company.

MAIN BODY

Budget: It is a statement to estimate the total expenses and income of the company in particular accounting period (Rubin, 2019). It provides the information related to the company activities and its performance to achieve the company goal and target and improve the productivity and profitability.

Objective of budgeting

- To estimate the income and expenses of the company.
- To evaluate the performance of the employees to achieve the company objectives.
- To reallocate the resources and collect the sources of finance from different channels.

Process of preparing budget for the company

Establishing goal: The first step of budgeting is to define the goal of the company that what they want from the customers and the employees. Manager gathers various data related to financial and non-financial activities and evaluate them to make effective and useful for preparing budget.

Formulating expectation: The second stage of budgeting is to form the expectation based on the experience and review the past budget. It helps to prepare budget closer to the actual expenses (Miller, 2018).

Prepare budget: The third stage is to preparing budget for the company. It refers to estimate the expenses and income of the company based on the gather data and information and the experience of the managers.

Monitor outcomes: After preparing the budget of the company the role of manager is to evaluate the performance by monitoring the outcomes from the budget. It helps them to get the area of improvement and find the issues related to the company budget.

Adjust budget: The final stage of budget process is to adjust the budget and goal of the company on the basis of the evaluated outcomes. It provides the framework to perform task and measure the outcomes.

Budget provides an idea and guideline to plan the activities and control and monitor them to get the result which was required by the company. It works as a road map which directs the user to perform activities according to the framework. It also helps the company to provide a way to accomplish vision and mission.

The budget is based on certain assumptions and market conditions. The change in market condition or any unexpected condition largely affects the budget of the company. It also indicates that budget is not relevant in each and every situation and condition.

Advantages and disadvantages of traditional budgeting

The traditional budget like sales budget, performance budget, operational budget has several advantages and disadvantages which affect the business.

Advantages

- It helps the company to achieve the goal and objectives. The preparation of budget is based on certain data and information which increases the reliability of the budget and encourages the employees to improve the performance and work towards a common goal of company.
- The evaluation of budget provides the various information and issues in the company. The estimation of income and expenditure provides a guideline to complete the task within the given budget (Reome and Sinclair, 2017).
- Budgeting provides the various data and information to plan the activities and compare them to get the effective result. The comparison of expected budget to the actual budget helps to address the various issues and focus on the activities or area which needs improvement.

- It provides the long-term planning to control the activities and reduces the wastage of resources and money. By controlling the activities of the company, they can achieve the target within the budget (Asogwa and Etim, 2017).
- Budgeting help to prepare the money spending plan by allocating the find to the different activities. Sales budget help the company to estimate the sales and adopt some changes like promotional activities to increases the sales and get higher outcomes.
- A proper budget plan increases the productivity and profitability of the company and address the various issues to improve the performance of the company. The company faces the issues in budget like improper management of resources, deficiency in the performance of employees etc.

Disadvantages

- Budgeting is based on certain assumption and experience of the manager which does not reflect the true and accurate financial position of the company which result to decrease in the performance and profitability (Polko, 2015).
- The aim of preparing budget is to minimize the cost of the activities and get the effective result but sometimes it results to compromising in the quality of the product and services to complete the task within the budget.
- The preparation of budget is based on the financial data which does not include the non-financial transaction such as the performance of workers, their dedication toward work, motivation of employees etc.
- The preparation of budget encourages the illegal practices like manipulation of data to increase the profit of the company to get the investment (Lefering and et.al., 2017.).
- It is prepared for long term basis, the fast change in organization activity reflect the budget and its planning to increase the profit. Many organizations such as non-for-profit company review the budget on annual basis so the change in the business environment make huge impact on the performance.

The limitation of traditional budget encourages the company to adopt some changes in the organization and prepare modern budget to neglect the traditional budget issues and achieve

the objective and increase the profitability. The modern budget like balance scorecard budget, activity-based budget helps the company to overcome the issues of traditional budgeting.

Balanced scorecard budgeting: It is a performance metrics which is useful in strategic management in order to improve various operations of the organization in order to gain desired results and outcomes (Lubis, Torong and Muda,2016). It is a very powerful framework which in turn helps in making strategic decision for future growth and development of the company (*Balanced Scorecard*, 2019).

Activity based budgeting: Activity based budgeting takes into consideration all the cost incurred by the activities to attain the cost of the particular unit. This tool takes into consideration all the overhead cost (Ohemeng, 2016). This method does not take into consideration past years budget in order to arrive at current year budget plan. It takes into consideration various cost drivers to help determine the specific set of budget plan. It helps in controlling the cost of each activity which in turn helps in higher operational growth. It is very useful in effectively allocating the resources to the various activity of the company (Rogulenkoand et.al., 2016).

Non- financial performance are quantitative measures which helps in expressing various monetary units. It helps in improvising the strength of the company in order to strengthen the quality of production and employee satisfaction (Mahaland Hossain, 2015). It is very useful in progressing the customer requirements which in turn leads to attainment of higher profitably. It also leads to more competitive strength and attainment of long-term goals and objectives. Non-financial performance is useful in improving the risk management and also helps in higher competitive advantage.

Balance scorecard is used to set the performance target and results which is classified into financial, customers, operational and learning (Muda, Erlina, I.Y. and AA, 2018). The financial factor takes into consideration the financial aspects of the organization in order to evaluate the performance and control expenses. Customer perspective is a non- performance indicator as it helps in tracking the customer satisfaction, attitude and knowledge in order to attain desired goals and objectives. Operational performance is also very useful in order to track the

operational efficiency and productivity of the company (Harden, and Upton, 2016). It helps in determining factors which affect the performance and operations of the organization.

CONCLUSION

From the above study it has been summarized that, Budgeting helps in future planning in order to attain the set budgeted plan and in case of any variation take necessary action accordingly. It is useful in estimating the income and expenses, performance of the employees, etc. this study further concludes, advantages and disadvantages of traditional budget. It provides the long-term planning to control the activities and reduces the wastage of resources and money. On the contrary, traditional budgeting does not include the non-financial transaction which leads to in effective results and outcomes. This study further concludes, balance scored card and activity-based budgeting. Balance scorecard is used to set the performance target and results which is classified into financial, customers, operational and learning.

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