

Management Accounting

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INTRODUCTION

A budget for a business organisation is a financial plan that is created for a specific period of time and includes various operational attributes such as planned sales revenues, volumes, cost and expenses, resource quantities to be procured, liabilities, assets, cash flows etc. Budgeting is the strategic process through which a business organisation creates the financial plan towards making the most optimum use of their financial resources for the successful operations of the business organisation (Asogwa and Etim, 2017). Budgeting is an immensely important strategic function of a business organisation's planning process without which the business can find it an arduous task to operate successfully within the consumer markets.

Main Body

Budgeting is a management control process through which the management of a business organisation can effectively ensure that the business is able to obtain its organisational resources in an efficient manner so that the business organisation is able to

effectively accomplish its organisational objectives and vision. Within a given business organisation, budgets can fall into three main categories:

Capital Budgets: These are a portrayal of the business organisation's planned and approved capital financial expenditures for a specific period of time ranging between 1 to 10 years.

Financial Budgets: These are the projections of a business organisation's balance sheets, cash flow statements, statements of financial resources and uses of funds.

Operational Budgets: These consists of a business organisation's projected income statements and related supporting statements such as budgeted production, budgeted sales, budgeted costs of sold products, budgeted selling costs, administrative costs etc.

Role of Budgeting:

Budgeting process is a vital for the success of any business organisation as it helps with both the planning and controlling of the

financial resources possessed by a business organisation. The main roles of budgeting within a business organisation are as follows:

- One of the most important roles of budgeting within a business organisation relates to its management being able to effectively control the amount and expenditure of the financial resources possessed by the business organisation.
- Another role of budgeting within a business organisation relates to budgeting operations ensuring that the business organisation can fund all its current and potential business operations for the future, as is planned by the leadership and management of the business organisation (Aryshev and Ivanyuk, 2020).
- Budgeting operations within a business organisation also enable the business to be able to effectively achieve and accomplish its organisational objectives, goals, vision and mission by making sound and productive financial decisions for the business organisation.
- Creating a budget plan as part of the budgeting process also allows for a business to guarantee it possesses required financial resources for its future operations.

Benefits and demerits of different types of budgeting styles used by manager

Static budget is mainly based on company total level of revenue and output in the beginning of accounting period thus it can be stated that these types of budget are prepared on basis of data collected and evaluated before budget period (Bielefeld and Schneider, 2017). So, once the budget has been prepared the company will further track its actual spending and pay attention of different types of variance in budget. There are various advantages and disadvantages of statics budget which can be illustrated as follows:

Advantages of static budget: It can be stated that this type of budget styles is easy to follow and implement within firm as manager need not have to update budget throughout accounting period. Another advantage of static budget is that it offers strong insight on total cost and profit of company in case of variance analysis thus better strategies can be formulated to enhance profitability of firm. Thus, company can easily analysis or identified areas at which it has underestimated or overestimated its revenue and expense and make relevant changes in strategies for effective achievements of goals. At last, statics budget also contributed in controlling overall cost and

making better or smart decision which can helps in growth and sustainability of enterprise.

Disadvantages: Despite of so many advantages of statics budget styles there are certain limitation which needs to be understand by manager of company to take appropriate decision to select budget for expansion of business. Biggest drawback of statics budget is lack of flexibility such as firm prepared budget on basis of specific sales volume and profit margin but it increases due to some reason so it cannot allocate additional resources (Vagin and Shapovalova, 2016). There are certain areas in which company lacks so sufficient requirements of budget can contributed in their effective operation but in statics budget it cannot be possible. Therefore, it negatively impacts on overall company revenue or profitability. At the same time, it can be illustrated that statics budget are based on old data so it is difficult for company to implement them as per recent situation. So, it is not suitable for companies that have fluctuating profit, sale volume every year.

Flexibility budgeting: It is types of budget that is prepared on the basis of total amount of cash takes in and out by enterprise within specific period of time. Thus, it helps manager to effective plan for growth and success of business in future circumstances so it is great solution for company that have fluctuating expenditure in month.

Advantage: There are certain businesses in which purchases have to be made at large scale during specific season so that customer's requirements can be fulfilled. Therefore such flexible budgeting helps in making adjustments of large purchase without any additional requirements of adjustment in following months. Flexible budget helps manager to easily meet uncertain expenditure of firms thus reduce amount of mental stress related to financial requirements.

Disadvantages: It can be stated that flexible budget are more confusion as manager needs to track expense and make necessary adjustments during periods. Therefore, there may be ranges of changes within specific period which create lot of confusion manager (Abers and et.al., 2018). It can affect operation of business in long run as in statics rigid program or procedure is followed each month whereas in flexible budget is changed as per expense which may also lead to cheating.

Impact of external changes on various budget styles used by manager

It can be stated that there is no impact on statics budget as they are not changed or manipulated as per external factors such as increased in demand of customers or overall sales volume etc. On the other hand external changes have influence on flexible budget as

they have to incorporate changes of specific month such as increase in sales volumes illustrated that there would be more demand of products in which so company can easily expand its budget as per situation in order to gain competitive advantages (Warren and Jack, 2018). Therefore, it can be stated that these budget impact upon short term decision making of manager as it has to considered both statics and flexible budget for smooth operation of enterprise and achievements of objectives.

Merits and demerits of participatory budgeting and their implication on business performance

Participatory is a type of budget in which lower level management employees takes active part in decision making related to budget preparation so that overall expense of firm can be meet and customers' needs can be fulfilled. The top management share responsibilities with lower management by delegation them authority or sense of ownership so that they can perform their best for growth and expansion of business (Vagin and Shapovalova, 2016). There are key merits and demerits of participating budget that are explained below:

Transfer of information upward: Lower level management is free to share its view, feeling and idea or necessary information to top management of firm and at the same time top management can easily exchange several challenges that it might facing while

preparation of budget. Therefore, through better sharing of information effective solution of problem is made and budget is prepared for functioning of enterprise.

Employee's motivation: Another advantage of participating budget is that it motivates employees to put their best for growth and sustainability of enterprise in competitive market. Involvement of lower level employees in decision making related to budget enhanced their confidence level and create a sense of belongingness thus they are ready to make optimum utilisation of their skills and capabilities for benefits of firm.

Disadvantages: It can be stated that it involves lot of wastage of time, money and efforts as top management before preparing budget take consent of all employee that are working in firm (Afanasiev and Shash, 2016). Budget slack is another limitation or drawback of participatory budget as employees due to less knowledge may under or overestimate requirements of budget thus it could adversely impact on overall performance and position of organisation in industry.

Therefore, it can be illustrated that participating budget helps in enhancing performance of business by increasing employee capabilities and abilities to complete task. They are high motivated and inspired to give their best or take risk as top management have given them authority to take decision related to preparation of budget.

CONCLUSION

Through this report's findings, it is concluded that budgeting comprises as an immensely important aspect of a business organisation's planning process, with effective budget planning within a business organisation contributing effectively and immensely towards the successful operations of the business organisation in the operational industries and consumer markets. This essay analyses the role of budgeting including static and flexible budgeting styles and assesses the advantages and limitations of budgeting process.

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