

Zero-base budgeting technique

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Executive Summary

The main objective of this report is to develop a theoretical and practical understanding of the zero-budgeting process. This report has identified advantages, characteristics, and disadvantages associated with zero-budgeting. This report is concluded that zero budgeting will be more effective in cost controlling as compared to traditional budgeting methods. It has also been identified that cost of implementation will be high but overall benefits with this process will be higher than its implementation cost. The entire process of practically implementing this budgeting methodology has been described in this report. It is recommended that experts in the field of zero budgeting techniques should be hired for the implementation process.

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Introduction

The main objective of this report will be to provide information about zero-based budgeting to the regional account director. Budgeting can be defined as a tool that is used by business organizations to control their cost of operations (Kovaleva et.al, 2016). The level of competition in every industry is increasing significantly and businesses need to control their cost so that they can provide products and services at competitive pricing. The main objective of this report will be to create a brief introduction about zero-based budgeting along with the process that can be used for the implementation of this budgeting approach (Amakobe, 2017). This report will also help in evaluating the advantages of using zero-based budgeting over other traditional budgeting approaches. Practical implementation of this technique will also be described in this report for an organization.

Define and evaluate the process of zero-based budgeting

Zero-based budgeting can be defined as a budgeting methodology that focuses on justifying budget and expenses concerning each cost element for each new period. It means that two budgets are not created based on history or past expenses associated with a particular cost element (Callaghan, Hawke and Mignerey, 2014). In traditional budgeting methodology, the primary focus of an organization was to increase or decrease the budget for a particular expense under its history. In zero-based budgeting, budgets will be created from scratch for each of the financial years under consideration. Initial review will be undertaken for business process and external business environment to identify cost element and expected expense concerning such cost element (Ekanem, 2014). This process involves starting from zero-based and every function of operation is analysed to identify the need of cost elements. One of the primary advantages of using this type of methodology is that it will be effective for business organizations that are operating in highly dynamic business environments. It becomes easy for such organizations to identify new cost elements and create budgets for search elements at the initial stages (Khalifa and Alodhaibi, 2021). The process of establishing zero-based budgeting would be as follows-

1. Identification of decision units

The first step in the process would be to identify decision units or functional units is associated with the production process. There are different functions performed by an organization and the cost element attached to each of these functions will be different from each other (Miller, 2018). For example, the cost of appropriation towards the production process will be different as compared to accounting and other auxiliary services. The main objective in the first step would be to identify all the business activities that can result in expenses for the company (Rasha, 2019). Managers from his department will be invited to decide units and justify expenses associated with such units.

2. Making decision packages

The main focus of this step will be to grow down the functional units identified in the previous section into different decision packages. Allocation of budgeting concerning each cost element will be more appropriate with the help of this division (Rassadina, 2017). Each decision package will be considered as a standalone decision from the perspective of allocation of budget. It means that a budget will be allocated for each of the decisions packages based on its relevance with the production process. Departmental managers will be required to define the function activity in operations associated with each of these decision packages (Deloitte. 2015).

3. Ranking decision packages

Financial resources available with any business organization are limited in nature. It means that organization will be required to prioritize each of the decision packages identified in the previous section (ANAPLAN, 2022). Prioritization of these decisions package will help in the apportionment of cost based on their critical nature and relevance with the production process. Decision packages identified in the process must have a direct link to the pre-determined business goals and objectives (Timmermans, Roark and Abdalla, 2019).

4. Allocating available resources

This type will be undertaken by top executive members of the company. After identification of decision packages and their prioritization, top executive members will be required to apportion the budget to each of the cost elements (Sehgal, 2016). Most promising decision package you will get better funding under their critical nature.

5. Controlling and monitoring

This type of budgeting process is used in a business environment that is highly dynamic. This is because it helps in evaluating new cost elements regularly. Continuous monitoring and control over business activities associated with zero-based budgeting will help in evaluating budgeting performance (Oraka, Sopekan and Udeh, 2016). Changes can be made in between the financial year if the efficiency of zero-based budgeting is not following the expectations.

Advantages of zero-based budgeting over traditional methods

The primary approach of traditional budgeting tends to be incremental budgeting. It means that it is a common practice in the traditional approach to budgeting to increase overall cost, by say, 2% as compared to the actual cost incurred in the previous year. It means that there is no justification provided by management concerning the budget created by the organization (Murphy, 2022). On the other hand, justification is required to be provided for each of the existing cost elements in the process of zero-based budgeting. In addition to that, it also helps in identifying new cost elements that may arise in an upcoming financial year. One of the primary advantages of this methodology is that it helps in the internal review of every cost element regularly (Al-attara, Mashkourb and Hassanc, 2020). Any major deficiency in the internal operations of the company can be identified before initiating a particular accounting period. It can be said that it helps in improving the internal efficiency of resources (Al-attara, Mashkourb and Hassanc, 2020).

The initial review undertaken in zero-based budgeting can also be done as a performance review report for different departments. Justification is required to be provided by each of the departmental head costs for different cost elements in each of the financial years. It is identified in the previous section that zero-based budgeting helps in prioritizing cost elements (Neill, 2018). This will also help in prioritizing each of the resources that are being deployed by the organization. This review will help in conducting a cost-benefit analysis for each of the cost elements under consideration (Neill, 2018).

The overall efficiency of the budgeting process will be significantly better in zero-based budgeting as compared to the traditional approach to budgeting. Zero-based budgeting requires a regular review of operations and different cost elements. This review is undertaken periodically. It will help in creating control over suits human resources and departments (Dali, 2021). It means that the cost will decrease and the efficiency of resources will increase.

Top management of the company will be more involved in the day-to-day operations. The primary responsibility of management lies in statistical decision-making. The use of zero-based budgeting will help in proper communication with the managers as they will justify each cost element (Heinrich, Garton and Martin, 2016). Top management will be able to consider day-to-day operations in taking the strategic decisions in long run.

Introducing zero-based budgeting in practical terms

One of the primary disadvantages of implementing zero-based budgeting is required in implementation. The use of the traditional budgeting method was common as it does not require experts in the field of budgeting for implementation and regular review (Beredugo, Azubike and Okon, 2019). The traditional approach to budgeting was based on incremental budgeting where the budgeting manager was only responsible for incrementally increasing the budget for each of the cost elements according to past trends (Aliabadi, Mashayekhi and Gal, 2019).

Practically, an organization must hire experts in the field of budgeting for the implementation of zero-based budgeting (Ibrahim, 2018). It would be more effective if a company can hire a manager that has experience in implementing zero-based budgeting in similar business organizations. It is also recommended that a budgeting team should be established by an organization that will be primarily focused on monitoring and control of zero-based budgeting throughout the financial year (Adah, 2016). This is because monitoring and control is essential part of implementing zero-based budgeting.

The company has to consider some of the common barriers that they will face while practical implementation of the budgeting methodology. One such behaviour would be resistance from an employee. Employees will hesitate to implement this methodology as it will create changes in their day-to-day responsibilities (Kanungo, 2017). An organization needs to create reward and motivation programs for the employee during the initial stages. Proper training and development programs should also be initiated for current employees to manage their responsibilities under zero-based budgeting (Haxholli, 2015).

Internal resources should also be evaluated by a company before implementing this methodology. One of the primary disadvantages of its implementation is the cost of initiation. Experts in the field of human resources will be required and they will come at a significantly high price as compared to their previous model (Ibrahim et.al, 2017). Companies should ensure that they have sufficient financial and other resources to deal with such a situation.

Conclusion

It can be concluded that the overall efficiency of implementing and use of zero-based budgeting is significantly higher as compared to the traditional approach to budgeting. Business organizations will be able to implement this approach to budgeting but they will require significant alterations in their day-to-day management. Zero-based budgeting, I will also act as a performance review approach for detailed analysis of day-to-day operations. It can be said that it will help in improving the overall efficiency of the company. It is recommended that the regional account director should consider the advantages of this approach and implement it in the organization.

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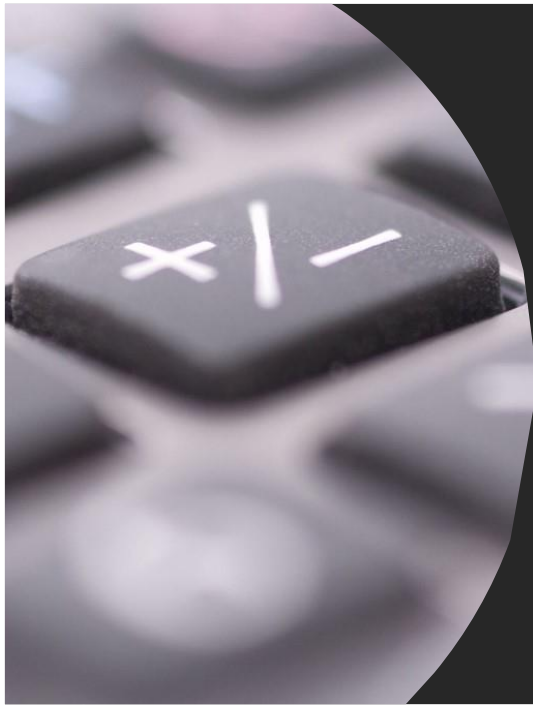
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Budgeting

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What is Budgeting?



Budgeting is the strategic implementation of a business plan.



Fully detailed marketing strategy roadmap that gives metrics to assess of performance to satisfy the goals in a firm's strategic strategy is required for this.



make modifications along the way to guarantee that is meeting the goals.

(Corporate Finance Institute, 2022)



Structure of Budgeting



(Bragg, 2022)



Budget Variances

The difference between the actual costs and income and the budgeted costs and income are known as variances

Formula:

$$\text{Variance\%} = \frac{\text{Budgeted result} - \text{Actual result}}{\text{Budgeted result}} \times 100$$



Types of Variances

- ❖ Adverse (Bad for the business)
- ❖ Favourable (Good for the business)





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