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Budgeting

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Introduction:

Planning is a very important function of the management within the company and this may influence the whole progress and growth of the entity. The purpose of this essay is to define the budgeting and critically evaluate the importance of budgeting in the organization in terms of planning and controlling. It will evaluate flexible as well as static budgeting that how they influence the managers' decisions in the organization.

Budgeting:

The budget has been proved as an important and critical technique for making important planning within the entity. This method enables the firms to estimate the future progress and performance of the entity and this may lead influence on the effectiveness in the performance and progress of the firm (Drury, 2013). Hence, budgeting is a critical process of identifying the information and anticipate financial performance such as the cost in the entity and income of the entity during the financial year or period. It is the kind of financial plan that may include the cost as well as expenses, resources, income and others that can enable the management to allocate the resource and cost to activities.

Importance of budgeting:

There is a great contribution of budgeting in the entities for analyzing the information and anticipating the performance. The budgeting may ensure the strong management of the resources for ensuring optimum utilization of the available scarce resources towards the attainment of the goals and objectives (Vanderbeck, 2012). It is generally required to categorize the possible cost and expense and forecasting of the expenses for the next one year so that proper methods and changes can be made in the processes to control the cost and minimize the cost for maximizing return and profit. This can be useful to determine possible methods and ways to find the way how the firm can cut down the target cost and maximize the profit margin of the enterprise. Another importance and role of budgeting towards enterprises are that it enables the management within the enterprises for analyzing the situation and issues and making critical or effective decision to gain the short term goals of the firm (Finkler et al., 2018). The engagement of management at all levels may be ensured in budgeting which may improve the satisfaction of the employees in the workplace and can lead to more directed behavior of the workers. Budgeting can be useful for providing standards and benchmarks regarding the performance to management to monitor and control the performance.

Static and flexible budgeting:**Static Budget:**

Figures are anticipated based on the past performance of the company and do not consider the future possibilities. This is a fixed budget and incorporates all the values and figures remain fixed and static during a fixed duration of one financial year (Shim et al., 2011). Mostly the educational institutions, non-profit organizations in the market and government departments or agencies are using the static budget in the market. This budget is suitable in case when the sales and other costs in the company are acutely predictable and they are not assumed to change during the accounting year (Barr and McClellan, 2018). The organizations enjoying highly monopoly in the market are using the static budget more effectively than other businesses are operating in a perfectly competitive market.

Flexible Budget:

It is the type of budgeting method that is just opposite to the static budget. The figure in the budget and statement are flexible and they can be altered in the budget statement as per the alteration and change occurring in the external environment and organizational requirements. It is a more effective and useful budget among the organizations than the static and another kind of budgets (Radu and Giju, 2015). This budget assumes that change is compulsory because of the dynamic external environment and unpredictable situations in the market. All the figures are adjustable as per the requirement of the enterprise to increase or decrease the productivity, sales, profit and other cost or expenses. The businesses whose income and cost depend on the productivity and the sale volume can use this budget (Frew et al, 2010). This budget allows the managers in the organizations to consider the change in the cost of sales, selling price, sales volume, and others for finding the actual or net profit or losses to the firm.

Pros and cons of the static and flexible budgeting:

Pros and cons of static budget:

The benefit of this budget technique is that it can be easily applied and used in organizations for creating the budget. The process of making this budget is very simple because it is created based on past performance and considering trends of the performance or budgets of the past few years. The calculation and estimation of the tax are very simple in this budget for the small companies because it may enable them to determine actual tax payment owed so that the liability of interest on the payment can be avoided (Barr and McClellan, 2018). In addition to this, the master budget

is really important for the firms for gaining a summary of all the departmental costs and income so that good planning can be ensured. The master budget provides good support to the management in the entity for estimating the income and cost for the entire business unit. On the other hand, this budget may devour the effectiveness of the management as it makes the management static and standardized instead of adaptable and flexible. This budget is restricted for no change in the figures and items included in the statement until the budget period finish (Hansen, 2011). Managers may be under pressure in this method and technique of budgeting because they cannot consider the change as per the market and environmental change and this may affect the current decision and strategies of entities adversely. In addition to this, managers may face hard competition for the allocation of resources to the business areas because they cannot allocate the resources to the business's activity are underperforming. The dynamic environment and factors may cause the businesses to fluctuate and this may make the static budget not useful for the firms.

Pros and Cons of the flexible budget:

It is required by the entities to make decisions about the adjustment in the figures and amounts in the budget statement. The seasonal variation may lead an influence on the effectiveness of the budget in the enterprise. The seasonal fluctuation is needed to be considered in the decision making for adapting to the situation and business environment. This may make the strategies of the entity more effective as managers identify, analyzes and interpret the situations and develop the strategies for gaining the goals (Vanderbeck, 2012). The payments in the enterprise are generally irregular and this may affect the performance and operation if they are not incorporate or fixed payout and income is taken into account. This budget may present the estimated cash inflow in the firm, sales growth, profit and other more effectively than the static budget in the company. Managers would be in a better situation to identify the possible changes in the environment and they can address the issues in the enterprise. On the other hand, this budget creates the risks and threats of cheating and manipulation in the statements and budgeting figures. Allowance for the accommodation of the changes may enable the budget makers to manipulate the figures and this may influence the decision of the respective managers in entities (Shim et al., 2011). Flexibility in the budget may be a reason for the confusion in the forecasting as an alteration in the budget as per the market and environment may make it difficult to understand and this may affect the performance of the enterprises.

Participative budgeting pros and cons:

This is the process of creating a budget in which the lower level of the staff and manager are involved in the development of the budget. The biggest benefit to the enterprise of this budgeting is that it improves the communication between the levels of the management within the company and enhances the effectiveness of informed decision (Gómez et al., 2016). It ensures a realistic budget as people from different backgrounds and departments share valuable information. It makes sure there is a good exchange of the information between the managements and it motivates the workers working in the entity. The participation of the workers may improve their morale and involvement in their jobs. On the other hand, it consumes too much time for the managers that can lead to delayed decisions in the company and this may cause the opportunity cost or loss of opportunities. Sometimes it can affect the motivation adversely because consideration of the idea of one over others may lead competition and dissatisfaction to employees.

Conclusions:

From the above analysis, it is found that a flexible budget is more useful than a static budget in the current era for conforming to the dynamic environment for making short term decisions.

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