

Management Accounting

Assessment 1

Essay

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Introduction

The essay is all about the role of budget. It will include the role of the budget for the managers to make the optimal decisions within a constantly changing environment. To determine the suitable budgeting style, the flexible and static budgeting styles will be evaluated. Demerits and merits of participative budgeting will also be described. It will also include the impact of changing environments in various budgeting styles.

Benefits and demerits of various budgeting styles

The success and failure of small businesses, as well as other businesses, is based on the quality of their decisions. If the business makes things up as they go along, and decision making based on wishful thinking and feeling then they can get in trouble quickly (Grossi et al., 2016). A budget for each of the departments of the small enterprises and overall business of the enterprises can provide guidelines for future planning and decision-making. Budgeting is an important factor in the success of any small business. A small enterprise can easily make decisions on different things along with the decision of moving forwards through budgeting (Moya et al., 2011). Budgeting could be done by teams or individuals, depending on the character and size of the enterprises. By forecasting finances, allocating money to various sources, and prioritizing projects, budgeting is understood as the backbone of any successful business project or plan (Heupel and Schmitz, 2015). Budgeting is very important, and it offers different advantages to enterprises such as planning orientation, assumptions review, funding planning, profitability review, performance evaluations and bottleneck analysis. The different styles of budgeting are providing lots of advantages to the management department of any enterprise as well as overall departments and the company also gets benefits from budgeting (Van Vuuren and Riahi, 2011). One of the major benefits of the static style of budgeting is that it is very simple to follow and implement because it does not require to be continuously updated throughout the financial periods they are planned to cover. It can help in underestimating or overestimating the revenues and expenses so that the managers can alter their strategy or decision going forward. But static budgeting has a shortage of flexibility.

Links between budgeting and short-term decision making

Sintomer 2012 refers that flexible budgeting is a group or set of probable standards. The standards of a flexible budget are always used based on actual production, sales, or output activities. Flexible

budgeting style attempts to solve misleading inferences which can normally come for the consideration of static budgeting style (De Azevedo et al., 2013). The major demerit of static style is that it is only appropriate to only one stage of the plan. A key merit of using flexible budgeting style is that volume variances and differences are automatically removed since standards and actual costs are based on the actual output activity. Jagalla 2011 states that flexible budgeting is used in total standard revenue or cost for the various levels of probable activities.

Decision making and budgeting are the major crucial managerial and financial functions, and they are linked. Budgeting is making budget of doing whereas decision making is a portion of budgeting. Decision making refers towards selecting or choosing a course of the plan, where budgeting is the process of choosing the future costs of the plan. Budgeting, controlling, leading, and decision making are all interlinked. Decision making and budgeting is the most crucial step of all financial and managerial functions. According to the Moya 2011, budgeting is an important element in the financial section where managers need to establish a budget and state the means and ways by which these budgets are to be attained. Budgeting is the procedure of generating a plan for spending the funds in the project (De Azevedo et al., 2013). This spending plan allows managers to identify in advance whether they will spend the funds of the company to do the project. Jagalla 2011 states that the short-term decision-making process of management and budgeting has linked such as through the budgeting the management can easily take their short-term decision regarding several issues. For example, the decision for the current investment plan in a new project can be decided better with the help of budget management observed the budget and take decisions regarding new investment as if the budget shows balances for that then it will be taken by management. According to Sintomer 2012, budgeting helps in potential identification, problem identification, improved commitment, and confidence improvement which directly impact on short term decision as it helps in taking short term decisions.

The impact of changing environments on various budgeting styles

Environmental change impacts budgeting in various ways and the impacts of environmental changes are implemented and determined across various environmental changes such as tourism, catastrophe management, urban and cities green, trade and manufacturing, transport, electricity, buildings, sanitation, and water supply, forestry and agriculture. Several impacts are quantified in separate analyses for each of these fields and then developed and implemented into the

macroeconomic CGE model by five different mechanisms of economics. Changes in public expenditure (for catastrophe management), changes in investments (for electricity), changes in final demand (for tourism), changes in productivity (for trade and manufacturing), and changes in production cost structure (for agriculture) (Jagalla et al., 2011). Cities and urban green have impacted the environment in the way of prevention against the loss of climate comfort has improved in the urban environments by the maintenance of the park investments in the park. Trade and manufacturing have impacted in the term of losses of productivity of the workers because of humidity and heat (Burth and Hilgers, 2014). Environmental changes have impacted transport in terms of damage to roads because of an increase in mudflow, landslides, and floods. This action from the environment has increased the overall work of the government and has also increased the budgets of construction, which forces the government to change the budget of the other projects too for adjusting the current budget of the losses that happened because of the environmental changes. There is also huge impact on catastrophe management of the changes of environment such as damages of building because of riverine floods. The demands in the tourism industry have also noticed because of the changes in the environment like less availability of tourism in rainy season on the beach areas (Van Vuuren and Riahi, 2011). These changes impact negatively on the overall businesses and budgeting plan of the organization. Cooling and heating of the building always change according to the changes in the environment, as in the winter season decreased heating energy required and in summer season increased cooling energy demanded. These demands of changes in heating and cooling of the buildings impacted the budgets in every season because heating of buildings requires different budgets and cooling of the building requires different budgets (de Vries et al., 2011). Sanitation and water supply during the changes in every season impact highly on the budgeting because of sewer sedimentation; an increase of sewer flooding, increase of wastewater volume in dry weather. And also changes of withdrawal, the turbidity of spring water, surface and lower groundwater recharge, and dry cracks in the soil are some of the included impacts of environmental change on budgeting.

The merits and demerits of participatory budgeting and its implication on business performance

Participative budgeting is the condition in that budget is created and implement after input and data from subordinate managers (Hansen, 2011). The participation's purpose in budgeting is to

classify responsibility to a follower or subordinate managers. These budgeting certainly have different benefits; these involve the transferring data to superior from subordinate, improved satisfaction of job for the followers, goal congruence, and budgetary responsibility. The followers have chances to directly contact the superior and converse issues of organization with them so that they can solve the issues through the exchange of ideas and information (Libby and Lindsay, 2010). The information transferral is particularly crucial when high difficult issues or tasks come to deal, that required consultation of subordinates. Besides the advantages, this budgeting has its disadvantages impact on an organization. The biggest disadvantage of participative budgeting is a time-consuming process (Faleti et al., 2014). Delay and vacillation can happen when various meetings are held. Budgetary slack is also a demerit or undesirable effect; it occurs because of expense's overestimation that can forward budgetary gaming by the slack of budgetary. Bidirectional communication among the subordinates and superiors is tough to accomplish. It is difficult to identify followers to communicate, participate, and disclose information is another disadvantage of participative budgeting (Moya et al., 2011). Mutual trust is important and essentially required for a strong participatory budgeting system. The implementation of this budgeting system considers high costs which are another major demerit of participative budgeting.

Conclusion

In conclusion, it can be said that the changes in the environment are not in control of anyone, which impacted negatively on the budgeting because of the sudden requirements and changes. It can be concluded that as per the given scenario, the managers of the business should prefer flexible budgeting style so that the manager would be able to make the optimal decision. Budgeting styles help managers in planning the management of competitiveness.

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