

Management Accounting

Budgeting

Module code: LCBB5002

Lecture name: Winfred Soribe

Student name : Irena Azgorova

Student number: 1812800

TABLE OF CONTENTS

REFERENCES.....	7
------------------------	----------

Budgeting mainly refers to the process in which the plan is created in regard to the expected amount to be incurred. This is created by the management for the purpose of determining the amount of money it requires in addition for carrying out its plan more effectively. Budgeting is very important for the businesses as based on this various business decisions are being undertaken.

Role of budgeting in changing environment

There are various roles being played by the budgeting which is advantageous to the management in various aspect resulting in improved and enhanced decision making. Some of the most important role being played by budgeting is stated below.

Estimating revenue and expenditure: In the changing market condition, it becomes very important for the organizations to identify and the analyse the changing patterns and trends which is having a direct impact over the business functioning (Scott and Enu-Kwesi, 2018). Thus, estimating the revenue that the company will be generating in the future period is completely based on the analysis and this results into taking effective business decision in regard to the revenue and expenditure that the business might be required to incur in the future.

Action plan: The budgets prepared is used as the action plan by the management which is majorly developed for the purpose of accomplishing the estimates which has been reflected in the budget in a far better manner (Henttu-Aho, 2016). Once, the budget is created, it is used as the guide by the management in implementing its plan and in ensuring that everything is going as per the plan and the budget.

Comparing the outcomes: The important role of budgeting is to comparing and contrasting the outcomes of the organization's plan. The actual and budgeted outcomes are compared by the management of the organization with the aim of identifying the areas where the actual deviates from the budgeted one (Kenno, Lau and Sainty, 2018). This provides support to the management in determining the causes of such deviation so that timely actions can be taken in order to ensure that everything works as per the plan. This results into further improvement in the plan which will help in achieving the results more accurately.

Providing guidance: Budget is used as the guide by the managers which helps in taking effective decisions on account of sudden change in the plan because of the change in the external factors of the business which is not in the control of the business. The external

factors have a huge influence over the business functioning which makes it very crucial for the organization in determining the factors and the degree of influence of its over the business plan. Thus, budgeting helps the management in making relevant changes in the budget as per the requirement and therefore, resulting into the better performance and improved decision making leading to achievement of the desired goals.

Forecasting and decision making: After creating the budget and taking it as the basis makes it useful for the organization's management in conducting forecasting about the future revenue and accordingly the expenditure that the company would be required to incur in relation to it, is also estimated but everything is done within the budget created (KUROCHKINA and et.al, 2019). There, budgeting helps in exercising control over the expenses of the organization which results into better operational functioning of the organization.

Control over the expenses: As and when the budget is being created, it helps in determining the cause that will affect the business functioning (PRIYA, 2020). Along with that it will result into evaluating the cost that the business is required to incur and comparing it with the amount the business is currently having which results into putting a limit over the business and control over the cost.

There are mainly two types of budget style which can be used by the organization, one is static budget and the other is flexible budget. Static budget incorporates the figures in respect to the input and the output before the period starts. It provides a forecast about the sales and expenses for a specific period. The important factor that makes it different from the flexible budget is that it remains same irrespective of whether there is increase or decrease in the cost of material, sales volume or the production capacity (Maduekwe and Kamala, 2016). There are more chances of deviation when the actual outcome is being compared with the budgeted figures under the static budgeting style. This budget is completely intended to be fixed and to remain unchanged for that particular period even if the final outcome is being affected by it. Thus, style of budgeting is mainly used by the managers for the purpose of targeting the expenses, costs and others use it for carrying out the budgeting (Rogulenko and et.al, 2016).. On the other hand, flexible budgeting style is different from the static budget as it changes with the variation in the any of the factor affecting the business in respect to the production level, cost of material, labour cost and so forth (Ozyurek and Uluturk, 2016). This is also useful in enhancing the efficiency level of the managers as it is completely set to benchmark the actual performance level of the organization. It is useful in both planning and

the controlling purpose and is mainly utilized for estimating the factory cost and the operational cost. This budget is considered much more realistic as compared to the fixed budgeting styles and also it gives more emphasis on the changing behaviour of the cost element at the varied levels of business activities (Radonić, 2018). While preparing this budget, the managers of the organization were forced to take into account the various factors and the scenarios along with their responses and therefore, for each such situation, the managers are required to determine the cost and the revenue. In the situation of any uncertain event or circumstances that arises relevant changes can be made in the budget and the management can be better prepared for the same.

Therefore, based on the two styles of budgeting, it can be said that in the given scenario of the technology age where there is a need for real time decision making in order to attain success and remain competitive in the market it will be beneficial for the businesses to make use of flexible budgeting as with the changing environment, there are times when the opportunity arises which cannot be forego because of the budget which cannot be changed affecting the growth of the company. Thus, flexible budgeting will provide support to the organization in taking effective decisions by transforming the medium term plans into the short term plans.

Participative budgeting

Participative budgeting refers to the process in which the budget is being prepared involving the people from the lower level of the organization as well in providing inputs for the budgeting process. Unlike other forms of budgeting, this budgeting practice work son sharing responsibility with the managers of all level of the organization with the objective of giving them a sense of ownership in the organization (Kahar, Rohman and Chariri, 2016) It tends to create the budget which is more likely to be achieved as the low level employees can provide better information to their supervisors on account of the areas where there is more requirement of the funds.

Advantages: The most important merit of this budgeting process is the sharing of information across the various department levels till the top-level management. This means that it provides an opportunity to the subordinates for presenting their views over the organizational issues (K Chong and Strauss, 2017). It provides sense of ownership among the employees which motivates them to work even better as they feel appreciated which improves their morale. There is an agreement of goal congruence in between the employee's goals and

the company's overall goals. In order to achieve and achieve the budget that meet with the goals of the both it is important for both of them to work in the same direction and this is so happening in this budgeting process.

Disadvantages: This budgeting process is very time consuming as it initiates from the departmental level and then reaches to the top level and too much participation leads to delay in the process as negotiation will take lot of time in coming at the conclusion (Arsalan and et.al, 2018). There are also chances that the employees might overestimate or underestimate the cost or the revenue projects as one of the ways of misleading the budget. Even the subordinates might set the targets which are very easily achievable which is mainly happens when the performance is measured on the basis of the targets.

Therefore, it can be summarized from the above that it is very important for the businesses to effectively make use of budget in their business functioning in order to ensure success or reduce the chances of facing failure. There are various external factors that affects the business thus, it becomes very crucial for implementing the right budgeting method such as flexible budgeting for meeting the regular changing business environment which are not in the control of the management but the timely precautions can be taken for facing it in an effective manner.

REFERENCES

Books and Journals

- Arsalan, S. and et.al, 2018. Effect of participative budgeting, organizational commitment and work motivation on managerial performance (survey of motor vehicle dealers in Bandung). *International Journal of Engineering & Technology*. 7(4.34). pp.240-244.
- Henttu-Aho, T., 2016. Enabling characteristics of new budgeting practice and the role of controller. *Qualitative Research in Accounting & Management*.
- K Chong, V. and Strauss, R., 2017. Participative budgeting: the effects of budget emphasis, information asymmetry and procedural justice on slack-additional evidence. *Asia-Pacific Management Accounting Journal (APMAJ)*. 12(1). pp.181-220.
- Kahar, S. H., Rohman, A. and Chariri, A., 2016. Participative budgeting, budgetary slack and job satisfaction in the public sector. *Journal of Applied Business Research (JABR)*. 32(6). pp.1663-1674.
- Kenno, S. A., Lau, M. C. and Sainty, B. J., 2018. In search of a theory of budgeting: A literature review. *Accounting perspectives*. 17(4). pp.507-553.
- KUROCHKINA, A. A. and et.al, 2019. Management features of small and medium-sized business enterprises. *Revista Espacios*. 40(34).
- Maduekwe, C. C. and Kamala, P., 2016. The use of budgets by small and medium enterprises in Cape Metropolis, South Africa. *Problems and perspectives in management*, (14, Iss. 1 (contin)). pp.183-191.
- Ozyurek, H. and Uluturk, Y., 2016. Flexible budgeting under time-driven activity based cost as a tool in management accounting: Application in educational institution. *Journal of Administrative and Business Studies*. 2(2). pp.64-70.
- PRIYA, S., 2020. A STUDY ON THE IMPORTANCE OF BUDGETING IN AN ORGANISATION. *Studies in Indian Place Names*. 40(46). pp.500-505.
- Radonić, M., 2018. Beyond budgeting: Gaining competitive advantage through strategic changes in budgeting processes. *Megatrend revija*. 15(2). pp.141-158.
- Rogulenko, T. and et.al, 2016. Budgeting-Based Organization of Internal Control. *International Journal of Environmental and Science Education*. 11(11). pp.4104-4117.
- Scott, G. K. and Enu-Kwesi, F., 2018. Role of budgeting practices in service delivery in the public sector: A study of district assemblies in Ghana. *Human Resource Managentresearch*. 8(2). pp.23-33.