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Modern Budgeting Processes

### **Introduction**

Through budgeting, it is possible to plan and control. Planning identifies aims as well as actions which a firm need to attain and budgets represents the quantitative expression of the plans which can either be physical, financial terms or both. When it is used for planning a budget is regarded as a technique utilized for translating the

objectives and strategies of a firm into operational terms (Langfield-Smith, et al., 2017)

Using of budgets in controlling it entails the process in which it sets standards, takes corrective actions when actual performance deviates significantly from the intended performance and receiving feedback regarding actual performance. A firm having a budget is of significance in that it can compare the actual outcomes with planned outcomes as it steers operations back on course when there is a need. Budgets evolving as the long-run objectives of firms tend to form the basis of operation. Thus, it is possible for firms to contrast actual results with the budgeted amounts through control. Through comparison, it is possible with the provision of feedback for future budgets and operations of the firm.

Most firms use budget with the aim of focusing attention regarding its operations and finances and not the limit to spending (Hoque, 2014). Through the budget, a firm can highlight pros and potential issues at an early stage and allow the budgeting team to take measures to avoid the problems as they use the merits present wisely. Through the budget, managers can plan for the future as they can evaluate what happened in the past through budgets. From the previous research conducted it has been proven that for a budget to be one of the most widely used as well as highest rate cost-management tools aimed at reducing cost inclusive of controlling. Through the budgeting committee, they claim that the process of budgeting forces the firm's top management officers to put planning in the forefront and be better administrators. For a firm to be healthy in its

operations, there is a need for the top administrators to monitor, draw up and adjust budgets with market trends.

Through activity-based budgeting it is possible:

- a. The top officials of an organization are compelled to think ahead and formalize their obligations for planning.
- b. With provisions of expectations which will be of importance regarding a framework for judging following the performance.
- c. Top officials of an organization are assisted in coordinating their efforts as they plan for the firm as it realizes its operational objectives.

Taking consideration of the modern and advanced business environment, many of the firms inclusive of individuals involved in budgeting need to be very critical regarding the traditional budgeting techniques. It is with concern that the traditional budgeting techniques:

- i. Entails a top-down approach to organizing which is inconsistent with the need of being flexible and adapting to changing firm circumstances.
- ii. Aims on controlling rather than projecting on how to assist the firm to realize its strategic goals.

- iii. Alters resource allocation to be driven by politics rather than techniques.

Which is political power within the firm that drives the resource allocations rather than technique needs which controls traditional budgeting?

### **Balanced Scorecard**

It is a specific genre of control and management thinking which is executed through a sequence of actions (Akkermans, and Van Oorschot, 2018). The uniqueness and individuality tend to be predetermined by two components: specificity of the firm and its strategy and appropriate solutions for management and controlling through certain events and initiatives. To present a credible budget, as a firm there is a need for setting out indicators, perspectives, and timelines regarding the following characteristics in its budgeting process:

- a. Perspective – the presence of opportunity of covering various aspects, fixing and analyzing their weight against strategic objectives.
- b. Timeframe – the presence of opportunity also of organizing the strategic actions in a particular sequence, it demands to put strategic factors in time with the aim of realizing the budgeting process.
- c. Indicators – also the presence of opportunity of encompassing and indicating temporary interrelationship and encompassing the logical between the strategic factors tend to have same time reconstruction as a complex of attendance zones.

Utilizing balanced scorecard in budget preparation entails four areas which need to be used effectively for the realization of effective and adequate budgeting: finance – where it consists of parameters of firm yield, growth, shareholder value, and turnover. Secondly, users need to introduce a measure that gives information regarding active activities involved in budgeting (Busco, and Quattrone, 2015). Thirdly, the internal process of the firm needs to be identified as they add the value of the budget through maximization. Lastly, there is a need of continuous addition of development and knowledge on the budgeting process by the firm's budgeting department.

### **Activity-Based Budgeting**

Activity-based budgeting is based on activity-based costing. It utilizes knowledge regarding the associations between the number of production units and the activities which are utilized in the production of those units in developing a detailed estimate of the activity requirements underlying the proposed production plan. Activity-based budgeting is of significance in two ways:

- a. It identifies scenarios when a production plan is need of new capacity either through physical capacity and capacity in people as resources in providing support and service activities to the firm.
- b. It gives a defined, final process to be utilized in the future costs.

Activity-based budgeting commences with output as it determines the resources which are essential in producing the output. Ideally, a firm translates its vision into a

strategy with definable aims with the aim of establishing value (Miller-Nobles, Mattison, and Matsumura, 2016). Growing market share, increasing profit margins, reducing the cost of capital, increasing productivity and improving sales rate are examples of ways of creating value.

Taking consideration of a budget in three perceptions: flexible budgeting approach, activity-based approach, and traditional functional-based approach. It is possible to define that traditional functional-based approach utilizes functional-based line tools such as depreciation on equipment, salaries, and supplies (Noreen, Brewer, and Garrison, 2014). Flexible budget utilizes knowledge of cost behavior in splitting the functional-based behavior line items into variable and fixed components while the Activity-Based Budgeting operates backward from the activities inclusive of their drivers to the underlying costs.

Traditional budgeting is determined on getting the outcome but not the cause or the process. Activity-Base Budgeting focuses on the techniques which provide the top officials of an organization to give guidance in the way of attaining the desired outcome. The utilization of the Activity-Based Budgeting it is possible in determining the root cause in which the knowledge can be utilized in effecting the process as well as cost efficiencies. The following represent figure represent Activity-Based Budgeting and Activity-based costing.

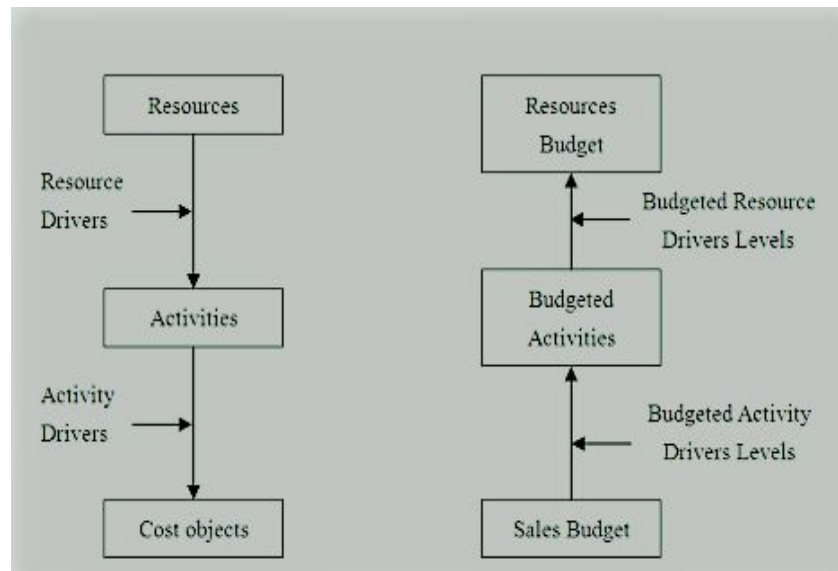


Figure one: comparison of ABB and ABC

The activity-based budgeting process is known to be a reverse process of Activity-based costing technique. The figure above highlights the main differences and concepts that are present between Activity-based budgeting and activity-based costing regarding resource allocation costs to product and activities in which Activity-Based Budgeting does. Activity-based Budgeting commences with a forecasted demand for commodities (Mahal, and Hossain, 2015). It gives attention when it comes to estimating the need for each activity's outcome as a measure by its cost controller. Then it utilizes the rate in which activities make use of the resources in estimating or budget the resources necessary. Activity-Based Budgeting emphasizes the activities inclusive of

their consumption of resources as numerous of the top officials in various firms believe it is more significant in managing waste as it improves efficiency.

To be able to utilize Activity-Based Budgeting the following steps are in need to be followed:

- a. There is a need for determining the output of each department in a firm.
- b. There is a need of the activities in delivering the output along with their associated controllers which must be identified.
- c. There is a need for estimating the demand for each activity.
- d. There is a need also of determining the cost of resources that are required in producing relevant activities.

### Conclusion

Activity-Based Budgeting is based on the expected output whereas traditional budget often focuses on forward from the previous years' experience as Activity-Based Budgeting focuses backward on forming the following year's production. Additionally, ABB approach makes use of activities and resources in creating an output which provides the top management of organization plenty of information inclusive of the ability to consider what to eliminate during the budget preparation such as non-value-added activities.

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