

MANAGEMENT ACCOUNTING

(LCBB5002)

The Budget

Lecture: Dr. Rexion Nting

Student Name: Vasil Kalachev

Student Number: 1813111

Money are objects that are globally used and accepted in transactions for any kind of goods or services between one side to another. Money is mandatory items at this point of the world living system for the humanity. Created back many centuries ago money replaced the barter system and that led to probably the biggest revolution in economics social science. Money is extremely important in civilized world in present days and they are daily part of the life to almost all humans across the planet.

Budget is a forecast of the money for revenue and expenses over specific time of period in the future. It involves individuals, families, and group of people, businesses or just anybody and anything that makes and spends money. Budget is critical part for everyone one who uses money as it keeps necessary control over your finance. It should not be wrong to say that same as the money the budget is also a mandatory element of people's life as basically let you know what you own, what you have and how can you use it.

At the end of a budgeted period time, you can expect three things to happen:

1. Surplus budget – It means the profit are higher than expenses
2. Balanced budget - It means the profit and expenses are equal
3. Deficit budget – Profit are lower than expenses

Above are mentioned the three potential scenarios that a company for example will face at the end of budgeted period, but in order to create a proper budget plan for its opportunities there is different types of budget that business uses. The two major types are static and flexible. Static itself meaning when we expect that it will not be any drastic changes in the inputs and outputs in the firm for a specific period of time and so with that there will not be any changes in the budget plan with does not matter the increase and decrease of the incomes and expenses, while flexible budget is very useful in times like present with the fast changing in the environment, when this type allowed you to reconsider the budget for number of times depends of all diversities that a company may face involving internal and external factors. In the scenario for this assessment, there is a description for an IT company named Softconic, in this scenario we do not have enough information about their budget type before, but with the recent health crises and the Covid19 pandemic broke out, they were forced to make serious changes in their budget plan and turn it into flexible, in order to try to prevent catastrophic consequences or maybe even fatal for the company.

Another eventually effective part of the budgeting system is called Participative. This is a process when some people/managers from lower level in a company from different departments which suppose not to be a part of the budgeting discussion, are now a part of it. That could be a good tactic to motivate the lower level workers from the company and to higher their morale, meanwhile a specific manager to a specific department would be more in to the work of their department than the general manager for example and this could be very helpful in discussing the budget with such a local managers. In other side there could be some disadvantages like time-eating, when this process involves a lot of people that can slow the preparation for the budget, or another serious issue could be the so called budgetary slack when the employees may overestimate the costs and/or underestimate the revenue projections as a way of manipulating the budget to their advantage.

The Participative budgeting is not a type but an eventual process that the top managers may or may not use in their strategies. However, away from that is a type called Master budget and it must be strongly consider to be put in use, as this is a combination of all individual budgets, in all department budgets, like Sales, marketing, financial, cash flow, operating and so on in once to create the full picture of the organization.

Different business, different budgeting styles, every company choose what strategy to use, whatever find it for good. But to create a budget and to monitoring it is not just an important for managers, but is a must for them, otherwise it would be a mess and the company would not survive for very long. Other benefits of budgeting are:

The potential to attract investors

The ability to set sales goals

The chance to open lines of credit

The ability to make decisions about salaries, bonuses, benefits and overhead operating expenses

Easier tax preparation

.....

Last centuries with some great discoveries, inventions and economical revolutions world speed up its moving forward. Before hardly someone would make a difference between 11th and 12th centuries and even 13th which are separated by 100-200 years, in a nowadays any decade is completely different from the decade before and the decade next. This one is leading to serious changing environments and most of the business must to adopt flexible budgeting styles and transform themselves in short-term budgeting in order to keep the rhythm up in the fast moving world.

21st century is recognizing as the era of technology. Extremely popular worldwide tech device is the smartphone, although its roots is dating back from the begging of the 90s last century created by IBM, is considered that the revolution of smartphone become at 2007 by Apple. Its popularity was shocking among people across the world and completely changed the daily life in social, economic and technological aspect. By only two years (2009) they were 170 million users globally, 10 years later (2019) are over 3.2 billion users, and by the end of 2021 is expected to be nearly 4 billion.

The two massive dominators on the smartphone market are Apple and Samsung. Although there is some up and downs in their revenues for the past recent years, they are still dominating the market, while the other competitors are way behind them.

Apple past ten years revenue (Millions of US \$):

2019	\$260,174
2018	\$265,595
2017	\$229,234
2016	\$215,639
2015	\$233,715
2014	\$182,795
2013	\$170,910
2012	\$156,508
2011	\$108,249
2010	\$65,225

For the last decade, we can see a massive growth for Apple, especially thanks to smartphones where the company gains nearly 195bil in revenue. However, even if we are living in dynamic times, static budget would be suitable for apple for use in the past ten years as the times actually was not so dynamic, basically after the revolution of the smartphones in the end of 00s nothing so special or radical has happened, the only difference between a smartphone from 2008 and a smartphone from 2019 is that the recent phone is more modernized, but the principle stay the same. So the static budget is easy to implement and follow in this scenario. In 2020 with the Covid19 broke out, static budget must change

due to a situation that was not expected which led to drastic change of the environment, and as quick as possible to turn into flexible with participative budget process as their it would be more ideas where more people are involved in unusual times. However, but even this is not as critical as could happen if a Samsung or other competitor, send on the market new type of phones, it would be holographic or whatever, but the main point it would be revolution on the market. The changes are going to be massive compared to Covid19, lots of companies will bankrupt, and static budget will be forgotten for a couple years. At the beginning flexible budget with participative process will be the main factor while at some point the pie share from the market is cleared and set.

To have a budget, to create a budget, etc. it is something that is in our human nature since we are born. Without to study it or even know it, we automatically estimate what we have and how can we use it. By studying it and understanding it completely what is a budget with all its types and process could be with a strong help for your own, and by knowing what type of budget to involve in what you are doing could be a massive benefit. In anyways the budget itself as term and action will continue to evolve with the future and creating better styles and systems.

References

1. *nasdaq*. 2016. *Advantages & Disadvantages Of Using A Static Budget*. [online] Available at: <<https://www.nasdaq.com/articles/advantages-disadvantages-using-static-budget-2016-03-14>> [Accessed 23 August 2020].
2. *Macrotrends.net*. 2020. *Apple Revenue 2006-2020 | AAPL*. [online] Available at: <<https://www.macrotrends.net/stocks/charts/AAPL/apple/revenue>> [Accessed 23 August 2020].
3. *Bhasin, H.*, 2020. *10 Types Of Budget - Different Types Of Budgeting Used By Companies*. [online] *Marketing91*. Available at: <<https://www.marketing91.com/10-types-of-budget/>> [Accessed 23 August 2020].
4. *Investopedia*. 2020. *Budget Definition*. [online] Available at: <<https://www.investopedia.com/terms/b/budget.asp>> [Accessed 23 August 2020].
5. *Cliffsnotes.com*. 2020. *Definition Of Money*. [online] Available at: <<https://www.cliffsnotes.com/study-guides/economics/money-and-banking/definition-of-money>> [Accessed 23 August 2020].
6. *SMS Marketing & Text Marketing Services – Try It For Free*. 2020. *History Of Smartphones - What Was The First Smartphone? | Simpletexting*. [online] Available at: <<https://simpletexting.com/where-have-we-come-since-the-first-smartphone/>> [Accessed 23 August 2020].
7. *Corporate Finance Institute*. 2020. *Participative Budgeting - Overview, How It Works, Pros And Cons*. [online] Available at: <<https://corporatefinanceinstitute.com/resources/knowledge/finance/participative-budgeting/>> [Accessed 23 August 2020].
8. *Statista*. 2020. *Smartphone Sales By Year By OS 2009-2018 | Statista*. [online] Available at: <<https://www.statista.com/statistics/266219/global-smartphone-sales-since-1st-quarter-2009-by-operating-system/>> [Accessed 23 August 2020].
9. *Statista*. 2020. *Smartphone Users Worldwide 2020 | Statista*. [online] Available at: <<https://www.statista.com/statistics/330695/number-of-smartphone-users-worldwide/>> [Accessed 23 August 2020].
10. *Investopedia*. 2020. *Static Budget*. [online] Available at: <<https://www.investopedia.com/terms/s/staticbudget.asp>> [Accessed 23 August 2020].
11. *Team, T.*, 2020. *How Does Samsung Make Money?*. [online] *Forbes*. Available at: <<https://www.forbes.com/sites/greatspeculations/2020/01/02/how-does-samsung-make-money/#1ca35c37123b>> [Accessed 23 August 2020].
12. *Small Business - Chron.com*. 2020. *Why Is It Important For A Business To Budget?*. [online] Available at: <<https://smallbusiness.chron.com/important-business-budget-385.html>> [Accessed 23 August 2020].