

MANAGEMENT ACCOUNTING

Assignment 1

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Introduction

The main aim of this essay is to focus upon the evaluation of different budgeting styles that are significant and feasible for the managers to make short term and long term decisions. This essay examines the role of budgeting concerning make decisions for a manager. On the other hand, it also covers the merits and demerits of different budgeting styles as a static, flexible, incremental, activity-based, zero-based, and value proposition budgeting. Moreover, it also covers the merits and demerits of participative budgeting.

Role of budgeting to help managers in optimal decision –making

According to the Morgan, et al., (2017) stated that budgeting is utilized for many reasons in organizations with the best preparations and monitoring (decision making). Budgets may be used as a tool for forecasting performance, allocating capital, or distributing expert information of the sector of the business to other parties for planning purposes. Budgeting is a significant element in a business' progress. A manager determines whether to move ahead with budgeting. The budget is the cornerstone of every successful business strategy by predicting revenue, prioritizing programs, and allocating funding to different outlets. Age technology is changing so it has become very essential for the managers to make a quick decision. At the same time, budgeting is playing an important role in supporting the manager about communicating the status of a prospective organization. Technology has made the budgeting process easier as there are several technological tools and applications have been developed which are helpful for the manager to take effective decision in short –term.

On the other hand, Rubin, (2015) analyzed that budgeting is crucial with have better planning for budget estimation based upon the previous year's performance. At the same time, managers can engage into the planning as per the position of the company that is identified through the budgeting process. With this, it is also addressed that budgeting is also important for the business managers in the context of comparing the forecasted and flexible budget with the actual results. Helden and Hodges, (2015) from the budget evaluation, the manager can make quick decisions as it alerts the manager over the difference between the forecasted and actual results of a business. About this, Apple Inc which is one of the leading technology company, and it has also employed the budgeting process to identify the major revenues and expenses that can occur in the future. On the other hand, Apple can also use the latest and updated technologies to make a budget and have an optimal decision –making for the future business. With this, the Apple business can also use it to have proper effective communication about the difference between the budgeted and actual sales, revenues, and cash flow in a particular financial year. Furthermore, Chohan, (2019) examined that budgeting is important in terms of setting a clear benchmark in the technology industry and the Apple business can include gaining higher efficiency in managing the business. Apple can obtain the short –term opportunities from applying the effective budgeting styles that are easy and flexible according to the business operations.

Analysis of Budgeting styles

Flexible budgeting- According to the words of Kaur, (2017) flexible budgeting has many advantages such as it makes it easier for a manager of the corporation to estimate the rates of success and profits at all stages and levels of revenue. The effect on income, spending, and final

income of adjustments in demand and output rates is clear. This was also supported by Ouassini, (2018) stating that Flexible budgeting allows the financial and operational efficiency of the enterprise more reliably. On the other hand, flexible budgeting spoke about its disadvantages and mentioned that flexed budgets take linearity in costs on account in, for instance, incentives on bulk content sales and then take no consideration. If a piece-work program is in place, 'Labor' expense would not be linear. This was also supported that these estimates are often focused on stability as expenses may be managed step-by-step or discontinuous. Онешко and Бойко, (2016) the process of calculating cost components that are fixed and the variable is always arbitrary; thus the flexed expense has no connection to the right average cost for flexed operation.

Static budgeting- In the outset of the accounting cycle, a static budget is focused on the projected amount of production and income of a business. Static budgets are typically focused on data gathered and evaluated before the beginning of the budgetary period. So according to Adah, (2016) one of the biggest advantages of the static budget is that it is simple to enforce and to execute since static budgets do not be continually modified across their accounts. A static budget may give clear visibility into the expenses and revenues of a business by performing a variance study. Morgan, et al., (2017) also sorted the same by stating that it helps an organization to see if its costs and profits might be overestimated or reduced, and adjust or alter the plan in the future. In turn, they will enable companies to manage expenses and make clever investment decisions because static budgets do not have a built-in wiggle space.

On the other hand, it also has many disadvantages i.e. according to Algharabali, (2019) the biggest disadvantage is the loss of versatility with the set program. When an organization develops a budget dependent upon a given selling amount and this demand grows, the extra money cannot be dedicated to continuing to expand. In that way, an organization can't devote

new capital to help because it discovers the business' underperforming regions. Also, this will adversely influence the sales stream of an organization. Since established budgets are built on earlier results, it can be more challenging for new organizations to develop and execute effectively.

Incremental budgeting- It is a way of bringing certain small changes within the existing budgets for arriving at new budgets. In the views of Онешко and Бойко, (2016) it has many advantages such as it is easy to implement and calculate, managers can achieve it for various departments, and continuity of funding may also be insured. On the other hand Voznyak, et al., (2017) suggested its disadvantages such as managers spending upon budgets may lead to unnecessary spending, managers with a lack of knowledge, and innovation may also be one of its major drawbacks.

Activity-based budgeting- it is a process where budgets are prepared after taking into consideration all the overhead costs by using activity-based costing. In the words of Rubin, (2015) it has got many advantages such as evaluate and improves relationships, eliminates bottleneck, and so on. On the other side, the disadvantages such as the requirement of higher understanding, complex planning by the managers, high resource consumption are defined by Helden and Hodges, (2015).

Value proposition style- For any company to communicate and interact successfully with clients, investors, stakeholders, and ultimately internal workers, a robust and impactful value proposition is vital, by explaining simply how distinctive, enhanced and worth purchasing from us was big merit described by Chohan, (2019). The meaning concept is fundamental to the general business plan (it is by no way the core of Alex Osterwalder's Business System Canvas)

and is meant to form a foundation for all actions, processes, and consumer participation was described.

Zero –base budgeting- This includes planning null-base expenditure from the ground up.

Advantages are as follows

- ✓ It emphasizes decision making
- ✓ Oriented towards the analysis of cost-benefit
- ✓ Resources are efficiently allocated (Kaur, 2017)
- ✓ It changes with the change in the organization

On the other hand its disadvantages as under:

- ✓ It is very subjective
- ✓ Strict in nature
- ✓ Not good for long term goals (Ouassini, 2018)
- ✓ There may be conflicts between skills and managers

Merits and demerits of participative budgeting- According to Adah, (2016), if the company incorporates a program of checks & balances to stop unruly managers from abusing their control, participatory budgeting would be more effective. Since the budget moves from lower to middle managers and eventually to top managers, it's important to discuss the draft budget for any management point with the top managers essentially saying so is one of its major advantages. On the other side, it is very time consuming and requires a lot of additional resources are its major drawbacks as described by Algharabali, (2019). As per the given scenario, participative budgeting is suitable because of its process as it is checked and reviewed at different levels of business management so the accurate budgeting method can be followed (Barr and McClellan, 2018).

Include the impact of changing environment on budgeting styles and budgeting process

It is also determined that the changing accounting management practices and way of managing the budget and business activities are also influencing the budgeting styles. At the same time, the legislations are also changing in the context of budgeting and following the principles of budgeting are also affecting the process to make a budget (Goel, 2015). Now the technology and needs have changed as per the increased business activities so the interest of stakeholders is also creating impact over the budgeting style that is being followed. On the other hand, changing the accounting environment has also improved the practices of budgeting styles as it emphasizes over including the updates and relevant strategies (Cobb, 2015).

Conclusion

Based on the above analysis, it can be concluded that budgeting plays an important role in making optimal and short- term decisions for the business. At the same time, it can also be summarized that budgeting styles are also having their importance and limitations with making the better judgment. It can also be stated that Apple can also follow the participative budgeting styles for making a reliable budget.

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