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Budgeting, Budgetary Control and Financial Management: A Case Analysis of Silver Stitch Ltd

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Principles and Concepts of Finance

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1. Introduction

This report examines the role of budgeting and budgetary control in supporting financial planning, performance evaluation and managerial decision-making within Silver Stitch Ltd, a chain of 12 premium casual clothing stores. The report is based on the case requirement that the company review its short-term financial plans after beginning June with a £30,000 overdraft and facing pressure from the bank to eliminate this by the end of December. In response, the report first prepares three forecast financial statements for the six months to 31 December: a stock budget, a cash budget showing the closing cash balance for each month, and a budgeted Profit and Loss Account for the period as a whole. These calculations provide the numerical basis for assessing the company's expected financial position and short-term viability.

The report then analyses the main problems indicated by the forecast budgets, with particular attention to liquidity, stock levels, working capital pressure and the relationship between profitability and cash flow, before considering practical management actions that could reduce these risks. It also critically discusses the organisational conditions required for a budgeting and budgetary control system to operate successfully, together with four behavioural issues that management should consider when introducing such a system. Finally, the report evaluates traditional approaches to budgeting in the context of a fast-changing business environment, including the limitations of incremental and conventional annual budgeting models and the extent to which alternative

approaches may offer greater flexibility and strategic relevance. The discussion is intended to combine numerical analysis with critical academic evaluation, using the budget calculations to assess Silver Stitch Ltd.'s expected financial performance, liquidity and working capital position, while drawing on appropriate academic literature to examine the wider theoretical, practical and behavioural issues associated with budgeting and budgetary control.

2. Budget Preparation and Forecast Financial Statements

This section presents the forecast financial statements prepared for Silver Stitch Ltd for the six-month period ending 31 December. These consist of a stock budget, a cash budget and a budgeted Profit and Loss Account, each prepared from the information provided in the case study. Together, these budgets provide the basis for evaluating the company's expected stock position, short-term liquidity and overall profitability during the period.

2.1 Stock Budget

Table 1 presents the stock budget for Silver Stitch Ltd for the six months ending 31 December. It has been prepared using the opening stock figure provided in the case together with forecast purchases and cost of sales derived from the stated gross profit margin.

Month	July	August	September	October	November	December
Opening Stock (£000)	100	154	186	230	296	336
Purchases (£000)	180	170	200	210	190	220
Cost of Sales (£000)	126	138	156	144	150	168
Closing Stock (£000)	154	186	230	296	336	388

Table 1

Cost of sales has been calculated as 60% of sales based on the stated gross profit margin of 40%.

2.2 Cash Budget?

Table 2 presents the cash budget for the six months ending 31 December and shows the expected closing cash balance at the end of each month. The budget reflects the timing of cash flows stated in the case, including one month's credit from suppliers, the delay in payment of selling expenses, the treatment of depreciation as a non-cash item, monthly loan repayments and credit card charges. For the purposes of this budget, the July opening balance has been treated as a £30,000 overdraft based on the information provided in the case.

Month	July	August	September	October	November	December
Cash receipts from sales	210	230	260	240	250	280
Less: Supplier payments	150	180	170	200	210	190
Less: Admin expenses (cash)	17	18	19	20	21	22
Less: Selling expenses paid	5	6	7	8	9	7
Less: Credit card charges	1.8375	2.0125	2.275	2.1	2.1875	2.45
Less: Taxation	0	0	18	0	0	0
Less: Interest	1	1	1	1	1	1
Less: Loan capital repayment	4	4	4	4	4	4
Less: Store refurbishment	15	12	10	0	0	0
Total cash payments	193.8375	223.0125	231.275	235.1	247.1875	226.45
Net cash flow	16.1625	6.9875	28.725	4.9	2.8125	53.55
Opening cash balance	-30	-13.8375	-6.85	21.875	26.775	29.5875
Closing cash balance	-13.8375	-6.85	21.875	26.775	29.5875	83.1375

Table 2

The opening cash balance for July has been treated as a £30,000 overdraft based on the case information provided.

2.3 Budgeted Profit & Loss Account?

Table 3 shows the budgeted Profit and Loss Account for the six months that end on December 31. This statement is different from the cash budget because it looks at the overall profitability of the period instead of the monthly timing of cash coming in and going out. So, it gives a quick look at how the business is expected to do financially over the period.

Budgeted Profit & Loss Account for the six months ended 31 December (£000)	
£000	£000
Sales revenue	1470
Cost of sales	882
Gross profit	588
Less: Administration expenses	159
Less: Selling expenses	45
Less: Credit card charges	12.8625
Operating profit	371.1375
Less: Interest	6
Profit before taxation	365.1375
Less: Taxation	18
Profit for the period	347.1375

Table 3

Overall, the forecast budgets indicate that Silver Stitch Ltd is expected to remain profitable over the six-month period, but they also reveal short-term liquidity pressure and rising stock levels. These issues provide the basis for the following discussion of the problems facing the business and the management actions that may be required.

3. Problems Indicated by the Budgets and Management Actions

One of the main issues indicated by the forecast budgets is Silver Stitch Ltd's short-term liquidity pressure. The cash budget shows closing cash deficits of £13.8375k in July and £6.85k in August, indicating that the company is likely to face difficulty in maintaining comfortable short-term cash resources during the early part of the period. This is especially significant because the bank has required the overdraft to be eliminated by the end of December. Although the budgeted Profit and Loss Account

shows that the company is expected to be profitable overall, profitability alone does not guarantee liquidity, particularly in a brick-and-mortar retail business operating 12 stores and therefore facing continuous operating cash commitments. Academic literature supports this distinction, arguing that liquidity management and working capital control are central to a firm's ability to meet obligations as they fall due, even where reported profitability remains positive (Goel et al., 2015; Kontuš and Mihanović, 2019).

The short-term liquidity pressure is intensified by the timing and scale of major cash outflows during the early part of the budget period. The cash budget includes substantial supplier payments, monthly loan repayments, refurbishment expenditure and a taxation payment in September, all of which reduce available cash despite continued sales receipts. In addition, selling expenses and credit card charges create further outflows each month. This indicates that the company's cash difficulties arise not necessarily from a lack of profitability, but from the concentration of cash commitments within a relatively short time frame. The literature on budgeting and financial control suggests that one of the main purposes of budgeting is to anticipate such timing imbalances so that management can take corrective action before they become acute. In this respect, the forecast budgets reveal a clear short-term financing strain that management cannot ignore (Joshi et al., 2003; Khoo et al., 2024).

A further issue indicated by the budgets is the substantial increase in inventory over the six-month period. The stock budget shows closing stock rising from £154k in July to £388k in December, despite the business seeking to maintain a minimum stock level of only £50k. This suggests that too much working capital may be tied up in inventory, reducing the cash available for other operational needs. Excessive stockholding may also increase the risk of slow-moving stock, markdowns and inefficiencies in stock management. From a working capital perspective, this pattern indicates that purchasing levels may not be sufficiently aligned with expected sales demand. This matters because research consistently links efficient working capital management with lower financial constraints and stronger liquidity outcomes, while studies of inventory and working capital under uncertainty show that inventory policy can materially affect cash-flow resilience (Dhole et al., 2019; Dbouk et al., 2020).

Another concern is that the improvement in cash position later in the period depends heavily on forecast sales being achieved. The cash budget moves into a positive

closing balance only from September onward, which means that any shortfall in actual sales could weaken cash inflows and delay the elimination of the overdraft. The business is therefore financially sensitive to underperformance in sales, and this sensitivity is amplified by its ongoing fixed operating commitments. More broadly, this illustrates a common budgeting problem: forecast performance can appear satisfactory on paper while remaining vulnerable to relatively small adverse changes in assumptions. For that reason, budgetary control should not stop at preparation of the original budget, but should also involve close monitoring of variances between actual and planned results so that emerging problems are identified early (Joshi et al., 2003; Khoo, 2024).

Management could address these problems through tighter control over both cash flow and inventory. In the short term, the business could postpone or phase non-essential refurbishment expenditure, negotiate more favourable credit terms with suppliers and strengthen the monitoring of monthly cash flows. At the same time, purchases should be reviewed more carefully to ensure that stock levels are aligned with forecast sales and that unnecessary cash is not tied up in excess inventory. More frequent comparison of actual performance against budget would also allow management to identify emerging problems quickly and take corrective action before liquidity pressures become more serious. Overall, the budgets suggest that Silver Stitch Ltd is not facing a profitability crisis, but rather a working-capital and cash-management problem that requires active managerial control over liquidity, inventory and spending commitments (Kontuš and Mihanović, 2019; Dhole et al., 2019).

4. Conditions Required for Successful Budgeting and Budgetary Control, and Behavioural Issues

Effective budgeting and budgetary control depend on more than the preparation of numerical targets. As Drury (2021) explains, budgets are intended to support planning, coordination, communication and control, but they only work well when they are embedded within a wider management process. Seal, Garrison and Noreen (2018) similarly emphasise that budgeting is most useful when it translates organisational objectives into operational plans and provides a basis for monitoring performance. In practice, this means that a successful budgeting system requires clear goals, managerial commitment, realistic targets, effective communication and timely feedback. More recent evidence also suggests that the quality of

the budget process itself has a measurable effect on budget performance, especially where participation, implementation and evaluation are taken seriously (Khoo et al., 2024; Nguyen, 2024).

4.1 Conditions Required for Successful Budgeting and Budgetary Control

A first condition for successful budgeting and budgetary control is the existence of clear organisational objectives. Budgets cannot perform a meaningful control function unless managers understand what the organisation is trying to achieve and how financial targets relate to broader strategic priorities. Drury (2021) argues that budgets should derive from organisational plans rather than exist as isolated accounting exercises, while Horner (2020) notes that budgets are most useful when they provide a clear framework for decision-making and resource allocation. In the case of Silver Stitch Ltd, this is particularly important because the business is not simply trying to generate profit; it is also under pressure to remove its overdraft by the end of December. The budgeting system therefore needs to align operational decisions, such as purchasing, spending and cash management, with that financial objective. Recent research also supports the importance of strategic alignment in budgeting, finding that stronger links between planning and evaluation functions are associated with better budget management performance and lower budgetary slack (Zhou et al., 2025).

A second condition is strong support from senior management. Budgeting systems are unlikely to succeed if top management treats them as a purely administrative exercise or fails to act on the information they generate. Seal, Garrison and Noreen (2018) stress that budgets require commitment from senior managers because they shape priorities across the organisation and influence how resources are distributed. Kolitz (2017) also highlights that financial information only becomes useful when it is connected to management action and accountability. In practical terms, top management support matters because it legitimises the budget process, encourages compliance and ensures that variances are taken seriously rather than ignored. More recent empirical work similarly suggests that effective budget performance depends not only on budget preparation, but on implementation and evaluation, which are functions that typically require managerial attention and follow-through (Khoo et al., 2024). For Silver Stitch Ltd, management commitment would be essential if the company is to respond quickly to the liquidity pressures and stock accumulation identified in the earlier budgets.

A third condition is participation and communication throughout the budgeting process. Traditional top-down budgets may produce formally complete financial plans, but they often fail to capture operational realities unless lower-level managers are involved in setting targets and providing information. Drury (2021) and Seal, Garrison and Noreen (2018) both recognise that participative budgeting can improve the quality of budget information, increase

acceptance of targets and strengthen coordination between departments. This is particularly important in retail businesses such as Silver Stitch Ltd, where store-level knowledge may be necessary to estimate demand, stock requirements and controllable costs accurately. Contemporary evidence broadly supports this view. Khoo et al. (2024) found that budget participation had a significant positive influence on budget performance, while Nguyen (2024) emphasises the broader role of the budget process in strengthening accounting management and organisational effectiveness. Participation should not be interpreted as unrestricted autonomy, but rather as structured involvement that improves information quality and communication between senior management and operational staff.

A fourth condition is the setting of realistic and achievable targets. Budgets that are too easy may encourage complacency, while budgets that are excessively demanding may undermine motivation, distort behaviour and weaken control. Horner (2020) notes that budgets should be challenging enough to encourage discipline but not so unrealistic that they lose credibility. Drury (2021) similarly argues that budgeting works best where targets are attainable and performance measures are perceived as fair. This issue is especially relevant to Silver Stitch Ltd because the business faces genuine cash-flow pressure at the beginning of the budget period, and unrealistic expectations could push managers towards short-term defensive behaviour rather than sound operational decisions. Recent studies also support the importance of a well-designed budget process, with evidence that better planning and evaluation can improve performance while reducing the risk of slack and weak implementation (Zhou et al., 2025; Khoo et al., 2024). In that sense, realism is not just a motivational issue; it is also a control issue, because unreliable targets reduce the usefulness of variance analysis and corrective action.

A fifth condition is effective monitoring, feedback and corrective action. Budgets have limited value if they are prepared once and then ignored. Budgetary control requires actual results to be compared against budget, variances to be investigated and management responses to be taken where necessary. Drury (2021) treats this as a central feature of control, while Horner (2020) presents budgets as part of an ongoing review process rather than a one-off forecast. Seal, Garrison and Noreen (2018) also emphasise that budgets are most useful when they provide timely information that helps managers respond to changing circumstances. Recent research supports this emphasis on evaluation: Khoo et al. (2024) found that implementation and evaluation were important predictors of budget performance, and Zhou et al. (2025) likewise report that budgeting evaluation functions help improve budget management performance and reduce slack. For Silver Stitch Ltd, this means that monthly comparison of actual sales, stock levels and cash flows against budget would be essential, particularly because small shortfalls in sales or overspending could materially affect the company's ability to remove the overdraft by December.

4.2 Behavioural Issues in Budgeting

Although budgeting can support control and coordination, it can also generate behavioural problems if introduced or used poorly. One important issue is budget slack, where managers deliberately understate revenues or overstate costs in order to make targets easier to achieve. This behaviour weakens the usefulness of the budget as a planning and control tool because the numbers no longer reflect the organisation's best estimates. Drury (2021) identifies budget slack as a classic behavioural problem in management accounting, and more recent evidence continues to treat it as a central issue in budget research. Studies suggest that stronger planning and evaluation can reduce slack, while poorly designed control systems may allow it to persist (Zhou et al., 2025; Sawitri et al., 2023). For Silver Stitch Ltd, slack would be particularly damaging because the business is already facing liquidity pressure and therefore requires accurate information rather than deliberately conservative operational estimates.

A second behavioural issue is the risk of demotivation when budget targets are perceived as unfair or unrealistic. If managers believe that targets cannot reasonably be achieved, they may disengage from the budgeting process or focus on defending themselves rather than improving performance. Seal, Garrison and Noreen (2018) note that budgets can influence motivation positively or negatively depending on how targets are set and communicated. Earlier research also found that budget participation can affect job performance through perceived budget adequacy and organisational commitment, which remains relevant when considering how employees respond to the budget process (Nouri and Parker, 1998). More recent work likewise connects participation, commitment and performance, suggesting that budgets are more likely to motivate when managers feel involved and when targets are seen as credible (Nouri and Parker, 1998; Khoo et al., 2024). For Silver Stitch Ltd, this implies that demanding cash and stock targets should still be explained and discussed carefully if management wants store or departmental managers to support them rather than resist them.

A third issue is dysfunctional behaviour or gaming. When managers are judged too heavily on narrow budget outcomes, they may take actions that improve reported performance in the short term while harming the organisation in the longer term. Examples include delaying necessary expenditure, pushing sales unsustainably, or manipulating the timing of transactions to meet monthly targets. Drury (2021) and Horner (2020) both imply that budgets should inform control, not dominate managerial judgement to the point that they encourage distortion. Recent literature continues to highlight this concern, noting that some management control designs can unintentionally encourage gaming, manipulation and other dysfunctional

responses even when the formal objective is improved performance (Drury, 2021; Khoo et al., 2024). This is a particularly relevant warning for Silver Stitch Ltd, where strong pressure to eliminate the overdraft could encourage overly short-term responses unless the budget is used in a balanced and strategically informed way.

A fourth behavioural issue is interdepartmental conflict and short-termism. Budgets can create tension when departments pursue their own targets at the expense of overall organisational objectives. For example, purchasing managers may prioritise supplier discounts and higher stock levels, while finance managers prioritise liquidity and lower working-capital commitments. Kolitz (2017) and Seal, Garrison and Noreen (2018) both support the broader point that accounting information must be interpreted in organisational context rather than in departmental isolation. If budgets are used rigidly, managers may focus excessively on short-term targets rather than longer-term value creation, learning or customer service. In Silver Stitch Ltd, the earlier budgets already show the importance of balancing profitability, stock availability and cash control. This means the budgetary control system should encourage coordination across functions rather than reinforce silo behaviour.

Overall, the behavioural evidence suggests that budgeting is most effective when it combines accountability with participation, realistic expectations and broader managerial judgement rather than relying on narrow target pressure alone (Khoo et al., 2024; Zhou et al., 2025).

5. Critical Evaluation of Traditional Budgeting in a Fast-Changing Business Environment

Traditional budgeting remains one of the most widely used tools of financial planning and control, largely because it provides a structured framework for translating objectives into quantified targets, allocating resources, coordinating departments and evaluating performance. In that sense, traditional annual budgets still offer practical value, especially where organisations need formal planning discipline, accountability and financial oversight.

Drury (2021) presents budgeting as a core mechanism of management control, while Seal et al. (2018) likewise emphasise its role in planning and performance evaluation. For Silver Stitch Ltd, this value is clear: the stock budget, cash budget and budgeted Profit and Loss Account have made visible the company's expected profitability, liquidity position and stock accumulation, thereby providing management with a basis for corrective action. Traditional budgeting should therefore not be dismissed as obsolete, because it still performs important planning and coordination functions.

However, traditional budgeting has been widely criticised for being too rigid for fast-changing business environments. Annual budgets are usually prepared in advance and fixed

for a defined period, which means that their assumptions may become outdated when market demand, costs, competitive conditions or macroeconomic factors change quickly. This is one of the strongest criticisms of conventional budgeting: although it creates control, it can also reduce responsiveness. Research on beyond budgeting and related reforms has consistently argued that fixed annual budgets struggle to cope with volatility because they encourage adherence to predetermined targets even when circumstances have materially changed. More recent work continues to support this concern. Bukh, Ringgaard and Sandalgaard (2024) show that budgeting and forecasting need to evolve dynamically rather than remain locked into static annual assumptions, while Gibbs (2025) highlights the forecasting difficulties that arise when budgeting must operate through business-cycle fluctuations and uncertainty. In a rapidly changing retail environment, this criticism is especially relevant because sales demand, consumer behaviour and inventory needs may shift faster than a fixed annual budget can accommodate.

A related weakness of traditional budgeting is that it can be time-consuming and administratively burdensome. Preparing detailed annual budgets often requires lengthy negotiation, revision and approval processes, which consume managerial time and may delay action. Critics of traditional budgeting have long argued that organisations can become preoccupied with meeting the budget rather than improving performance or responding strategically to new information. In practice, this means managers may devote excessive effort to defending budget numbers, explaining variances or negotiating targets instead of focusing on value creation. This criticism remains relevant in dynamic environments, where the speed of response may matter more than the precision of a once-a-year planning cycle. The contemporary literature on beyond budgeting continues to frame this administrative burden as one reason many organisations seek more flexible planning systems, rather than abandoning control entirely.

Traditional budgeting is also criticised for encouraging short-termism. Because annual budget targets are often linked to performance evaluation, managers may focus on meeting short-term financial numbers even where that harms longer-term strategy, innovation or customer value. This issue overlaps with the behavioural concerns discussed in Section 4, but it is also a structural weakness of traditional budgeting itself. If the dominant question becomes whether a manager “hit the budget,” then spending decisions, pricing choices, staffing and investment may be distorted toward short-term reporting success. For Silver Stitch Ltd, this danger is visible in the pressure to eliminate the overdraft by December. While that objective is financially important, a rigid budgetary focus could encourage management to cut or delay expenditure in ways that protect the short-term cash position but damage longer-term competitiveness or store performance. This is one reason why many critics argue that budgeting should support strategy rather than dominate it.

Despite these limitations, the answer is not necessarily to abandon traditional budgeting altogether. A more balanced view in the recent literature is that budgets and forecasts can be complementary rather than mutually exclusive. Bukh et al. (2024) argue that organisations may move beyond simplistic “budget versus no budget” debates by allowing forecasts and budgets to interact dynamically. Their case evidence shows that forecasts can complement budgets by updating forward-looking information while budgets continue to serve accountability and cost-control purposes. This is an important point, because it suggests that the main weakness of traditional budgeting is not the existence of budgets themselves, but the use of budgets as inflexible, stand-alone control devices. For Silver Stitch Ltd, this implies that the company would still benefit from the discipline of budgeting, but should supplement its annual plans with more flexible review mechanisms.

One such alternative is the rolling forecast. Rolling forecasts update projections continuously by adding a new month or quarter as the current period ends, allowing management to revise expectations in light of changing conditions. Compared with traditional annual budgets, rolling forecasts are generally more adaptive because they incorporate more recent information and reduce reliance on outdated assumptions. This makes them particularly useful where revenue, costs or demand are volatile. The academic and practitioner literature has frequently identified rolling forecasts as one of the most practical responses to the weaknesses of fixed annual budgeting, and recent work continues to emphasise the value of more dynamic forecasting methods in uncertain environments. For Silver Stitch Ltd, a rolling forecast could be especially helpful for monitoring sales trends, cash flows and inventory requirements over time rather than relying solely on the original six-month plan.

Another important alternative is beyond budgeting. Beyond budgeting is not simply a technical change in budget preparation; it is a broader management philosophy that challenges the reliance on fixed annual targets and centralised control. Its advocates argue that organisations should become more adaptive, decentralised and performance-oriented, using relative targets, continuous planning and greater managerial autonomy. However, the literature also shows that beyond budgeting is not a simple replacement for all traditional budgets. Reviews of the field note that many organisations adopt selected beyond-budgeting principles rather than abandoning budgets completely, and Bukh et al. (2024) further demonstrate that budgets may later be reintroduced in modified form when accountability and cost control remain important. This suggests that beyond budgeting should be understood as a critique of rigid traditional systems, not as a universal instruction to eliminate budgeting altogether.

Traditional budgeting can also be improved by using more targeted approaches such as zero-based budgeting and activity-based budgeting. Zero-based budgeting requires expenditures to be justified from scratch rather than simply adjusted from the previous period,

which can reduce incremental inefficiency and challenge unnecessary spending. Activity-based budgeting, by contrast, links resource planning more closely to operational activities and cost drivers, potentially improving cost accuracy and managerial insight. These approaches do not eliminate budgets, but they attempt to address some of the weaknesses of conventional incremental budgeting. In a business such as Silver Stitch Ltd, where stock levels and spending commitments have material effects on liquidity, such methods could strengthen cost discipline and resource allocation, especially if used selectively in areas of recurring overspend or operational inefficiency.

Overall, a critical evaluation suggests that traditional budgeting still has value, but its usefulness depends on how it is used. It remains effective for formal planning, coordination and accountability, and the Silver Stitch Ltd case demonstrates that budgets can reveal important financial problems that require management attention. At the same time, traditional budgeting is less effective when treated as a rigid annual control mechanism in environments characterised by uncertainty, volatility and rapid change. In such contexts, the strongest approach is usually not to abandon budgeting completely, but to combine its discipline with more adaptive tools such as rolling forecasts, stronger budget evaluation and, where appropriate, selected beyond-budgeting principles. This balanced view is more persuasive than either unconditional defence or wholesale rejection of traditional budgeting, because it recognises both its continuing strengths and its practical limitations in modern business conditions.

A further limitation of traditional budgeting is that its effectiveness depends heavily on the quality of review and adaptation mechanisms built around it. Evidence suggests that budgetary control becomes more useful when organisations revise budgets, compare targets with actual outcomes and respond to changing conditions rather than treating the annual budget as fixed and self-sufficient. Dokulil et al. (2022) argue that budget review is one of the most common ways organisations try to mitigate the weaknesses of conventional budgeting, while Oyadomari et al. (2023) show that more dynamic control approaches can improve organisational flexibility and performance. In addition, Weiskirchner-Merten et al. (2020) demonstrate that the design of the budgeting process, particularly the balance between top-down control and participation, affects coordination quality and the value derived from budget information. For Silver Stitch Ltd, this implies that the main issue is not simply whether the business should retain or abandon traditional budgeting, but whether it can make the budgeting system more adaptive, better coordinated and more responsive to emerging financial risks.

6. Conclusion

This report has shown that budgeting remains a central tool of financial planning and control, but its usefulness depends on both technical accuracy and effective managerial application. The budgets prepared for Silver Stitch Ltd indicate that the business is expected to remain profitable over the six-month period, yet it also faces clear short-term liquidity pressure, rising stock levels and sensitivity to forecast sales performance. These problems suggest that the company's main risk lies not in profitability itself, but in working-capital management, cash-flow timing and the operational consequences of weak budgetary control. The discussion has further shown that successful budgeting requires clear organisational objectives, strong management support, effective communication, realistic targets and regular monitoring. At the same time, behavioural issues such as budget slack, demotivation, gaming and interdepartmental conflict may reduce the effectiveness of the system if they are not carefully managed. Finally, although traditional budgeting still offers structure, coordination and accountability, it is less effective when used rigidly in fast-changing environments. In the case of Silver Stitch Ltd, the most appropriate approach would be to retain the discipline of budgeting while strengthening it through more adaptive review, closer variance monitoring and greater responsiveness to changes in sales, liquidity and stock conditions.

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