

MANAGING ACCOUNTING LCBB5002

ASSESSMENT 1

BUDGETING FOR DECISION-MAKING



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Introduction to Managing Accounting

The purpose of this essay is the understanding of budgeting and decision making within the business, how business can be operated to achieve the targets and the advantages and drawback of budgeting when the environment changes.

Managing accounting needs to understand the purpose and nature of each business, how they are managed and operated, what they want to achieve in short and long term. Knowing these different factors managing accounting information can be used to improve the business helping manager to make better decisions. (Page 1, management accounting for decisions-makers)

Over the past decades, the environment in which business operate has become increasingly difficult and competitive. Such per example: customers has become more demanding and sophisticated, the globalization plays a great part in the business to growth, rapid changes in the technology, the regulations of domestic markets, the increase of the pressure for the business from shareholders to have a quick return of the investment, and increasing volatility of financial markets.

Due to different difficulties that business suffer, managers have the hard task of making decision more complex as the environment changes. As companies increase the size managers need to search for different ways to manage their business.

The budgetary process includes all the management levels, being at the same time an important way of communication in regards of the objectives of the business, depending of the activity of the business it is necessary to elaborate budgets.

What is budgeting?

Budget is an instrument that businesses use to establish financial objectives analysing and comparing the revenue and expenses throughout the activity of the business to ensure that the business can success. Budgeting provides to the company control as it can be viewed as a tool that increase the profit and decreasing the expenses and it gives a result at management levels as it goes through comparing results with those that have been budgeted.

According with CIMA official terminology (2005) it is defined as a gather of objectives that are establish, the evaluation, formulation and selection of strategies and tactics that are required to be actioned in order to achieve them.

It is necessary that business develop a plan. However, managers must know which decisions need to be taken to make for the success of the organization. In order to develop a plan is essential that are selected some strategies and formulate plan, these plans can be short-term known as a budget as it would help the organization to achieve their objectives.

For most business is key of the process of planning, controlling and evaluating outcomes (Gowthorpe, 2010)

The budgeting process can be divided into different stages. Starting from setting the company's objectives for the year. Then, the second stage is elaborating the budgeting for the year by everyone who is responsible for the designated departments. And finally, controlling the budget's execution depending on how the budget goes on through the business environment.

The advantage of the budgeting procedures are the following:

- The manager has the responsibility of coordinating all its functions such supply, production and sales.
- Allows the comparison of the targeted objectives with the performance of the manager.
- Allows the anticipation of difficulties that might met and their prompt solutions

Types of budgets:

There are some budgets that can be established as a top down or a bottom up style. Top down style is imposed by the senior management whereas bottom up is participative and involve heads/managers in the budget process (Gowthorpe ,2011).

In other words, the bottom-up allows the managers to carry more responsibility in the budgeting process and therefore the business can be run in more detail and better performance. However, it can be time- consuming. And the top-down approach helps senior managers to communicate plans to employees and to ordinate the activities of the business more easily (Peter Atrill and Eddie McLaney 2018).

Participative budgeting: each employee is involved in the process that according with their activity can be in the position to make a budget estimate, it can be knows as a bottom up style as well.

Flexible budgeting:

Flexible budgeting calculates the revenues and the costs budgeted based on the actual production level obtained during the budgeting period. Therefore, certain expensed are established in direct relation to the activity so the budget may be adjusted according to the actual activity (C. T. Horngren,2006).

It helps to look into the future so that managers can be able to make decision during different levels of activities and it is a tool of planning for different changing environment.

This type of budgeting allows the managers to determine the cost deviations. Applying this budget will help the organization to adapt the budget to the activities that frequently modify their activity volume during the production cycles.

Merits for manager;

- As the environment changes the budget can be adjust increasing or decreasing adapting to environment and market opportunities so will prevent overspending.
- It will support managers to adjust cost margins which will lead to efficient decision making on prices.
- It helps to allocate the resources to improve the profit level of the organization.

Fixed budgeting:

Static or fixed budgeting adapt to a single activity and it remains unchanged even if the level of activity changed. It is an accounting assumption based on the sales, taxation, interest rates and expenses (Where is the citation).

Advantages:

- Easy to prepare the budget, which is not time-consuming, taking less time, effort and therefore, less costly.
- It based on historical data and the current financial state of business.

Merits for managers.

- Applying budget, the managers can coordinate all of its functions such supply, production and sales.
- it can be indicated in which type of environment can archive the objectives.
- provide information for the future of how business should be operating.
- allows to anticipate difficulties and can be corrected prompt.

How does it help managers in decision making?

Budgeting can help to control the predictions of the business so that can be traced the deviations of the expenses and through it managers can take decisions to anticipate some corrections measures for them. As budgeting supply relevant information to managers and by contributing to decision making (Peter Atrill & Eddie McLane, 2018, pag 196)

Budgeting are useful for managers in different areas such:

- Budgeting promote forward thinking and it helps to identify short-term problems, it can be used to co-ordinate between departments of the business as each section can operate in different activity per example sales purchase department and production department need to match as production could run out raw materials or it could lead to a unnecessary inventories.
- Budgets can motivate managers to better performance as being part of their budget process since it is directly derived from strategic objectives (Peter Atrill & McLaney, sixth Edition.)

Which is the most suitable for changing environments like that of Softconic; flexible or Static and why?

The flexible budget will be more suitable and helpful in this circumstance as due to Covid19 pandemic is generating complexity in business environment and, therefore, it generates changes in the market conditions.

In this scenario, organizations like Softconic is forced to adapt constantly products and services to market demands so manufacturing required sophisticated processes and flexible internal process that can respond quickly to environments changes (Hamilton, 2003).

Flexible budged will adapt to the activity of the business, especially, when it is going through an uncertain period of activity.

Are there any real-world examples of IT companies that you can apply to this scenario?

It could be said that Company "Amazon" during this pandemic has noticed an increase of its revenue due to the high demand of the market which they have allocated resources due to the increase of demand.

Due to the lockdown many businesses have closed so they could not be able to offer its services. Amazon has the hegemony of E-commerce, so people opted to buy through Amazon because internet it was the only sources of sales during the pandemic.

It showed in different news [BBC] that its CEO as the company have done a extraordinary performance. With knowing this fact, its budgeting for this year has been increased as demands as increased, allocating more resources and spending more in logistics, deliveries and warehouses.

PART B

What is Participative budgeting?

In this type of budgeting process, the objective is taking from the lowest level of the management to the highest level. For example, a supervisor will be asked to set their own target, it become incorporate into the higher level of management.

When this budgeting style is adopted, it is usually necessary to negotiate at different levels of management as the authority can be loose and it is needed to achieve agreement to adopt it. Atrill & McLaney (2018) argumentation on this process is that some plans from lower levels cannot fit with those with their superiors.

However, these authors have carried out the point that this budgeting process allows greater involvement among managers and it may increase the level of commitment within the organization to set targets, also, allows the organization to draw more fully on the detailed knowledge and expertise of its managers.

But it is said that this budgeting style is time-consuming and may result in managers setting themselves undemanding targets (Atrill & McLaney, 2018)

This budget is carried out by a superior (Vroom, 1983) but Libby (1999, p125) pointed out that it can be carried out by subordinates as they are involved in the process. Furthermore, According to Hassell & Cunningham (1993) suggest that there are two dimensions within the participative budgeting which are communication/involvement & influence.

How does it support decision making in changing environments?

Budgeting is viewed as a planning tool because provide important information that managers can make decisions to allocate resources within the organization (Anthony & Govindarajan, 2004; Atkinson, Kaplan, Matsumura, & Young, 2007).

Manager from different department will be involved in their own department, as it may not every department would operate the same in different circumstance. Therefore, the information provided will be help to the superiors to allocate resources. It will contribute to clear communication among department that will help the organization to draw up a budget required when the circumstances are changing.

According to Birnber (1990), contextual variables such as the environment, technology are correlational antecedents of participative budgeting. Furthermore, with this hypothesis Lock & Schweiger (1979) pointed out that this style is focused on its individual motivation, therefore, it may contribute to job satisfaction, therefore, to better decision making.

Furthermore, following this argumentation, Bogsnes (2009) said that in changing environment some budgeting styles like fixed budgets will not success as the organization's environment are more turbulent and unstable than before, he support the need of decentralizing responsibilities to enable manager to act in a fast-changing environment so that managers will make decision in accordance of the needs of the organization in different environment.

Critical analysis entails considering both pros and cons of an argument?

It can be said that budgeting helps the organization to planning their objectives in different terms supporting by managers. Being budgeting a process that transform information into decision, the quality of these decisions depends of the on the information provided.

However, budgeting can monitor and rule the performance of the manager as they will not be independent as they have to follow the objectives from the budget, in other words they will not have freedom to decide as every decision will be according to the budgeting plan.

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