



## Budgeting, A Financial Asset of the Corporate World

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### Abstract

*To maintain the financial action plan in the organization budgeting plays a very important role and it steers the path of business towards growth or failure. Based on the size and nature of the business, the organizations can maintain the operational budgets for directing the entire company, or individual or department-wise budgets that can be maintained for allocation of the expenses according to different budgets. Companies can easily guide their efforts towards organizational goals by planning the expenses and revenues in concrete form. The controllable cost that occurs while preparing the budget is taken into consideration by the managers. And if unfavorable variances were found then efforts are made by the managers in the key areas of variances. 1 Budgeting is an essential factor to work and complete the projects in most of the organization. Budgeting is an integral part of the organizational control system, which is used as an accounting tool in the execution of strategy. The success of the organizations depends upon the quality of the budgeting process. It helps the business with better planning and control over the business. In the absence of control, there will be no use of planning and without planning no goals can be achieved. When the sales and revenues are irregular or customers delay in paying money than in such situations executing the budgeting process is a difficult task for companies. Different types of budgets are prepared by the companies including fixed to flexible or operating to master budgets. These budgets are prepared based on the working requirements of companies. Budgeting is an important part of running every business; it is maintained in government, corporate, companies, households, schools, etc. It is a kind of action plan which serves as a managerial tool to companies as well as to the people associated with it.*

**Keywords:** Budgeting, Financial Control, Revenues, Controllable cost, Variance, Organizational control system.

### Introduction

Budgeting identifies currently available capital, provides an estimate of different strategies and initiatives that are made based on the availability of resources and performance of the business, which can be calculated based on the budget.<sup>1</sup> It helps the business owner to know about areas for eliminating

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<sup>1</sup> Shim, Jae K., Joel G. Siegel, and Allison I. Shim. "Budgeting basics and beyond." Vol. 574. John Wiley & Sons, 2011.

extra costs, and ensuring better profit planning and return on investments. To set the measures and standards of the performance of a business plan, a detailed and descriptive road map is required. Budgeting is a part of the management process. It involves the preparation of budget control, budget coordination, and also those activities which are related to the budget. A comprehensive operating and financial plan for specific intervals of time requires the preparation of a budget in the budgeting process. It is prepared for a definite future period and is a kind of statement that is expressed in quantitative terms. By creating the budget, its process helps in providing better opportunities related to staff, personal, financial growth and making companies vision and mission statement. A budget provides a kind of roadmap to the organization about the detailed analysis of the company's outcome and performance. Though the budget is a complex process because it requires a proper procedure to record the company transactions related to revenue and expenses in a given period. To maintain the company's overall financial growth there is a need to project all the expenditure, capital expenditures related to purchasing of fixed assets, purchase of machinery, and purchase and sale of long-term assets along with the sale of these assets to know the actual amount of cash flow in the organization. This will help in evaluating the performance of the organization through the process of budgeting. Different kinds of budgets are prepared to maintain the transactions related to sale, purchase, marketing, fixed and flexible expenses, etc.

- **Objectives of budgeting**

Budgeting means to track how much money comes in and how much money goes out in the organization. This process of budgeting is done to estimate income and expenditures of an organization. It has following objectives:

- **Target setting up:**

By setting up various targets for the budget in the organization better planning of the expenses and revenues can be ensured for the future. Also budget is important to fulfill or achieve organizational goals and make financial decisions.

- **Proper coordination:**

Better budgeting can be done in the organization by maintaining coordination among different departments. To create an understanding between the various departments, interactions among the teams budgeting is required. It plays an important role in providing overall support to organizations and developing a working relationship among managers.

- **Communicating plans to various managers:**

It is an important aspect in the business to communicate the plans to ensure that every employee gets a better understanding of supporting the organization. To accelerate the growth of the business, individual goals, plans and initiatives need to be circulated within the organization. For

the implementation of the budget, there is a need to ensure individual accountability in the organization.

- **The efficiency of the working:**

Another goal of budgeting is to carry out the working of the different departments with efficiency and simplicity. The budget analysis also aims to reduce unwanted wastage for business operations and improve the organization's profitability.

- **Correction of deviation:**

- Another objective of budgeting is to maintain a centralized control system in the organization and to correct the deviations by comparing them with the standards maintained.

- **Evaluation of employees' performance:**

- To judge the employee's performance through the usage of variances is also another common objective of budgeting so that smooth working operations can be done in the organization. By accomplishing the organizational targets fixed by the firm's managers are informed about their performance through budgeting.

### **What is a budget?**

A budget is a plan which includes the following points:

- It controls the finances in the organization.
- It helps to make sure that the companies can fund their current commitments.
- It enables the companies to meet their financial objectives and take strong financial and managerial decisions.
- It ensures that an organization can maintain a sufficient amount of money for future projects.

Companies' strengths and weaknesses can be highlighted with the help of comparing the budget, also it must be updated monthly and quarterly to react in a timely fashion and help the companies find potential strengths and opportunities.<sup>2</sup> Budgeting is a process by which financial control is exercised in a business. In this process revenue, costs and profits are prepared in advance and then compared with the actual performance to establish any variances.

A successful action plan cannot be created by the entrepreneurs in the absence of a well-established budget. Because it provides the whole insights of estimated revenues and expenses required to run an industry or organization.

During the financial period, there is a need to supervise the employees, evaluate the business performances, monitor the transactions, review the business plans, and prepare budgets within the allocated time. To drive the success of an organization, budgeting provides the essential managerial skill

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<sup>2</sup> Dugdale, D., Lyne, S. "Budgeting, Financial Management", 2006.

to measure the progress and performance of organizational operations. By having proper knowledge of budgeting principles, and implementing them better decisions can be made to run a successful business. A large amount of capital is required in the organization to run the business. With the help of a budget, we can easily estimate the current requirement of business, anticipated revenues, and estimate the recurring and non-recurring expenditures.

The budget should be understandable and attainable and helpful to meet unexpected contingencies. Flexibility and innovations are needed while working with the budget because it's a blueprint of the projected plan of action expressed in quantitative terms for a specified period. The budgeting process involves plotting, implementing, and proper operation of the budget to achieve financial goals.

### **Essentials of budgetary system**

For maintaining a good budget, certain tips can be followed to ensure productive planning of future expenses and revenue.

- **Support of top management**

For an effective control system, the organization must have the full support of top management, and that direction must come from the top level. Also, the underlying concept of budgeting explains that an effective but true system requires a commitment of top management towards the principles and philosophies of Management. Support at all the levels of organization i.e. upper-middle and lower should be provided to the employees of the organization because it is one of the strategies of effective budgeting.

- **The efficiency of organization**

An efficient and sound organization is very concerned with budget preparation and its operation. Authority and responsibility in the organization must be divided for better achievement of goals along with effective communication lines so that proper delegation of authority can take place.

- **Systematic and complete cost accounting**

Management Accounting and Cost accounting are closely related to each other. So there is a need for two steps of well device cost accounting for correctness and reliability of the data so that complete information can be available related to various types of cost included in the budget.

- **Availability of statistical information:**

In respect of each department, there is a need that budgets should be prepared and expressed in numerical terms, and sufficient and accurate statistical data should be made available.

- **Distinct business policies**

Different budgets of any concern are based on the business policies so there is a need that the policies should be precise and clearly defined. Budget works as a guide for action in smooth

working in the foundation of business. To improve profits and returns on investment and maintain profitability.

- **Coordination of different budgets**

Proper coordination among different budgets like purchase budget, sales budget, production budget, master budget, cost budget, etc., should be maintained among the different departments. And these budgets should be flexible so that timely and required modifications can be effortlessly made in the policies.

- **Productivity**

For maintaining a good budgeting environment, specific abilities should be developed like productive ability in the organization and company. Sometime the organizational targets fixed by the firm's managers are informed about their performance through budgeting.

- **Channels of communication:**

Clear channels of communication, authority, and responsibility should be followed among the different levels in the organization. Effective communication is a significant key in most organizations. There is a need to communicate useful information related to different financial tasks including reporting and preparation of the budget, paying bills, writing down income and expenses.

- **Main factors**

These factors play a very important role in accounting because they create a smooth path for the organization to maintain financial accuracy and track all expenses. Continuous improvements, maintaining accuracy, forecasting expenses and incomes, reliability, and timely information are the key factors for a constructive budgeting system.

- **Reliable Communication**

The information provided by the top-level in the organization should be compatible and understandable for better implementation of budgetary policies. In every organization, communication plays a very important role, as most of the accounting information needs to be communicated with internal employees and outsiders including investors, vendors, customers, government, etc. Information related to different financial tasks such as recording of income, expenses paid in cash or credit, operating or non-operating expenses, etc. in an expressive way to make it more useful for making managerial decisions.

### **Benefits of budgeting**

1. There is a need to restrict a sufficient amount of spending which may not be the part of financial plans made in the organization which is done with the help of budgeting. It is an estimation of revenue, plans, and expenditure for achieving organizational goals.

2. To support the organization and achieve the strategic objectives of the business budgeting plays a very important role in the allocation of money in two different areas.
3. To understand and implement the priority of business there is a need to communicate the policies framed under the budgeting among all the employees in the organization.
4. Most of the transactions are represented in monetary form; there is a need to record every transaction in a proper format which is possible through the budgeting process by executing budgeting in the organization a better base can be formed for comparing the actual results with the standard research results.
5. Flexibility helps in reflecting the state of financial condition in the business and can make adjustments in changing income and expenses and changes taking place during the year. The actual expenses are compared to standard expenses to control and attain a particular level of organizational activities.
6. To gain higher control over the expenditures, master budgets are best to track the actual revenues and overall spending throughout the year. It will also encourage the organizations to achieve financial goals and complete the projects within the estimated budget. A significant business outcome is a result of a better budgeting process.

### **Importance of budgeting**

- **Provides opportunities:**

To share the information related to the Vision and Mission of the organization budgets are created.<sup>3</sup> While running a business or organization there is a need to have a systematic approach for managing income and expenditure for smooth operations. To improve profits and returns on investment and maintain a good amount of cash flows, successful business budgets need to be prepared.

- **SWOT analysis:**

It refers to highlighting and analyzing the strengths and weaknesses of the business. This actual budget is compared with the standard budget. It's a managerial tool that helps in assessing the strengths and weaknesses of different departments and assists in formulating the required strategies for the allocation of resources. Most of the organizations have limited resources with the help of SWOT analysis resources can be easily distributed and allocated among different departments based on their availability and requirement in the organization. This reduces the problem of over or under expenditures.

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<sup>3</sup> Brownell, P. "Budgetary systems and the control of functionally differentiated organizational activities". Journal of Accounting Research (Autumn), 1985.

- **Reduce unbridled expenditures:**

The main purpose of budgeting is to make a correct estimation of all the revenue of expenditures and plans and unnecessary expenses. It ensures that the organization maintains a good amount of financial reserves for future projects and contingencies.

**money and also keep control over expenditures by cutting down extra costs.**

- **Protect the interest of investors:**

To have a successful business, there is a need to have a solid budget to maintain the stakeholders on board with the organization's goals. It helps the company to maintain coordination among all and track the companies work progress

- **Financial control:**

To control the flow of finances in the organization systematic budgeting and budgetary control are required. It is used to exercise a proper analysis of actual results which need to be compared from short-term, medium-term, and long-term goals and business plans To avoid unforeseen changes, irregularities in the organization, business plans are needed to be executed by passing adjustment processes with different approaches and perspectives.

- **Functions of budget**

To fulfill the objectives in quantitative terms budgeting is used mostly. It encourages the managers to make decisions in the organization. The major role of the management accountant is to furnish important information related to the budgeting process.

- **Forecasting:**

It's a forward-looking and complex process.<sup>4</sup> Forecasting is based on finding out the evidence to show the ways to prepare earlier for the future or to know about the future contingencies. Main statistical tools are available now which have been developed over some time to measure the performance and forecast the Future Plans for implementing smooth working in the organization.

- **Planning:**

It depends on forecasting, which is based on the past to decide the future. Plans are made based on the estimated data. Budgeting ensures the formal planning of all the proposed combinations of various factors of production. It also helps in incorporating managerial aims and performance in firms. To achieve the departmental and organizational goals. As effective managers make adjustments in expenses and incomes according to the prevailing market conditions. By budget planning, financial controls and limits can be created over the spending in businesses.

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<sup>4</sup> Briers, Michael, and Mark Hirst. "The role of budgetary information in performance evaluation." Readings in Accounting for Management Control, 1990.



- **Accountability:**

Budgeting helps to ensure the financial and legal accountability of the executive functions performed by the supervisor and executive. By maintaining a proper budget between the middle-level managers and top-level managers, the decision-making of the subordinates can provide better accountability to the superiors in the administrative hierarchy.

- **Estimation of resources**

Budget is an important factor in the organization because it not only helps in the estimation of resources but proper allocation, distribution, and equitable stabilization of resources can be done to maintain optimum utilization of resources in the organization.

- **Coordination**

Another important function of budgeting is that it facilitates the efficient execution of the functions and services and helps in maintaining the coordination among the various activities of the different departments. As coordination helps in the integration of activities and factors of production among different departments to achieve organizational goals. The exchange of ideas and opinions among different departments such as the purchase and sales of departments for better management of resources in the organization.

## **Conclusion**

In the budgeting system, preparing budgets is the first and the most important step. Some main elements of budgeting must be incorporated into the management for the smooth working of the business.<sup>5</sup> These are economic state over planning areas, government policies and regulations and their effect on the economy, and its nature of diversifying and budgeting new product lines. Based on actual results, the performance can be evaluated to analyze the effects of the above changes made in the policies of management during the budget period. Generally, budgeting is based on past experiences but adjustments are made for the future to fulfill future expectations. To ease the operational control appropriate information is required for preparing the budget, financial statements, and interim financial reports in the budgeting process. To manage the inflow and outflow of funds, the budget acts as an essential tool in the management process. In the budget preparation process, the planning step provides the roadmap for deciding the right allocation of funds, where they need to be distributed, and how to spend them. To study the company's transactions in the past, budget planning is an effective way. To serve the organization and cater to its needs there is a need to review the readjustment made in the distributed amount. It can be done through budget planning.

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<sup>5</sup> Kren, Leslie. "Budgetary participation and managerial performance: The impact of information and environmental volatility." Accounting Review, 1992.