

Free report on planning and control in the budgetary system

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a) Discussing the roles of planning and control in the budgetary system.

Comprehensive budgets will have two basic functions, which are planning and control. It is for this reason that the organization needs to decide the function, which is most significant, and later resolve a range of formulation issues. The budgetary systems will be used in evaluating managers' performances and at the same time, tie their bonuses to the attained targeted goals. However, while the company is extensively concerned with operational efficiency, it should focus on the control and coordination of various aspects of budgeting. The extent to which a budget is successful majorly depends on the available management systems, which are in place in the view of the entire budgeting process (Callahan, Stetz & Brooks, 2011). One of the roles of control and planning in the budgeting process is facilitation of meeting the set deadlines. The function of budgetary planning is to ensure that the whole company achieves its goals within a set period of period. As the business executives offer the tasks to the respective division managers, they are often accompanied by desired deadlines (Maher, Stickney & Weil, 2011). It is their responsibility to facilitate planning all tasks so that they are completed prior the deadline issued. The control factor is brought to effect in the event that the plan is not on schedule across the time schedule. The supervisors need to control the human capital, the resources and the budget to remain on track (Atrill & McLaney, 2009). They also allow comprehensive coordination of Mustang Limited's activities. The budgetary control and planning procedures allow for the coordination of the activities of various departments and sub-units within the organization. Such a coordination concept will imply that based on the production requirements,

the respective departments should base their decisions on the set budgets and sales expectations.

The other role in this case is that of ensuring proper utilization of organizational resources. A section of the planning process in the organization aims at finding the available resources ranging from supplies and tools to actual employees and workers. Here, the managers at Mustang Limited need to schedule as well as appoint employees to carry out specific tasks within its overall organization plan. This will eventually ensure that quality and performance is maintained at high standards in the course of operations. The aspects of planning and control play critical roles in utilizing available resources which would result in poor final outcomes due to failing to properly use them (Callahan, Stetz & Brooks, 2011). They also create and allow for further communication of innovative ideas and plans within Mustang Limited. Communication of ideas as well as plans to each individual in the organization is brought into being by budgetary control and planning. As a way of making sure that every one of them is well aware of what they are expected supposed to do, a formal system needs to be established and maintained (Maher, Stickney & Weil, 2011).

The other responsibility of planning and control in the budgetary process is that of controlling quality. Immediately Mustang Limited achieves its intended goals, the production plan will be well in effect and the managers' role will ensure that the quality of its production is maintained above the industry's standards (Drury, 2008). This becomes especially true in the event that the rate of production for Mustang Limited's products is higher than what is sold by the business. The factor of control in financial budgeting is

therefore extremely important in achieving the expected levels of output. In addition, all low-quality products are potential sources of safety hazards to the customers.

The control and planning factor also come in handy in allowing Mustang Limited respect the budgetary estimates and allocations therein. The planning and control elements in the financial determination process also play critical roles in the budget of Mustang Limited as it serves as an internal benchmark for its production. The entire production plan needs to be tailored and suited to fit the available budget and at the same time be controlled to ensure that the budgetary allocations are not strained. In the event that the budget is beyond the agreed limit, the controlling or planning aspects have failed in their roles (Hugh, Hobbs & Jenkins, 2005). The two factors also compel the organization for future planning. This is because the management is engaged in looking ahead for being responsible for determining of targets as well as anticipating problems through giving instant and purposive responses. The management is also forced to look into the direction to Mustang Limited, which is one of the most important features in the budgetary process (Cardy & Leonard, 2011).

b) Critically evaluating the current approach used to determine budgets and provide alternatives to such approach

Mustang Limited works on a top down form of budgetary development. Here, the budgets are essentially prepared by its top management and later imposed to the lower organizational layers. Such a top down budgetary system clearly expresses the performance expectations and goals by the top management in general. However, according to BPP Learning Media (2011),

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they are essentially unrealistic, as they do not incorporate the individual inputs of the people implementing them. In my opinion, Mustang Limited should budget 'beyond the wall'. This alternative will greatly work for Mustang Limited in the end. Immediately the corporate scorecard has been developed, it is time for aligning it with the available fiscal budget.

Budgeting to the wall will mean that at the end of each fiscal year (normally 14-16 months out), an evaluation of the budgetary conformance and performance will be done. That is the approach, which Mustang Limited could highly benefit from.

The secret to successfully integrating the budget with Mustang Limited's corporate strategies is creating long-term strategic budgets, which will address the financial goals, and objectives that are developed on the corporate scorecard. Such a budget goes beyond the mutual expectations as most of the corporate strategies happen across three to five year spans and not fifteen months (Balakrishnan, Sivaramakrishnan & Sprinkle, 2008). Once Mustang Limited has completed formulating the strategic budget, it needs to slice out twelve months, which accurately represent the budget of the following year and use it to remain on track across its operations that year. This ensures that Mustang Limited's strategies as well as its budget are concretely aligned.

Even as these best practices go a long way in ensuring Mustang Limited's budget is a critical tool, which supports its strategic goals, there are other approaches, which should be addressed. This include getting buy-ins from the front-line members of staff, offering sufficient financial management education to Mustang Limited's team as well as holding each of them

accountable for the procedures, measures and targets which are identified on the corporate scorecard (Venkataraman & Pinto, 2011). The main principle here is to let Mustang Limited's strategies drive the organization and not the budget.

The difficulties in conformance usually are, and can be, mitigated through the implementation of rational policies, straightforward budget implementation, and good will from either side. Projections also need to be as quantifiable and realistic as possible. In case the projections are essentially out of line against the expectations of historical patterns, either up or down, Mustang Limited's management has to question the planning process (Gazely & Lambert, 2006). Therefore, for instance, sharply rising projections in operation costs will have some a relatively impactful real-world justification. On the other hand, overly ambitious projections of revenue will also attract substantive questioning. Conversely, Mustang Limited's managers must sharply turn down pressures to raise revenue estimates unless several tangible market changes or compensatory raises happen within sales expenditures (Lee & Epstein, 2012). If the levels of negotiating operational optimal gains are honest and realistic, the actual projections will be realized. Ideally, the operating units need not be measured based on activities in which they do not have full control. Such operations, which do not run their own debt collection, for instance, should not be evaluated based on the frequency of invoice collection (Pulakos, 2009). The fact that the budgets are partially guesswork, formal budgetary reviews at various reasonable intervals as well as realistic adjustments based on actual events need to be integral parts of the well-functioning budgetary process.

When Mustang Limited's expenditures exceed its set budget, there are several things, which can be done to re-track desirable performance.

Mustang Limited could review its budget before doing anything else. Taking a closer look at its budget as well as making sure that the stated assumptions that it is based on are rather accurate and deliver more sense in the changing markets. If the furniture market is quickly growing, Mustang Limited may have to adjust up its estimates (Weetman, 2010). Mustang Limited could also freeze spending which is one of the most effective and quickest ways of bringing spending back on track. This can be achieved through the budget through temporary obstructing expenditure such as paying raises, hiring new staff, and awarding bonuses. Mustang Limited could also postpone new projects including new acquisition of new facilities, research and development, and product development, which eat up lots of money (Smither & London, 2009). Finally, it is through continuous monitoring of the budgetary outcomes of allocation efforts that the company will be in a position of refining and improving its procedures.

c) Exploring how zero-based and beyond budgeting could be used in this organization

The zero-based budgeting system in Mustang Limited will require budgeting to start with an assumption that each operating cost bears a zero base. Further, each of the items relating to Mustang Limited's expenditure is calculated through and decisions are arrived at as to whether or not to purchase it is completely essential. Thereafter, different purchasing solutions, which are associated with specific items, are examined as a way of ensuring each item is obtained cost-effective levels as expected

(Balakrishnan, Sivaramakrishnan & Sprinkle, 2008). One of the major limitations of this approach (zero-budgeting system) is that it takes a lot of time to maneuver through every individual cost in this form. However, it becomes sufficiently fair to add the fact that utilizing such an approach provides an extremely purposeful database, which contains valuable and timesaving information to be used in future years.

The requisite of an effective zero-based budgeting system in Mustang Limited requires a clear definition of the organizational structure in which areas of responsibility are emphasized. Additionally, the employees need to participate wholly in the budgeting process. Through linking cost management attempts and activities to budgeting, Mustang Limited are able to improve the level of information quality which is made available to its managers in the development of their budgets (Warren, Reeve & Duchac, 2011). Accuracy of cost information is crucial to budgeting. Mustang Limited using definitive cost management techniques will be in a position of providing budget developers with sufficient access to cost information in improving their levels of accuracy as well as speed in the budgeting process (Bhimani & Bromwich, 2009). For the purposes of heavily relying on performance measurements, there needs to be adequate accounting procedures and records. The zero-based budgeting system in Mustang Limited will need to have a flexible approach in order to facilitate dynamism in planning and achievement of objectives as revised.

The express awareness of the usage of Mustang Limited's zero-based budgeting system needs to be spread out by Mustang Limited's management. The organizational awareness with respect to the issues and

problems of zero-based budgeting systems with special focus on an individual's reactions to Mustang Limited's budgets needs to be emphasized by its top management. The other way through which a best practice company such as Mustang Limited can develop comprehensive zero based budgets, which accommodate changes, requires managers to generate artificial scenarios that are based on a wide of assumptions of business conditions and environments (Goodpasture, 2003). The accessibility and affordability of information technology that is powerful will allow the creation of several ' what if' scenarios. Such practice will make it possible for the company to respond quickly and effectively in the event that actual conditions follow a similar pattern of certain scenarios. The company will also build a level of flexibility into its budgets through setting aside certain funds at its business-unit level for taking advantage of subsequent competitive opportunities.

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