

Budget planning and control

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Budgeting of Budgeting Aims of Budget Preparation Nordstrom Ltd should prepare budget in order to identify and achieve the specific financial objectives of the company. Preparing budgets can help the company managers by providing them the planning tool that could assist in the implementation of future strategies.

Nordstrom Ltd should also prepare budgets to keep the track of the performance of departmental managers and the responsibilities assigned to them. The company as a standard benchmark against which it can compare the actual results could use high-level budgets. In case of any discrepancy, actual results can then be examined to identify the potential issues.

Financial outcomes of effective budgeting

Budgets are highly important in obtaining debts from the financial institutions. Banks and trade creditors usually examine the financial stability of the company to ensure that their debts are well secured by the assets of the company. Effective budgets reflect the plans and cash flows of the company that makes it easier for the creditors to decide whether or not to grant debts (Kemp, 2003).

Effective budgets assist the management in determining the costs with accuracy. If the company determines the costs and expenses in advance, it will help them in making pricing decisions and in implementing the cost control policy. Thus it is necessary to prepare effective budgets in order to establish strategies that are important in highly competitive markets.

Budgeting Plan

1. Nordstrom should decide on budget committee and the participants that should be involved in the budget setting process. Participation of managers is essential to consider their point of view while establishing budgets.

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2. Obtaining data from departmental managers should identify 2. Resources and needs of each department.
3. Income forecasts should be prepared while keeping in consideration the growth objectives.
4. Establish the budgets for fixed expenses and variable costs. Variable cost will depend on the estimated future production targets.
5. Determine the rate of gross profit and net profit margins that should be earned to achieve the goals of the company.
6. Finalize the budget and put forward to the budget committee for final approval.
7. Implement the budget and monitor the performance and actual results against the benchmarks.
8. Review the performance on a timely basis and determine any variation in actual results about budget. Investigate the problem and reasons behind the variation to resolve the matter on efficiently (Shapiro, 2008).

Budget Management

An important aspect of budget management is employee participation. Managers of individual departments should be informed on regular basis about any updates and alterations made in the budgets. By getting regular updates, it will become easier for the managers to implement the budgets and changes on a timely basis. Another advantage of the employee participation is that it motivates the employees and create the sense of ownership among them (Donovan, 2005).

For long-term and effective implementation of budgets, it is necessary to keep track of resources to determine whether or not they are sufficient to fulfill future needs. In case of lack of resources or destruction of resources,
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budgets should be altered in such a way that they cover the crisis while also keeping in control the working capital and cash flows of the company.

Action Plans to resolve Budget Misalignment

The company needs to ensure that its strategic goals are aligned with the operational budgets. For this purpose, the company needs to carry out variance analysis to compare the actual performance with its budget plan to identify shortcomings and / or good performance. If there is budget misalignment then the company must review it, identify problems, take steps to overcome them, and ensure that budgeted targets are achieved in the next period. Therefore, It will help Nordstrom in identification of problems in advance and may minimize the risk and its consequences. Furthermore, budgets for costs and expenses should be prepared separately for each head to identify the problems more easily.

Reference

Donovan, S. (2005). Budgeting. Minneapolis: Lerner Publications.