

Budget approaches

[Economics](#), [Budget](#)



There are a different number of budget approaches that an organization can adopt, namely incremental budgeting and zero-based budgeting. Incremental budgeting as its name implies is a procedure that is mainly based on the past costs of the company. Indeed, expenditure is determined by referring to what was spent last year and adding an additional percentage to cater for inflation and other cost driver forces. Even though commonly used in practice, incremental budgeting does not rectify past inefficiencies and thus diminishes effective use of the factors of production.

Zero-based budgeting, as its name implies, contends that all expenses start at zero. In fact, under this system, all expenditure has to be justified in terms of its value rendered to the organization before being accepted every time a functional budget is prepared. This results in a more effective use of the resources of the firm. The main weakness of this system is that a lot of effort is required in its running by the managers involved.

Creation and Uses of Budgets

Budgets actually are the short-term plan that aid in putting the strategic plan into action. Therefore budgets originate from the strategic plan set. The appropriate use of budgets helps all levels of management in: planning and coordination the firm's activities, clarifying the authority and responsibility of staff and management, communication the company's objectives, motivating and controlling employees.

Responsibility of Monitoring Budgets

As already stated, budgets stem from the strategic plan that is normally conceived by the executive management of the company. Indeed budgetary

control measures are put by top management to ensure that the strategic objectives are reached. This does not mean that operational management is not involved in the budgeting process. Indeed there is the participative style of budgeting, which entails negotiations between top management and departmental management in setting of the budget figures. A zero-based budgeting system, for instance, utilizes such approach.

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