

Financial accounting for managers essay sample

[Business](#), [Management](#)



1-Describe the company that you currently work for, have previously worked for, or would like to work for in the future. Determine at least two (2) compelling reasons that this company should prepare and manage a budget. Predict the two (2) most likely positive and negative financial outcomes for this company if it properly or improperly performs effective budgeting.

Biomet 3I is the company I have been working for since 2007. Biomet, Inc. is a medical device headquartered in the Warsaw, Indiana business cluster. This company specializes in reconstructive products for orthopedic surgery, neurosurgery, craniomaxillofacial surgery and operating room supplies, and dental implants. Established in 1977, it delivered its first hip replacement in 1978. But in September 2007 during a club deal this enterprise was acquired by a consortium of private equity firms consisting of the Blackstone Group, Goldman Sachs, Kohlberg Kravis Roberts L. P. and TPG Capital before pertaining to four investors whose names are Dane A. Miller, Ray Harroff, Niles Noblitt, and Jerry Ferguson.

In 2010, during the time of the great recession, the top management of this manufacture laid off 250 people out 9200 while opening two other branches overseas in Spain and in China. Apparently some issues arise in the financial system of this company which makes it over budget with a deficit 3. 5 million according to a Team member in the accounting department. At the end of 2013, a merger was announced between Biomet and Zimmer Holdings. It was a success and the new company, in a bid, acquired Biomet for a fee of \$13. 4 billion. But in October 2014, EU antitrust regulators opened an investigation into Zimmer's bid on the grounds thinking that the deal may lead to substantial decreases in competition in certain markets. The verdict

of the investigation into the deal that would make Zimmer the world's second-largest seller of orthopedic products behind Johnson & Johnson is still expected on May 26, 2015.

A budget by definition is an estimate of income and expenditure for a set period of time which includes projected revenue and expenses. If so, any company willing to target profit when making considerable expenses needs to prepare and monitor a budget plan. Achieving revenue goals can be considered as the first compelling reason for a business activity to implement a budget. When we do not know where we go, we could end up anywhere. Having a specific target could certainly lead to a good achievement. It is easy to say a business will be double up by next year or increase by 10% to reach a goal of 1 million in annual revenue. Sometimes the monthly revenue is not steady and the manager needs to take immediate actions not only to achieve his goal but also to stay in business. Only a budget guideline can help in resolving this issue and avoiding a bankruptcy. Biomet 3I as a manufacturer making dental parts is obligated to increase its production while trying to have more customers to absorb its products.

A good marketing plan is necessary to be implemented in order that the quantity of units to be produced on a monthly basis will be sold quickly. The focus will be on the monthly sale and the company has to produce more units in this period every according to its budget so it can maximize its revenue. Planning ahead by making a Profit Plan or budget will also help the production manager to see where the company might need to infuse more

capital into the business in the form of loans or Lines of Credit where additional infrastructure are necessary in terms of office space, vehicles or equipment. Hitting profits target is another important factor for an enterprise making business. It's important to hit the projected revenue targets, but it's even more important to achieve it by making the profit targets. Creating a budget will be a good help in this matter.

The forecast method about producing is a good tool that Zimmer Biomet can use to achieve its goal and maximize its profit by evaluating and controlling the budget plan. Such profits are necessary to provide additional compensation to shareholders/owners while constituting capital for future growth, repayment of debt, etc. By the way, it's a good idea to create a personal budget, so the management team will know how much they need each month from the business in terms of salary and draws, distributions or dividends. Budgeting systems turn managers' perspectives forward and by looking to the future and planning, managers are able to anticipate and correct potential problems before they arise (Horngren, Foster & Datar, 2000). Through budgeting, management can plan ahead and maintain enough cash to pay creditors, to have adequate raw materials to meet production requirements, and to have sufficient finished goods to meet expected sales (Kieso, 2002).

Careful planning is required to guide all parts of the organization towards its strategic long-term and short-term objectives. Anthony & Govindarajan (2000) saw strategic planning as being focused on several years, contrasted to budgeting that focuses on a single year and so a budget is a one-year

slice of the organization's strategic plan. The budget prepared for planning purposes, as part of the strategic planning process, is the quantitative plan of management's belief of what the business's costs and revenues will be over a specific future period (Davies & Boczko, 2005). According to Atrill & McLaney (2002), a budget's role is to convert the long-term plans into actionable blueprints for the immediate future and budgets will define precise targets concerning: cash, receipts and payments, Sales, broken down into amounts and prices for each of the products or services provided by the business, detailed stock and labor and specific production requirements. Budgeting has a lot of advantages that can make a company reach his financial goals if it is well planned and controlled.

The manager of a patrimonial unit has the possibility of coordinating all of its functions such as supply, production and sales. While indicating the conditions under which the patrimonial unit can achieve the targeted objectives, he is able to provide the necessary information for setting up future actions. The comparison of these targeted objectives with the performance of the patrimonial unit will favor the anticipation of certain difficulties that might be met and the solutions for their prompt counteraction. If the application of a well- planned and controlled budget can make a company reach its goals, some negative aspects considering as the disadvantages of a budget could lead a company to failure or bankruptcy. The manager can face the risk of having the patrimonial unit's activity blocked on one single plan of action which aversive the reaction of the employees in the case of unrealistic objectives.

Due to the misconceptions of the employees and chiefs of department, the top management can lose control of the numerical action plans where smaller resources will be allotted for the next year if during the current year a smaller resources than allotted are used. 2- Outline a high-level budget plan for the company. In your high-level budget plan, recommend the most appropriate budgeting phases for the company. The high-level budget plan appropriated to Zimmer Biomet will be the master budget. There are several different types of budgets which can be used by businesses, and often each department would have their own individual budget. This is why businesses would have a master budget in order to compile and merge all budgets within the business. When researching master budgets it states “ The master budget is an integrated set of budgets that tie together a company’s operating, financing as well as investing activities into an integrated plan for the coming year” (Warren et al, 2009, p1015).

Warren et al would arguably agree with the following statement that, the master budget is a summary of the businesses plans that set specific targets for sales, distribution, production and financial activities. Therefore, the master budget is broken up into three main sections which include: a cash budget, budgeted income statement and a budgeted balance sheet. One of three items within the master budget is the budgeted income statement. The main purpose of the budgeted income statement is to project a business’s net income for a period based on the revenue and expenses estimated for a certain period. Often this period would match the time period of the master budget (usually twelve months). Writing about the importance of a budgeted balance sheet Wiley points out: The budgeted income statement can help a

business determine if its plans are financially feasible. A business can develop and compare different budget projections to help in making decisions about which projects the business should pursue and how it can pay for them (Wiley, 2012).

The budgeted income statement would therefore include all revenues and expenses for the set period of time. Some of the key issues which must be included are the goods sold, manufacturing costs, gross margin, selling and administrative expenses, income before tax, depreciation and most importantly net income in order to see if the project is viable or going to be profitable. As already indicated the budgeted income statement has great advantages which has been previously spoken about in the paragraph above it also has disadvantages. The main disadvantage is that the budgeted income statement does not give you any indication to where the sales will come from or if they are achievable. The second item which is included within the master budget is the cash budget. A cash budget shows an estimation of the cash inflows and outflows for a business over a specific period of time. Cash budgets are often used to assess whether the business has sufficient cash to fill the budgeted operations.

In addition, the cash budget can also determine if too much cash is being left unused and could be used for productive capacities. Unfortunately, cash budgets have both advantages and disadvantages and according to Nayab the main advantage would be that: Cash budgets identify the amount of cash required to fulfill immediate, short-term obligations without utilization of overdraft protection or lines of credit (Nayab, 2011). Significantly,

however, he then goes on to state: Cash budgets may also cause distortions. Cash inflows do not equate to profit. Cash budgets are susceptible to manipulation. For instance, making a huge payout a day or two before the end of period, instead of a day or two after the start of the next period, may be misleading (Nayab, 2011). The third and final aspect of a master budget is known as the budgeted balance sheet. The budgeted balance sheet includes all the standard information which a normal balance sheet would include; such as fixed costs, total current assets, current liabilities, shareholders' equity and the total of the businesses liabilities and equity.

However, a budgeted balance sheet predicts what these figures will be for a desired period of time (normally a year). Additionally, when researching the budgeted balance sheet Proctor points out: " The budgeted Balance Sheer incorporates components from several different schedules, including the Cash Budget, Accounts Receivable Budget, Inventory Budget, and Income Statement, among several others" (Proctor, 2010, p126). Proctor refers to where the information within the budgeted balance sheet information originates from. In addition to what Proctor expresses above, another well-known source advocate that: The Budgeted balance sheet forecasts the types and amounts of assets a firm will need to implement its future plans. It also helps financial managers determine the amount of additional financing the firm must arrange in order to acquire those assets (Kelly et al, 2011, p116).

The quotation above reinforces what has been previously written about by well-respected authors and more importantly, it shows the impact in which

the budgeted balance sheet can have upon management when making financial decisions within the business. It can be part of the overall plan which will make up of three components: (1) organizational goals, (2) the strategic long-range profit plan, and (3) the master budget (tactical short-range profit plan). Long-range plans are achieved in year-by-year steps. The guidance is more specific for the coming year than it is for more distant years. The plan for the coming year is called the master budget. The master budget is also known as the static budget, the budget plan, or the planning budget. The income statement portion of the master budget is often called the profit plan. The master budget indicates the sales levels, production and cost levels, income, and cash flows anticipated for the coming year. In addition, these budget data are used to construct a budgeted statement of financial position (balance sheet). Budgeting is a dynamic process that ties together goals, plans, decision making, and employee performance evaluation.

The master budget and its relationship to other plans, accounting reports, and management decision-making processes are diagrammed as followed: Although each company is unique in the way it puts together its budget, all budgeting processes share some common elements. After organizational goals, strategies, and long-range plans have been developed, work begins on the master budget, a detailed budget for the coming fiscal year with some less-detailed figures for subsequent years. Most of the work is usually done in the six months immediately preceding the beginning of the coming fiscal year. Final budget approvals by the chief executive and board of directors are made month six weeks before the beginning of the fiscal year. To

envision the master budgeting process, picture the financial statements most commonly prepared by companies: the income statement, the balance sheet, and the cash flow statement.

All those statements should be prepared before the beginning of the fiscal period. 3- Propose two (2) methods and techniques that the company should use to manage its budget over time in preparation for the fact that budgets are ever changing. Justify your response. Zimmer Biomet can use different types of budgeting to keep their costs under control. But planning and control are two interconnected methods usually that accompany a budget. When managing a company's finance the use of planning, control and budgeting are all equally important and interconnected with one another. In effect, when a company keeping a tight rein on cash flow, fixed costs and variable costs through the use of planning and budgeting, it will consequently allow the company to better control its profit margin. When conducting research on the importance of planning and control Kay states: Control and planning are interrelated so closely that they cannot be separated from each other.

Without control all the planning is fruitless because control consists of the steps taken to ensure that the performance of the organization conforms to the plans. (Kay, 2012). Kay indicates that what has been previously written about within this essay is correct; additionally it suggests that both are directly interconnected with one another. Planning can be broken up into two main sections for a business, short term planning and long term planning. Dependent upon what task the business is aiming to achieve would depend

upon whether the planning would be short-term or long-term. Long term planning is often implemented from the annual budget which is produced by the business. When researching this topic according to Kimmel et al (2008, p. 1010) long term planning identifies long term goals, selects strategies to achieve those goals, and develop policies and plans to implement the strategies.

Short term planning is used once a business has set long term plans into place. Long term plans are effectively achieved through the use of intermediate milestones as well as smaller time scales which are conducted within short term planning. It is also a way in which businesses can monitor actual results and adapt or manipulate short term plans in order to achieve the long term plan which has been set. Control and planning, when work together, keep a close overview on the businesses' expenditure. Through the use of budgeting it allows a business to control and compare what they budgeted in comparison to actual output in which they produced over a given period of time. Control is a key factor in ensuring that a business keeps a firm grip upon its fixed costs and variable costs in order to run a successful business and maintain a healthy profit. Budgeting is a crucial factor with any business that aims to be successful.

Budgeting can be referred to as a form of communication between management, a way in which to control activities of the company, coordinate different departments as well as arguably the most important factor of compelling managers to plan ahead. When researching on the importance of budgeting within a business Ryan points out that budgeting is a method of

planning the use of the firm's resources in the light of potential market opportunities, as well as a way of controlling the activities of various groups within the firm (Ryan, 2008, p. 304). This reinforces the fact that the three key principles of control, budgeting and planning are all interconnected with one another. Furthermore, this citation demonstrates the importance of budgeting when retaining as much profit as possible within the business. There are several different types of budgeting in which a business can conduct in order to achieve control of its finance. One key type of budgeting is known as Zero-based budgeting.

Zero-based budgeting is when at the beginning of each planning period all budgets are assumed to be zero. This means each department is allocated 0% of the budget and must produce a business plan over a set amount of time (normally a year) and request the resources in order to achieve the plan they have put forward. Zero based budgeting is an effective way of finding new alternatives for production in order to save costs. To see an example of zero based budgeting refer to appendix 1. After conducting research to back up this statement regarding zero based budgeting, Fickler points out that: "Zero based budgeting is more than just a review of the specific items proposed in the budget. It also represents a philosophy of exploring alternatives" (Fickler et al, 2007, p 275). Another frequent form of budgeting is Variable budgeting (often known as flexible budgeting) is another way in which a business can control its finance, as it allows a company to see the cost and more importantly the profit in which would be gained dependent upon the amount of output.

To see an example of budget variance refer to appendix 2. This would allow a business to budget the correct amount of materials and labor it would need to allocate for a certain amount of goods being produced, never the less variable budgeting is not faultless. The major problem is that the method takes vast amounts of time to establish actual costs, resulting in it being too late to take corrective action. Rolling budget is an effective way of budgeting within a business as it looks at past accounting budget's and slightly modifies or changes certain aspects using the modified one as the future budget. For example a business's 2012 annual budget will become a rolling budget if in February 2012 it adds the budget for January 2013 to replace the January 2012 budget. Therefore when researching rolling budget Mohana states: Rolling budget is a continuous budget which is updated continuously by adding a further period and deducting a corresponding earlier period. Rolling budget is usually prepared for short-periods like a month, or quarter or year (Mohana, 2011, p. 350). The main disadvantage of a rolling budget would be that it is similar to preparing a new budget repeatedly.

Ironically, employees may ignore their core functions and other related issues while continuously preparing for and updating the rolling budget. Another form of budgeting which is sometimes used within business is participative budgeting. This method consists of taking into consideration the input of subordinate manager, instead of merely having a budget imposed upon them by senior management. Participative budgeting would have obvious advantages; the most apparent would include the transferal of information from subordinate management to superior management, allowing subordinate management to have an input on budget responsibility

and goals. An alternate form of budgeting is known as variance analysis. Variance analysis is the evaluation of performance between budgeted and actual figures over a period of time. Variance analysis enables managers to identify problems which need further investigation or implementation of the correction procedure.

In addition, it allows management to see whether there is an adverse or favorable effect upon the budget which they are allocated for a set period of time. There are six main types of variance which a business can look up, these include sales variance, cost variance, materials variance, labor variances, overhead variances and profit variance. Only by looking at the budgeted and actual figures for the same period of time, can it be seen whether each one of these, are adverse or variable. Although variance analysis can be very effective at showing a breakdown of the true value of the costs mentioned above (i. e. material costs, labor costs etc.) it is most effective in stable businesses that are well-established. According to one reference on variance analysis it suggests “ The effective use of variance analysis for control and performance purposes requires the proper application of ‘ management by exception’ and careful interpretation of variances” (Steven at el, 2009, p 385).

This reference therefore could refer to the fact that variance analysis is most effective when an experienced manager is analyzing the budget to actual. Variance analyses allows a business to change its planning in the future and also evaluate if they are controlling costs effectively, or in fact if they need to change certain aspects of the business in order to keep costs under

control or reach the budget which has been allocated. 4- Imagine that the company is facing a financial challenge that is causing the actual amounts of money that it spends to become significantly off target from its budgeted amounts. Prepare an action plan to resolve the budget misalignment. In your action plan, recommend at least one (1) budgeting technique to resolve the budget and actual discrepancies. Provide a rationale for your response.

Zimmer Biomet can firstly analyze its spending and balances its checkbook because the ultimate goal in budgeting is to make sure expenses do not exceed monthly income. If this is the case where more money is going out than coming in, spending habits need to be examined and modified. The discretionary cost category should be revisited in order to cut the fat.

The checkbook register can help the company keep track of incoming and outgoing money for a better expenses monitoring. Although paying by check is becoming rarer, those who stick to this payment method should keep their checkbooks balanced. This will help the company to avoid overdraft fees or bounced checks, which can shed some light on the spending habits. Keep records for all deposits and purchases. Record each one in the check register, which the bank will provide you. Print out the monthly bank statement if they do not come by mail. If everything is done online, there is software that can make this step — and budgeting — really easy. Do the math for deposits and withdrawals to ensure the bank hasn't missed anything or taken any liberties with your money. Reconcile line by line, making sure the record of checks is the same as the statement. Find the ending number from each monthly statement and work backward, check to see to see what has cleared, and what has not yet.

Deposits that haven't cleared will need to be subtracted from your balance. If the checks haven't cleared, they will have to be added back to your balance until they do. Go line by line and account for any fees charged. Seeing them up close may prompt the company to call and ask to have some removed, which the banks often will do if the bank persists. Also, add the pennies of interest you may have received. Best practice companies strive to reduce budget complexity and streamline budgeting procedures. Such streamlining allows management to collect budget information, make allocation decisions, and communicate final targets in less time, at lower cost, and with less disruption to the company's core activities. By controlling the number of budgets that are needed and by standardizing budgeting methods, companies take important steps toward streamlining budgeting. Another key step is to minimize the amount of detail included in the reports used to develop budgets.

Also, in their effort to streamline, leading companies use information technology to automate budgeting and facilitate workflow. These companies make sure that budget developers are thoroughly trained in new technologies. This training, together with ongoing monitoring of information needs companywide, helps best practice companies deliver the right information to managers, on time and at the right cost. By developing budgets that accommodate change, companies can respond to competitive threats or opportunities more quickly and with greater precision. They can use resources efficiently to take advantage of the most promising opportunities. Furthermore, knowing that budgets have some flexibility frees budget developers from the need to "pad" budgets to cover a wide variety

of possible developments. This leads to leaner, more realistic budgets. Companies typically review budgets quarterly, monthly, or even weekly. By including in these reviews reports on changes in business conditions, companies alert managers that new tactics may be called for, if they are to meet their targets for the year.

While it is important that budgets not be revised to cover up for poor performance or poor planning, best practice companies choose to revise budgets rather than adhere to budgets that do not reflect current conditions. Some companies rely on “rolling” or “continuous” forecasts rather than on traditional annual budgets. The chief difference between such forecasts and traditional budgets is that the forecast is updated with actual results as the company moves through the year. Figures for three or more subsequent quarters are projected in decreasing degree of detail. One way in which companies build flexibility into budgets is to prioritize according to strategic importance action plans that were rejected due to resource limitations.

By doing this, they can act swiftly and decisively if additional resources become available. Another way in which best practice companies develop budgets that accommodate change is to require managers to create scenarios based on a variety of assumptions about business conditions. The affordability of powerful information technology allows for the creation of many “what if” scenarios. This practice makes it possible for companies to respond more quickly and effectively if actual conditions follow the pattern of a particular scenario. Companies also build flexibility into budgets by setting aside funds at the business-unit level to take advantage of competitive

opportunities. Some companies even establish separate subsidiaries to look into promising products or technologies. With all those considerations it can be difficult for a company to have financial hardship or be over budget.

Conclusion

Even though budgets are not always accurate, managers use it to operate a company efficiently. They set budget goals each year in order to have their company succeed financially. Planning and control are two important parts of a budget. The planning stage is management projecting what costs are going to be for the upcoming year. A set of numbers are then set and given to department heads to disseminate to all employees with goals usually attached. During a forecasting period it occurs to adjust and readjust to keep the remaining number in alignment. Budget control gives the top management an avenue to communicate their goals and help each division stay in alignment with the numbers given. Current budgets are also compared to past budget numbers and in order to score how companies are doing with their financial health. This is all done repeatedly during the fiscal year which is a good way to monitor a budget.

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