

Financial control through strategic planning in organizations accounting essay

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



Organizations are striving in these days to stay competitive in turbulent business world. Strategic planning become very integral part of all successful organizations. If organizations don't care about strategic goals then this competitive business world just kick out from the rivals. Finance is life blood of every organization in the world if organization has insufficient finance to run their operations they couldn't survive long term.

Enterprise resource planning consists of lots of information system within the organization, for instance management information system, human resource information system, accounting and finance information system, the size of ERP depend on the size of the organization which facilitate organization to run their operations effectively and efficiently. But our concern in this essay regarding finance information system and planning. How management of the organization plan to finance their operations and how they make check and balance on the finance function system with other information system.

Financial system is main functioning of the orgainsaitons. This system control billions of regular transaction everyday. The main purpose of financial system within the orgainsation to manage the organisation cash flows. If financial system run properly then organization has confidence its safe and stable.

In the first part of this essay my focus on the explore the relationship between financial system and other system in the organisation, how important and run with each other and well integrated. What are the system of accounts and financial statements organizations used to control its financial system. There are five financial statements for instance income

statement, balance sheet, cash flow statement, statement of change in equity and notes to the accounts. These statements show the financial health of organisation.

Second part of this essay is base on the numerical part and explanation for that I construct hypothetical example of budget data regarding pizza company. Compare the actual budget with planned budget and find how we know about the variance. Then how management take corrective actions on these variance and area of conflict in financial control and management steps to minimise these conflicts.

In last part I identify the how organisation finance its operations I discuss some source of finance and how management allocate finance to achieve maximum efficiency and how management can control on financial distribution in organisation.

1. 1 Assess the relationship(s) between a financial system or function and other systems or functions in an organisation

Elbanna and Amany (2006) stated that there is a close connection between the finance function on the one hand and production, procurement, marketing, personnel function on the other. approximately all business activities in an organization engage the attainment and use of finances. The purpose of production, procurement and marketing strategies are the privilege of the head of production, purchase and marketing divisions correspondingly, but for implement their decisions funds are necessary. For instance, the production department might decide to swap an old machine

with a new to boost the production capacity but it has financial allusions too. likewise, the buy and sales promotion policies are lay down by the purchase and marketing divisions correspondingly, but acquiring of materials, advertising and other sales advertising activities cannot be agreed out without finance. Likewise, the employment and promotion of personnel is the accountability of the personnel department but recruitment and promotion of employees require funds for the payment of wages, salaries and other remuneration.

Many times, it may be difficult to separate where the one function trimmings and other starts. It might, though be noted that although the finance function of lifting and use funds has a important consequence on other functions, it need no boundary or hinder the common functions of the business. It is likely that firm face financial problems might provide more weight age to financial deliberation and plan its own manufacture and marketing policies to outfit the position. If we look other side of the picture a firm with a lot of funds might not have much inflexibility with observe to financial deliberations in relation to other management functions. In such a firm, financial strategies might be attuned to the requirements of the decisions describing to manufacture, procurement, marketing and other functions.

1. 2 Describe the systems of accounts and financial statements used to control a financial system

Although the Financial Accounting Standards Board (FASB) put the rules by

which the accounting occupation must stand, the warmth industry also sets actions

and rules for its a variety of sections to make sure comparability, responsibility,

and significant practice of accounting data. For new workers, those systems yet act as turnkey accounting systems. This way the system has all incorporated

and is prepared to be used in operations. The three most used and renowned systems in the business are for the accommodation, foodservice, and association areas. There are at present one under progress for the food industry.

Why are such industry-specific systems needed? If every industry follows the FASB's rules, couldn't every then have the right accounting information? In theory, yes. though, FASB rules are printed for the whole accounting career.

Hospitality has accounts other industries do not, and vice versa. For example, a

restaurant will not contain a reduction account for an oil rig, but a restaurant does need an accretion depreciation account for furniture, fixtures, and equipment.

Even within the hospitality industry there are differences.

A hotel industry is different from a club industry, and a club is different from a theme park. Hotels have room revenues food, country clubs have membership dues, and theme parks have

admissions fees. There are optional procedures to classify convinced charge or identification of accounts. The accounting information give is more helpful not just for the companies

themselves but also for investors, creditors, and even employees (Bratton, 2004).

“ The Uniform System of Accounts for Restaurants, first published in 1927, is currently

in its seventh edition. It provides sample statements, analysis blueprints, classification

of accounts, and an expense dictionary. The aim of this publication, like

that of the lodging and club industries, is to assist operators to interpret financial

results in a more meaningful manner.(Weygandt et all, 2005)”

2. 1 Construct a budget for an area of management responsibility

2. 2 Develop budgetary control systems and compare actual with planned expenditure

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Setting standards, the impartiality of the quantity and the person who process and evaluate the performance are significant. Measuring and comparing be able to be proficient by the person performing the job, by the superior, or by a workers person; yet an automatic system can measure and compare. From a behavioural point of view, the most recent method is the slightest popular, followed by measurement by a staff person just.

An employee considers an automatic system, a staff person, or still the manager does not be acquainted with sufficient about the conditions of the job to make a flaxen comparison between real and intended results.

in addition, the employee frequently distrusts the staff person and from time to time even the manager. At the similar, the employee is typically not trustworthy enough by the organisation to carry out the measurement and comparison unaccompanied. The best solution is to have the measurement done by the person most trusted by the employee and to agree to the employee some input.

Domino pizza make baked packed of pizzas which it sells for £60. The standard variable costs of the product are as follows (there are no variable overhead).

3 units of product A category of pizzas @ £ 4 per unit

2 labour hours@ £11 per hours

The fixed overhead per month are £ 20000

It is budgeted that 1200 units will be produced and sold per month

The actual data for July 2009 were as follows:

Sales and production (units) 1300

Actual sales price £58

Raw materials used were 4000 units bought in at £ 4. 20 per units. The labour hours incurred were 2800 hours at £ 11 per hour whilst the fixed overhead incurred were £ 18000.

Items

Budget

Actual

Sales

72000

75400

material

14400

16800

Labour

26400

30800

Fixed overhead

20000

18000

Profit

11200

9800

Budgeted profit

11200

Material usage variance

-400

$((1300 \times 3) - 4000) \times 4$

Material price variance

-800

$((4 - 4.2) \times 4000)$

Labour efficiency variance

-2200

$((1300*2)-2800)*11$

Labour rate variance

0

$(11-11)*5800$

Overhead expenditure variance

2000

$20000-18000$

Sales volume variance

2600

$(1300-1200)*(60-12-22)$

Sales price variance

-2600

-1400

$(58-60)*1300$

Actual profit

9800

2. 3 Discuss corrective actions to be taken in response to budgetary variations

unfortunate forecasting of field situation; weather and occasion in the future ways thorough and idyllic surveys in the direction of the field condition and foregoing weather data scanty planning in degree of work exactly study the job items, sequence and methods of the job activities adverse material preparation get prepared a detailed materials plan planning in harmony with scope of work.

pitiabile judgment and budgeting of materials cost arrange a precise and thorough budgeting support on direct market surveys Poor expansion and function of the standard work procedure assess the obtainable standard method in accord with the scope of work, situation, condition and environment deprived market forecast conduct a pre survey in accordance with market to enable making the right price estimation poor data and information of activity and materials conduct data attainment to make a good and complete data & information.

Shortage of materials in the market use material substitution and correct price so based on the material particular. Alter of materials basis condition to the project location suggest material replacement. divergence of quality materials bought and ordered. All section concerning procurement must clearly describe the responsibilities, rights and fine. impediment of materials payment. Construct an outstanding payment agenda to avoid delay in material delivery.

Modify of the company buying policy develop fixed process. Divergence of preparation,

develop detailed and precise schedule to make easy easy and controlled scheduled implementation. Unfortunate buying strategy in choosing suppliers. Perform complete and cautious selection of suppliers, which believe supplier on a daily basis capacity and material quality (Henstock, 1988).

Impediment of materials consignment to location procurement agenda must be regularly check transform of materials circumstance during shipment process. Must have material continuation procedure during delivery. Shipping cost variance Delivery cost is determined based on budget requirements. Poor accessibility during shipping process Must have proper temporary storage facilities.

Materials quality variance from requirement carry out quality control test to before delivery to make sure material is up to requirement.

for material storing. Poor supervision in warehouses Conduct periodic storage control.

incompetent use of materials in location extend effective material use process and material usage control. High recurrent materials association develop precise material transfer method and sufficient impermanent facilities site regular rework due to error. Clear design with good material plan contents and according to scope of work Lack of understanding towards

the characteristic of work location Environmental and site evaluation
sequence Lack of transportation Provide accurate estimation for mobile
equipment plan and placement schedule Inefficient utilization and cutting of
materials Provide bar bending/ cutting schedule

Wrong materials utilization Provide clear work method with available
facilities

Incomplete drawing design Develop evaluation during tender explanation
meeting Frequent out-of-sequence job flow Provide accurate and detail
execution schedule Schedule compression Perform work according to
schedule and identify change of order and adjust accordingly to schedule.
Owner intervention during process Clear and well defined clauses in contract
regarding responsibilities and duties to prevent unnecessary disruption.

Lack of coordination meeting in the field Operation that regulate
Coordination meeting

Poor report system Develop procedure and execute the procedure with
discipline. Lack of Information System role (MIS-IT) Develop appropriate
Information system with proper communication procedure. Poor company's
administration and documentation system Provide Manual and procedure
that govern administration and documentation. Poor evaluation and decision
making system Conduct coordination meeting for project evaluation to reach
effective and accurate decision making. Poor inventory control towards stock
of materials Create a procedure and implement the procedure with
discipline.

High number of materials and equipment loss/stealing Well Implementation of Safety and security system and discipline in material utilization Frequent changes of economic condition Periodic evaluation of project. Create addendum to minimize losses and impact from planning if needed.

Frequent changes of rules and regulations Make contract changes with binding condition and according to the applicable agreement. High frequent of unpredictable situations during construction (force majeure, natural disaster, politics, etc) Include force majeure clausal in contract to predict and anticipate unexpected conditions. Poor condition of weather and climate Apply accurate construction method High competition Improve effectiveness, efficiency and productivity by implementing SWOT analysis. (VERONIKA et all, 2006)

2. 4 Identify conflicts that can occur with management control systems and how these could be resolved or minimised According to Maciariello et al. (1994), management control is concerned with coordination, resource allocation, motivation, and performance measurement. The practice of management control and the design of management control systems draws upon a number of academic disciplines. Management control involves extensive measurement and it is therefore related to and requires contributions from accounting especially management accounting. Second, it involves resource allocation decisions and is therefore related to and requires contribution from economics especially managerial economics. Third, it involves communication, and motivation which means it is related to

and must draw contributions from social psychology especially organizational behaviour.

Management control systems use many techniques such as; Balanced scorecard, Total quality management (TQM), Kaizen (Continuous Improvement), Activity-based costing, Target costing, Benchmarking and Benchtrending, JIT, Budgeting, Capital budgeting, Program management techniques, etc.

3. 1 Identify the current and potential sources of finance that support organisational activities

When a corporation is rising rapidly, for example when consider investment in capital equipment or an acquirement, its current financial resources might be insufficient. Few emergent corporations are capable to finance their growth plans from cash flow only. They will consequently require to believe raising finance from other outside sources. In addition, managers who are seem to buy in to a business or buy out a business from its owners, might not have the capital to get the company. They will need to lift finance to attain their objectives.

There are a lot of possible sources of finance to meet the requirements of a emergent business or to finance an MBI or MBO: Existing shareholders and directors funds, Family and friends

Business angels, Clearing banks (overdrafts, short or medium term loans), Factoring and invoice discounting, Hire purchase and leasing, vendor banks (medium to longer term loans), business enterprise capital.

A key deliberation in decide the source of new business finance is to hit a equilibrium between equity and debt to make sure the financial support structure ensemble the business.

The main dissimilarity between borrowed money (debt) and equity are that bankers demand interest outflow and capital repayments, and the hired money is typically tenable on business assets or the private assets of shareholders and directors. A bank also has the authority to put a business into supervision or bankruptcy if it defaulting on debt interest or repayments or its projection turn down. (Quoan, 2002)

In disparity, equity investors get the risk of breakdown like other shareholders, while they will advantage through contribution in rising levels of profits and on the ultimate sale of their wager. However in most situations venture capitalists will also need more composite investments in additional to their equity part.

In general purpose in lifting finance for a company is to keep away from revealing the business to extreme high borrowings, but without gratuitously weaken the share capital. This will make sure that the financial risk of the company is reserved at best possible level

A concise explanation of the main characteristics of the main sources of business finance is provided below, venture capital is a universal term to explain a variety of ordinary and preference shares where the spending organization obtain a share in the business. Venture capital is planned for higher risks such as commence state and development capital for more grown-up investments. Substitute capital carry in an organization in place of one of the unique shareholders of a business that needs to understand their personal equity before the other shareholders. There are over 100 different venture capital funds in the UK and some have geographical or industry inclination. There are also sure large industrial companies which have finance obtainable to spend in rising businesses and this ' corporate venturing' is an extra source of equity finance.

Local development organization and the European Union are the major sources of funding and soft loans. contribution are usually made to make easy the buy of assets and also the creation of jobs or the training of employees. Soft loans are usually subsidised by a third party so that the conditions of interest and sanctuary levels are less than the market velocity. There are more than 350 proposals from the department of trade and industry unaccompanied so it is a substance of recognize which sources will be suitable in each case.

Funds can be lift against debts outstanding from customers via invoice discounting or invoice factoring, thus recovering cash flows. Debtors are utilized as the main security for the lender and the borrower might get up to about 80% of endorsed debts. In addition, lot of these sources of finance will

at present provide against stock and other assets and might be more appropriate than bank lending. Invoice discounting is usually secret, whereas factoring expands the simple discounting standard by also commerce with the administration of the sales ledger and debtor compilation.

Hire purchase conformity and hire provide finance for the attainment of precise assets such as motor cars, equipment and machinery connecting a deposit and re-payments more, normally, three to ten years. Theoretically, possession of the asset stays with the lessor whereas label to the goods is ultimately relocate to the hirer in a hire purchase contract.

Medium term loans and long term loans are granted for exact reason such as obtain an asset, business or shares. The loan is usually safe on the asset or assets and the interest rate might be changeable or fixed. The small firms loan guarantee scheme could give up to £250, 000 of borrowing maintain by a government guarantee where all other sources of funds have been tire out.

This loan finance where there is small or no precautions gone after the leading debt had been protected. To replicate the privileged risk of mezzanine finance, the lender would indict a rate of interest of possibly four to eight % over bank base rate, might get an alternative to obtain some equity and might necessitate repayment over a shorter period.

An overdraft is a decided amount by which a customer could excess withdraw from their current account. It is usually held on current assets, repayable on stipulate and utilize for short period working capital variation.

The interest cost is usually uneven and correlated to bank base rate.

Increasing fund is frequently a intricate process. Business management require to consider numerous choices and then bargain conditions which are suitable to the finance supplier. The major bargaining points are repeatedly as follows: Whether equity investors get a seat on the management board. Votes credited to equity investors, level of guarantees and protection provided by the directors financier's fees and costs, who tolerate costs of due attentiveness.

Throughout the finance acquiring process, accountants are frequently called to reassess the financial attribute of the arrangement. Their report might be official or unofficial, an indication or an widespread reconsider of the company's management information system, forecasting means and their exactness, re-examine of most recent management accounts counting working capital, pension funding and employee agreements etc. This due diligence process is utilized to emphasize any primary problems that might exist.

3. 3 Discuss the monitoring and control of finance employed in support of organisational activities

All budgets are owed to budget managers on the endorsement of the Vice-Chancellor, under designation from council. Budget managers must have pass on authority, in accordance with the allocation policy to use their budgets. Budget managers must check, reconsider, and report on a usual basis to their exposure line manager, on the financial presentation for their areas of accountability. Reporting would comprise comments on material

budget variances and financial risks telling to the budget allocation.

Reporting should also take place via the University's Performance and Risk reporting tool in accordance with the University's reporting timeline. Where material variances are envisage the budget manager should get ready a reforecasting budget for the accounting year as soon as possible. Action plans to tackle budget variances need also be ready, as proper. These documents must be self-assured to their line manager and the director finance operations.

According to Messy University, financial monitoring and control published in 2007, Also, either budget monitoring group (BMG) or commercial activities group (CAG) will take on self-governing monitor of budget management and control on behalf of the vice chancellor. Risk Rating reports will be ready by the pertinent accounting advisor and submitted to BMG or CAG, and after that to the University's Risk Management Committee. Risk Rating reports will have a 'provisional' status pending they have been marked off by the related reporting line manager at which time the reports position will change to 'confirmed'. Only Risk Rating reports with a 'confirmed' status will be accepted.

Unbudgeted functioning or capital spending must be permitted by either the budget manager's level three reporting line manager if inside total yearly budget, or by the director, finance operations if in surplus of total budget. In case where the endorsement of the director, finance operations is required, approval must be acquire by compliance of a request for financial authority.

Note that where the endorsement of the director finance operations is to be required, sign off by the suitable level three manager is also necessary.

Budget managers must implement inner control systems that make sure separation of duties in the buying process, and ethical commercial exercise. Budget managers must make sure that all possible clash of interests arise from commercial dealings are recognized and minimised. The director finance operations must testimony the company's financial performance to the vice-chancellor and council frequently. In order to inclusive this job the director finance operations might need budget centres to give additional information or re forecasts. All external and internal financial reporting have to obey with generally accepted accounting practice as defined in the Financial Reporting Act 1993 and Amendments.

Conclusion:

we can conclude the planning and control of financial system within the organization is very sensitive and crucial part of management information system. Policy makers might take decisions sometimes quickly but that decision should be accurate regarding finance distribution. We found there is direct relationship between finance system and other system in organisation, they are interlinked with each others. Financial statements are used to control and keep check and balance on whole finance function in the organisation.

Budget is planning and control process how organisation allocate their limited resources to gain maximum benefit. It is not always bet with planned

budget some variances are exist. Then its management resposibility to identify variances and take some serious steps to avoid that. Sometimes conflicts arises within the departments and its responsibility of management to resolve those conflicts to maximize the output.

We found lots of source of finance utilize by the organisation. Its depend on the management which source of finance is feasible to exploit. When organisation got the finance how to allocate this fund within the organisation to run firm operation efficiently. Continuously feedbac is needed for management to know how operations run in organisation. This feedback should be timely, accurate and authentic to take corrective actions if something going worse. Management in organisation is the most knowledgeable entity to know each and everything in organisation.