

Assignment Sample on Budgeting for Short Term

By



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ASSIGNMENT TOPIC: Budget of the short term

STUDENT NAME

Candidate number:

Candidate Statement

I hereby declare that this assignment is my own work and any use of materials from other sources has been referenced accordingly.

Candidate Signature: Date:

Tutor Statement

I hereby confirm that this assignment, to the best of my knowledge, is the candidates own work and they have not collaborated in the production of this assignment with any other person. I also confirm that I have a record of this candidate's progress tutorial/s.

Tutor Signature:

Date:

Introduction:-

According to the conventional definition of management – “*Management is getting your work done through people*”, but the real definition of management is “*Developing people through work*”.

For the success of any company, the managers of the company dream for their companies and accordingly they devise plans and take the actions for achieving their dreams. It is not only the managers who need to take actions for the growth of the company but there are others also involved besides managers who take the actions to achieve the plans (Droms and Wright 2010).

There are various ways by which a manager can communicate their plans, visions, objectives or dreams to others in the company. Eg., to investigate for the thoughts of others on a plan, by exhibiting determination and perseverance for their goals. Above all the managers need to communicate their expectations from others very clearly (Berry, Jarvis and Jarvis 2005).

To achieve the goals, every manager counts on his employees. By discussing the role of budgeting we shall endeavor to understand its importance in helping the managers to achieve their desired goals.

Reasons for budgeting

From the chapter I have learned that what are the main reasons of budgeting this mainly includes

- 1) **Short term planning** – Budgets provides discipline to the managers to plan the short term targets in alignment with the objectives of the company.
- 2) **Co-ordinate** – This is one of the vital aspects of the company’s growth. Different departments need communicate with each other and help in achieving the overall objective of the company (Berry, Jarvis and Jarvis 2005).
- 3) **Communicate** – Budgets help the managers to communicate their ideas, objectives, strategies and the meaning of “short-term” or “long-term” goals of the company and what they are expected to deliver.
- 4) **Delegate** – It is not possible for the managers to keep a watch on what the employees are doing moment-by-moment in their job, because of this the managers delegate the decision making powers to others in the company (Droms and Wright 2010).
- 5) **Motivate** – It is very important for the managers to keep the employees motivated and focused to the objectives of the company. If the employees are not motivated then the company will deviate from its real objectives.

In the above section, we discussed the reasons for budgeting; now we shall talk about the types of budgeting.

- 1) **Participative budgeting** – In this type of budgeting the employees along with the managers (lower and middle) are involved in the budget formation. This increases the commitment from all who are involved in preparing the budget. In practice people throughout the company should be given a chance to participate and contribute in the formulation of the budget. After this all the budgets should be pulled together from various departments of the company and then collated into a single unified budget for the entire organization (Berry, Jarvis and Jarvis 2005).
- 2) **Master budget** – I have learned from the chapter that the master budget in which the budgets from various aspects of the firm are brought together Eg., sales, marketing, finance, human resources etc. A master budget is composed of cash budget, a budgeted income statement and a budgeted balance sheet. The real purpose of preparing budget is to forecast the future challenges and to take the preventive measures for the odds well in advance. Some of the pain areas for a company could be lack of coordination between the sales and manufacturing activities, finance and the production activities (Droms and Wright 2010).
- 3) **Sales and production budget** – The below equation is key to gain understanding between the budgeted sales volumes and the budgeted inventory levels.

$$\text{Production} + \text{Opening Inventory} = \text{Sales} + \text{Closing Inventory}$$

It is also learned by me that production is the amount that we produce in the period. Opening inventory tells the product available to be sold in the period. The product that ends up in a period is the sales and closing inventory, it will either sold to the customers or retained in the retail stores. If the company plans to sell more than it produces then there will be a shortage of inventory, therefore budgeting can help the company in resolving future problems link this and take measures before the problem arises (Droms and Wright 2010).

It is also learned by me that the sales budget is best prepared by the sales staff when they use the sales forecasts. The sales budget is prepared after taking some important factors into account Eg., understanding of the customers, competitors actions and other related market conditions. The sales manager will be responsible to achieve the targets which are set for a period (Berry, Jarvis and Jarvis 2005).

In the similar manner the production manager will be responsible to achieve the targets set in the production budget.

Responsibility centres

In those times many companies are large and complex. They operate in many countries, markets and they carry out many activities. They are continuously evolving and becoming more and more complex day-by-day. This is largely due to the frequent changing demands of the customers and changing global environment.

From the analysis I have learned that these complex companies can only be understood if we break the business activities into smaller pieces and thereby evaluate its performance level. There is a term used to understand the accounting the smaller units or pieces known as responsibility accounting. It deals with the study of tracing costs, revenue or profits to the individual units in the company. Budgets can be prepared for these units and then benchmarks or performance measures can be established for them (Droms and Wright 2010).

Measuring performance

It has also been learned by me that the purpose of measuring performance of the responsibility centres is to give reward to the people who have performed whereas review the work of those who could not perform.

Balanced scorecard

From the analysis I have learned that a balanced scorecard can help the senior managers of the company to measure and assess the performance from different perspectives Eg., from a customer perspective (by a measure of the customer satisfaction), internal business process perspective (by a measure of delivery of product to customers in full and on time) etc.

If the concept of balanced scorecard is intelligently applied then it may help in broadening the measures of performance from short term to medium term (Berry, Jarvis and Jarvis 2005).

Summary

We have seen how budgeting can help the managers in attaining the short term goals and planning for the longer vision for the company. With the help of budgeting a company can successfully plan for the short term, establish better co-ordination between various departments within the company and communicate the objectives clearly to all the employees of the company.

References

Berry, A., Jarvis, P. and Jarvis, R. 2005. *Accounting In A Business Context*. Cengage Learning EMEA.

Droms, W.G. and Wright, J.O. 2010. *Finance and Accounting for Nonfinancial Managers: All the Basics You Need to Know*. Basic Books.

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