

## Budget Efficiency for Cost Control Purposes in Management Accounting System

**Klychova G.S.**

*Kazan Federal University, Institute of Management, Economics and Finance, Kazan, 420008, Russia  
Kazan State Agricultural University Kazan, 420015, Russia*

**Faskhutdinova M.S.**

*Kazan State Agricultural University Kazan, 420015, Russia*

**Sadrieva E.R.**

*Kazan State Agricultural University Kazan, 420015, Russia  
Email: kgaukgs@mail.ru*

Doi:10.5901/mjss.2014.v5n24p79

### Abstract

*The article reviews the economical essence of budgeting in management accounting system. Budgeting represents the higher level of business development and allows focusing on long-term results, effective use of financial resources, business activities supervising, assists in making sound and timely managerial decisions. Budgeting helps to effective cost management and financial performance of the organization, allows you to compare all the planned costs and anticipated revenues for the coming period.*

**Keywords:** *budgeting, purchasing budget, labor budget, (general) production cost budget, managerial decisions.*

## 1. Introduction

Budgeting – is a process of planning future business activities, the results of which are documented with the system of budgets.

Normally, budget creation is done within operational planning. Based on strategic goals, budgets solve the issue of distributing economic resources held by an enterprise. The major budgeting tasks are as follows: ensuring current planning ; ensuring coordination, cooperation and communication within enterprise departments; cost justification; building basis for evaluating and monitoring enterprise plans; executing requirements set in laws and contracts. The cost of budget development and adoption is by far paid back by the advantages of a qualitatively drawn up budget and control over its implementation. Budgeting implementation stages are: studying internal and external documentation of an enterprise, its structure and interaction between structural units, management accounting tools, etc.; finding less painful ways of involving management team into the budgeting process; elaboration of budgeting implementation plan (all further activities will be determined by implementation plan); revision of old and elaboration of new internal standards; information base creation for budgeting stipulating elaboration of new reports per structural unit, while reports need to be related to the specifics of business activities; establishing new or restructuring older departments for budgeting process delivery; developing or purchasing of software with further installation on internal network; staff training.

## 2. Theory

Implementing of budget management system is a rather lengthy process associated with informational and business development of an enterprise. Prior to forming requirements for budgeting process, it is necessary to set budget management goals and work out requirements for resources in use.

Common goals and objectives addressed when implementing budget planning and management methods are: establishing of efficient operational and financial management; efficient operational planning of financial and economic activity of the enterprise; optimization of resources utilization, reduction of production cost and cost budgeting improvement by setting budgetary cost standards, effective control and variance analysis; improving cooperation and

coordination between various departments for the purpose of achieving set goals; management performance and assessment of department heads by means of comparing actual figures of monitored economic parameters (in the first place, expenses) with the planned ones; staff motivation for achieving business goals; increasing business efficiency by carrying out operative economic analysis of product portfolio and its optimization upon analysis results; finding out of monetary resources demands and financial flows optimization; securing changes in organizational structure with the help of modern management techniques.

In the present context any enterprise functions within the tough conditions of competitive environment and must have a clear understanding of where, how and when available financial resources need to be used in order to increase performance. One of the major tools used for managing commercial activities is budgeting.

It is known that saving and efficiency start when we begin to count spendings. It is assumed that budgeting is operational planning tool essential for financial managers. Because managing is about setting particular goals, planning, monitoring of approved plans, analyzing of results, finding out the reasons of variations and taking timely decisions eliminating these discrepancies.

Budgeting is aimed at increasing efficient use of working capital, getting profit increase, making reasonable investment decisions resulting in increased return on investments.

Budgeting is a technique of financial planning, recording and monitoring expenditures and income gained from commercial activities at all levels of management and allowing analyzing of forecasted and achieved financial performance. It is a process of elaborating, executing, monitoring and analyzing of financial plan covering all spheres of business activities and allowing comparing all costs incurred and results achieved for the coming period overall and for separate sub-periods.

The given methods have some disadvantages: conditional values are used for making related product types equal; amount of sideline products received and used is not fully taken into account; analytical accounting does not single out sideline product to reflect direct and indirect expenses in standard dimensions; quality of product produced is not taken into account when calculating cost. Cow milk fat might vary from 2.5% and higher depending on natural and climatic conditions, breed type and feeding practices. Thus, the given factor should not be ignored and a notice should be made that cows from the main dairy herd breed various weights, whereas cost is allocated to 1 head of livestock.

Complication of the market situation, production, sales and other business processes make business management and business planning more complicated. It takes a well-running mechanism of interaction between various units and departments to deliver management objectives. From the prospective of business stability in competitive struggle, well-established system of corporate planning covering all departments and using up-to-date methods of business administration and high information technologies becomes more essential. Apart from that, manufacturing and operational planning and management need to be connected with those of financial. That very system is represented by the system of budget planning and management (budgeting).

Budgeting is a process of determining such parameters, planning movement of resources across the enterprise for the specified future period. Production cost budget is formed based on livestock breeding production plan, which is, in the first place, represented by average livestock, its productivity and the amount of product. Considering the specifics of agricultural industry it is important to note that cost budgeting is, on the one hand, built on standards base, but, on the other hand, on its technical and methodological tools and methods of its use in the process of planned calculations.

Accounting data is required not only when consolidated budget is drawn up but also at the subsequent stages of budgeting cycle – monitoring and plan-fact analysis of budgeting frameworks. Management services must have both budgeted (planned) and actual (budget implementation rates) figures to carry out accurate plan-fact analysis to be able to budget subsequent period.

Therefore, integrated standard costing method (standard-direct-costing) — is such an accounting system that keeps record of business operations when the following is registered on all the stages of financial cycle and with a breakdown to all major types of activities (product types), allocated into a separate budget planning object: planned (budget) figures, actual figures, variance of actual and planned figures.

Present day financial theory and practice distinguishes budgeting as a subsystem of management accounting and as informational system of corporate business management.

In the market conditions, budgeting becomes the basis of planning as the core management function. On the whole, the significant features of budgeting, as a specific approach to managing operational and financial activities, are: integrated combination of planning, accounting, control, analysis and business regulation in terms of managing financial results and financial situation not only on enterprise level but also on the level of each structural unit (responsibility center); coordinating major business activities (production, sale, finances) by means of coordinating respective budgets; commitment to generic financial goals when making decisions on each level of management (including departments);

widely involving managers of all levels into the process of budget planning and monitoring.

The second significant feature of integrated standard costing method is clear distinction between conditionally-variable (accounts 20, 23, 25, 44 subaccount 44-1 «Direct selling expenses») and conditionally-constant (accounts 26 and 44 subaccount 44-2 «General selling expenses») expenses for the purpose management planning and, first of all, for informational support of "cost-volume-profit" analysis when drawing up and analyzing sales budget, which, let us remind you, is the starting point for consolidated budget simulation. English variant of integrated standard costing method is called «standard-direct-costing» and it outlines two key aspects on which the mentioned accounting system is based.

Standard costing (*standard-costing*) — is a normative method of expenditures and financial results accounting. The method proceeds from expenditures and revenue accounting that is maintained based on standard (planned) figures, while variance is posted separately and is written off at the end of budget period to a respective stage of financial cycle as a result of which actual expenditures and financial results are determined.

It is worth mentioning that planned figures in "standard-costing" system are registered twice: first, before the start of budget period in the documents of management services (economic planning department, financial and economic department); second, during and after the budget period upon actual booking.

Such approach is not a coincidence as it helps to separate plan variations from the effect produced by such variations on financial results in terms of particular stages of financial cycle and separate business transaction. In fact, different types of variations from planned indicators produce different effect on business depending on the time of business transaction and financial cycle stage it applies to.

Market uncertainty makes it necessary to forecast the future, foresee possible changes in business conditions by means of advance planning and monitoring, i.e. by budgeting.

Budgeting system covers the overall enterprise, including production, sale, distribution, finance, as well as departments involved in certain types of financial, economic and production activities. Budgets are included in the majority of enterprise monitoring systems and are widely used in standard cost accounting and calculation.

Budgets can be of various types and forms; separate budgets, characterizing interim transactions (purchase of raw materials, production budget, etc.), may contain information on expenses or revenue only (sales budget), whereas consolidated budget (profit and loss account, cash budget) show expenses and revenue of the enterprise. Every enterprise chooses a particular form of budgeting on its own.

As a rule, budget period covers short-term aspect of planning (year, quarter), however, budgets dealing with capital investments are drawn up for a longer period of time – five, ten years.

Budgets, characterizing production and sale costs or cost applied to launch of new technological process (raw materials purchasing budget, administrative and commercial expenses budgets, labor budget, etc.) are based on sale budget.

Materials purchasing (utilization) budget specifies purchasing terms and the amount of raw materials, materials, semi-products that need to be purchased to fulfill production assignment. The amount of materials required to achieve planned production figures is calculated in the following way: materials required for planned output minus materials in stock at the beginning of the period. Multiplying quantity of material units by purchase price we get materials purchasing (utilization) budget.

Labor budget specifies required labor time in hours necessary for planned output and calculated by multiplying the quantity of production units (works, services) by labor cost standard in hours per product unit (works, services).

General production expenses budget represents detailed plan of estimated production expenses that cannot be immediately included into the cost price of a particular cost bearer (maintenance costs, depreciation of fixed assets of industry-wide application, etc.).

Cost of sales budget is based on the following formula:

Cost of sales = Opening stocks + Cost of goods manufactured in the planned period — Closing stocks.

Selling costs budget is a spending plan for production distribution in the future period.

Administrative expenses budget includes a plan of current operation expenditures differing from expenses directly associated with production and sales but necessary in the future period for maintaining business activities. Generally, those are fixed costs.

### 3. Results

Operating budget preparations are completed by elaboration of profit and loss plan. Based on the prepared current budgets a forecast of profit and loss is developed and, in general, it looks like this:

Sales proceeds — Cost of sales = Gross profit — Operating (administrative, selling) expenses = Operating profit. See

cost budget in table 1.

**Table 1.** Cost budget for milk production at «Ak Bars Agro» LLC in the year 20xx in thous. rub.

Indicators	Actual	Plan
Milk sales proceeds	24256	23765
Product cost - total, thous. rub., including:	20657	18712
Labor cost with social security contributions	2890	2765
Feed	7592	7550
Energy	337	350
Fuel	580	667
Major and minor repairs of capital assets	2588	1880
Production and management set up	6670	5500
Profit, thous. rub.	3599	5053

In conclusion, it should be noted that the issue of implementing budgeting system becomes crucial due to:

1. The necessity of finding internal resources for reducing production and sales cost, justifying optimum costs for financial means and, as a result, creating competitive advantages for the enterprise.
2. Tax policy optimization.
3. The necessity of increasing investment prospects of business, as the investor invests financial resources into the company with high level of management organization.

Performance evaluation of the project budget shall be considered from the prospective of solvency ratio, which is the major indicator of financial standing of the enterprise.

Estimated solvency ratio of the enterprise is calculated in table 2.

**Table 2.** Solvency ratio of «Ak Bars Agro» LLC for the year of 20xx

Indicators	Actual	Plan	Changes	Standard
Current liquidity ratio	0,99	0,6	-0,39	≥ 0,2
Acid-test ratio	0,6	0,5	-0,1	≥ 1
Absolute liquidity ratio	0,4	0,35	-0,05	≥ 2

Data in table 2 confirms that solvency in the projected year will reduce, which is proved by negative changes in liquidity ratios. During the projected period current liquidity ratio at "Ak Bars Agro" LLC decreased by 0.39 points compared to the beginning of the analyzed period.

When drawing up budgets, one can calculate estimated figures of profitability: return on assets, return on equity, etc. In addition, budget preparations help with evaluating operating performance.

Let us evaluate project budget performance from the prospective of solvency ratio which is one of the major characteristics of business efficiency. See estimated profitability figures in table 3.

**Table 3.** Profitability ratio of «Ak Bars Agro» LLC, Arsk district of RT, %

Indicators	Year 20xx	Forecasted	Variance
Return on sales	1,1	0,9	-0,2
Business profitability	1,0	0,7	-0,3
Return on assets	0,002	0,001	-0,001
Return on equity	0,04	0,02	-0,02

Data in table 3 shows downward changes of all profitability ratios, which negatively characterizes capital consumption policy of the enterprise.

With the help of monthly, quarterly and annual estimates drawn up for every unit the level of expenditures is effectively monitored by comparing actual figures to the estimated ones and by analyzing the reasons for deviation of actual expenditures of estimates.

It is recommended to keep record of activity accounting for provision of information on actual implementation of various estimated figures.

Activity accounting assumes retrieving required information from financial accounting system, collecting data on each responsibility center and providing reports comparable to estimated data.

By all means, such strategy guarantees constant liquidity but is quite expensive as credit commitments, as a rule, cost much and require constant servicing. Big expenses on attracting funding, for example, debt financing, run the risk of decrease in return on equity.

#### 4. Conclusion

Therefore, it is obvious that suggested dynamic system of financial planning and budgeting will enable more efficient management of financial resources, as budget is set synchronically "from the top" and "from the bottom" in close collaboration with production department heads, as well as with the use of current production capacity for the purpose of achieving targeted results set by top management.

Thus, it is apparent that the mentioned issues can be solved only by implementing dynamic system of financial planning and budgeting, which, in every particular case, will suggest a proven solution for a specific question. «Ak Bars Agro» LLC is suggested to use various budgeting methods and dynamic budgeting model for solving the given tasks.

#### References

- Godin A.M. Budget and budgeting system. – M.: Publishing house Dashkov and K, 2001. – 276p.
- Zalevsky V.A. «Budgeting as control tool systems of management and analytical cost system» // Management accounting. – 2009. - № 3. p.98
- Ivashkevich V.P. Management accounting: college textbook. - M.: Economist, 2004. - 618 p.
- Klychova G.S. Economic essence and content of budgeting process in management accounting/G.C. Klychova, A.R. Ziyatdinova, M.S. Faskhutdinova //Kazan State Agricultural University Herald ». -2007. -№2. -S. 48-51.
- Minina I.D. Using Direct-costing in production cost analysis// Collection of articles of IV All-Russia research and practice conference.- Penza: RIO PGSKhA, 2007. – 259 p.
- Morozkina S.S. Output calculation for business and management accounting // Everything for an accountant. – 2007. - № 15.
- Larionov A.D. Standard accounting practice? Essence, experience and implementation issues. – SDNTP, 2001. - 158 p.
- Safiullin N.Z., Klychova G.S, Zakirova A.R. Organization of cost accounting of fur farming in controlling concept. Mediterranean Journal of Social Sciences.- Vol.5, No18, (2014)-pp. 219-222.
- Shigaev A.I., Needles B.E., Powers M., Frigo M.L. Operating characteristics of high performance companies: strategic direction for management. Operating characteristics of high performance companies: strategic direction for management.
- Derzayeva G.G., Akhmadieva G.G. The methodology of transition on the pricing of the cost of production for budgetary institutions. Life Science Journal, 2014; 11(11s): 589-594.
- Olokhtonova E.A., Tulegenov E.T. Implementing standard accounting practice. – M.: Finance and statistics, 2000.- 250 p.