

IMPROVING THE BUDGETING SYSTEM IN THE COMMERCIAL ORGANIZATIONS

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ABSTRACT

The purpose of this paper is to critically analyze the organization's budgets and suggests the most favorable ways for enhancing the budgeting system of organizations. It digs deep in order to analyze the methodology of budgeting system, synthesizing modern methods and establishing new ways for designing an effective budgeting system to the commercial organizations. With respect to traditional budgeting ways, this paper aims to provide some constructive other modern approaches to make organization's operations in a more systematic and accurate way. It suggests that an organization needs to focus on more flexible budget and forecasts rather than a constant and rigid one. As with each financial year, the revenue, cost, expenses, risk, opportunity cost and tax are significantly changed so the company needs to change its budget as per the said factors. It works on the grounds that each organization needs to communicate and take on confidence all the concerned departments before designing and implementing the budget as various issues can come across from different departments so this needs to be addressed at early stages of designing budget. Involvement of budgetary team is considered to be the most pertinent factors in the budgeting system of organization. The paper focuses on that a whole team of organization from all departments such as, Marketing, Human Resources and Finance departments may impart their valuable predictions and forecasting for designing an accurate and more systematic budget for the fiscal year to come. The organization's strategic team must be very clear about its overall goals. A clear goal will only make the management competent to forecast and predict the financial future accurately; otherwise, they may lead to dull guesses and failure. Moreover, various contingency plans need to design if certain plan is not succeeded in achieving its forecasted one. External and Internal factors that may affect the organization either positively or negatively. They both have serious impact on the company's financial operations which may drastically degrade the company's operations. Customers' needs and demands are to be analyzed properly no matter if they are of less or more significance. The paper discuss the components that how the trends and behaviors of the customers affect the budget system of the organization. It further discusses that minor changes could have a long lasting impact on the financial year of the company. A budget to be considered more effective should have qualitative financial statements and their targets for the financial budgetary year. A forecasted profit and loss account should be designed and prepared for the forthcoming fiscal year and the cash flow to know the net worth of the cash in and out flows. Overall, the concentrated focus is on the various approaches which contribute in developing an accurate and integrated budget system in commercial organizations.

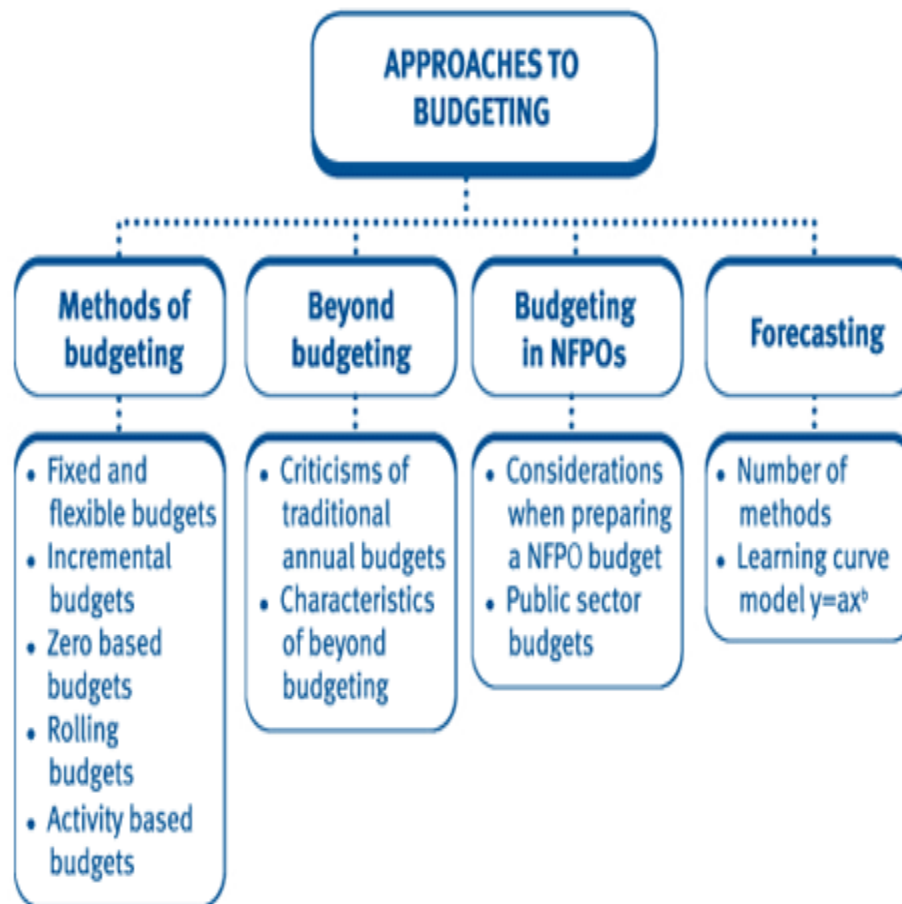
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INTRODUCTION

Every commercial organization needs to plan its operations on annual base. Such organizations managers forecast a financial plan which provides a snapshot of all expenses and revenues for the financial year to come (Brealey, 2003). Each business needs to gage its expenditures with respect to its profits and provide an optimum strategy to maximize its profit through efficient predetermined plans. More importantly, the organization that plans the predetermined financial operations for allocating its financial recourses at the most favorable places is merely possible through a forecasting plan which every organization needs to prepare at the beginning of each fiscal year which is called budget of an organization. Budgeting is the plan that the company uses to control its all finances. It enables the company to meet its all goals and objectives which reflect the organization's overall financial growth (Derfuss, 2016). Designing of systematic budgeting system could ensure that the concerned organization has good enough fund for the upcoming projects. It supports the company's objectives through designing and preparing a well communicated budget which eventually follows the organization strategic mission. It further makes possible for the top management to involve the whole staff in designing a predetermined plan where the vision of the company could be shared and achieved together (Dobrovolsky, 2006).

A careful structured of budget gives a strong promotion to the commercial organization from where you can get the productive benefits, one of the most outstanding benefits of well-structured budge is to meet the financial areas of any organization the more you focus on the budge, the better you will have results and benefits, as budge is the back bone of every organization and without budge it is impossible to run the smallest business, therefore the foremost priority should be budget and its structure plus its usages according to the requirements of any organization, in the world financial crisis are rapidly increasing day by day the main reason behind this is poor decision of the budget ,the whole world circulating around the accurate budge and its implementation (Hope, 2003), there are a lot of live examples in the world and particularly in field of business people stood from a very weak position to its successful position by taking smart and active decisions in the financial sector and provide best ways to promote their business not by money but by great and accurate budgeting therefore budge the very important as well as crucial.

The world has been changed and its business is being extremely enhanced it needs the accurate budgeting decisions and modernized approaches to deal the world biggest markets (Horngren, 2009), conventional way of budgeting is being a advance predication of losing money as well as downing the rank of your business, there for budgeting has extreme benefits and role in to be played in any origination in the world ,but it is extremely important to have powerful ideas and planning of budgeting for the commercial organizations. According to the newly ideas and researches every organization needs their best planning and advance structure of their expenses and their incomes, without advance and pre-planning of budgeting no business can be success and cannot achieve their desired goals for which they are targeted (Kaplan, 1996). It is the line of stone that merely money cannot take you to the peak of your business, but it is granted that good and timely financial decisions can take you to the top position for which you are desiring. Figure 1 shows budget flow chart.



**FIGURE 1
SHOWS BUDGET FLOW CHART**

METHODOLOGY

Analysis of Methodology of Budgeting and Modern Practice in Organizations

Incremental Budgeting Method

It is the most common and easy way for forecasting the financial operations of the company. This provides ease estimation for the manager to predict the expenditures and revenues for the financial year to come. Keeping in view the incremental budget, it is highly significant when the cost factors remain unchanged. If the costs of various departments and items remain constant then this method of budget would be highly favorable and feasible for the concerned organization to lay down its annual budget (Kovalev, 2007). Its focal concentration is upon taking the actual figure of the last year by either adding or subtracting the percentage in order to achieve the current fiscal year budget. Figure 2 shows types of budgeting methods. It is not useful and fruitful if the cost of the organization changes from year to year.

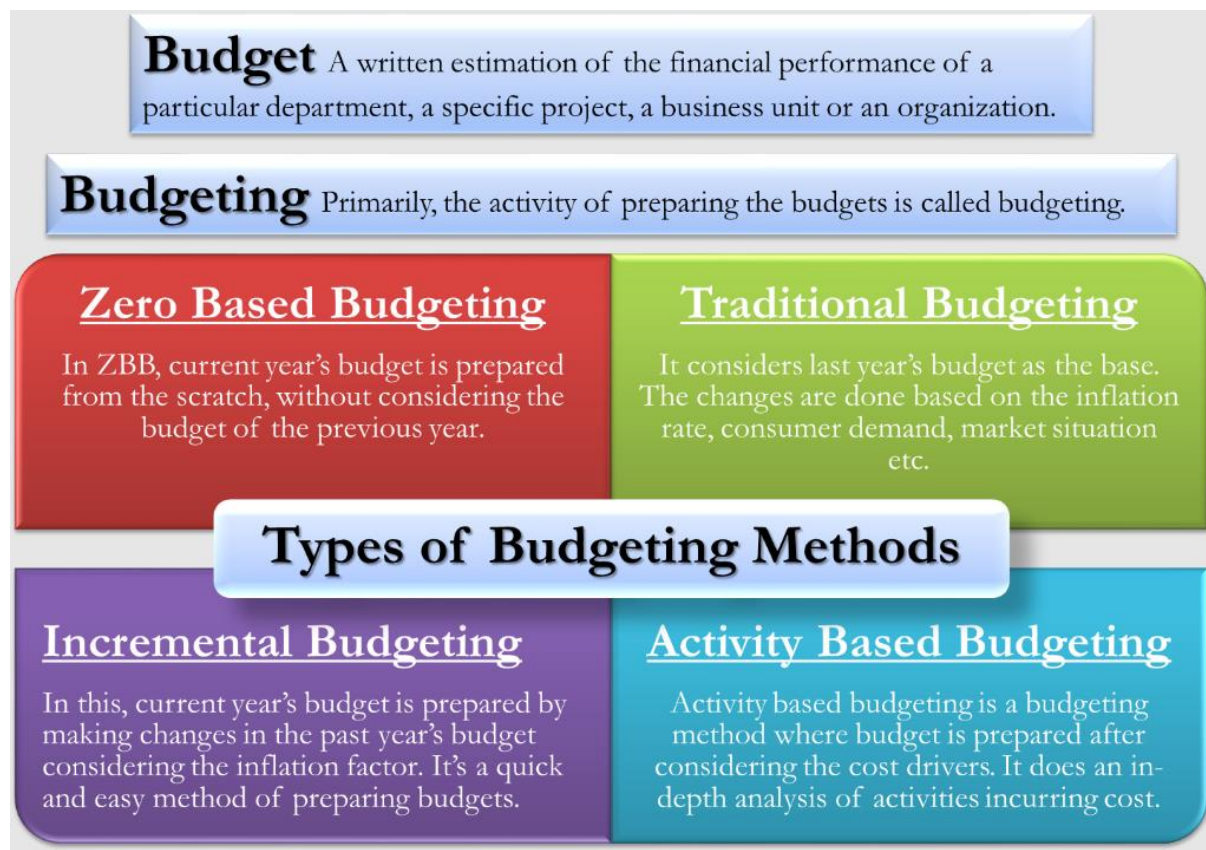


FIGURE 2
SHOWS TYPES OF BUDGETING METHODS

Analysis of the Incremental Budgeting Method

It is not highly preferable while keeping in view the efficiency and growth of the organization. It mostly lags behind the efforts to be contributed by the management for the company growth and operations efficiency (Nemirovsky, 2006). We can better grasp this perspective by taking an example, if a manager sees the opportunity to enhance the budget by 15% he will straight away enhance the budget rather than looking to other options such as by decreasing the cost or economizing it.

It is not effective to create the equilibrium between financial manager and the operative team of the company (Shakhovskaya, 2009). For instance, if a manager overstates the budget size which in actual the staff needs so it appears to be overlapped.

One of the most common and crucial elements that really takes an incremental budget not to be as much productive as it could be, it ignores all the external factors which have more pertinent impact on the company's overall financial operations (Zhukova, 2014). For instance, it ignores inflation rate which is rapidly increasing annually the financial manager simply increases that budget should be increased by 15% while he ignores other external factors.

Overall, the incremental budget could not be as much effective as it has to be because it ignores all external costs which increase annually.

Activity based Budgeting Method

It is the second budgeting method which is undertaken by the management to gage its operations in terms of financial matters. It is known as top-down budget and it derives that

how much input would be needed to receive the required targeted output. The cost of input must be determined in order to achieve the maximum output (Anjos, 2013). On the other hand, the targeted output that the organization intends to achieve should be clearly determined in financial terms. We can have a better idea by looking into an example. Suppose, Company A sets sales target of \$ 100 Million to achieve in the year to come. It must at the initial stage determine the activities that are to be taken for achieving this budget and once they are determined then a total cost shall be figured out in order to carry out these undertaken activities

Analysis of Activity based Budgeting Method

It is comparatively better than the incremental budgeting method

It does not ignore the external factors

It keeps the cost to be changed annually

It first sets targeted sales, at second, it figures out the input then those activities that will be used for achieving those targeted sales (Anjos, 2011).

Value Proposition Budgeting Method

Value proposition budgeting method is entirely based on amount of money and its value in return. It considers that the amount that is to be included in the budget is worth of its value or not (Bao, 2019). The person who lays down the budget takes into his account the following point's before drawing down the budget.

Is this amount worthy to include in the budget?

Is the amount of the item that is included in the budget creating any significant value and importance to staff, clients or any stakeholders?

The third consideration that the concerned individual should keep in view while making this budget is, does the value outweigh the cost or not?

Analysis of the Value Proposition Budgeting Method

It answers the very basic question do the included items have value for the business or not?

It is very significant in controlling extra and unnecessary costs for the business.

It highly considers the value of item and its amount

This budgeting method is necessary in taking into account external factors.

It is not as precise as the Zero-based budgeting method

Zero Based Budgeting Method

This is the most precise and accurate one in terms of making an absolute budget. Its entire focus is on the assumption that all the concerned departments have zero expense (Chen, 2014). They, the departments, will initiate their expenses from scratch. All the financial managers must provide a clear justification for every expense that is to be included in the budget. No expense could be beard without any solid justification. This type of budget method is very tight as it does not consider any expenses which are absolutely not significant for the business operations. It is highly effective to shake up the things.

Analysis of Zero-based Budgeting Method

This type of budget is to be undertaken when there is an urgent need of cost reduction. If a company goes through a severe market downturn situation then the company needs to reduce its budget significantly.

Zero based budgeting method is highly suitable for cutting off any cost that is not significant or necessary for the business operations. It consumes lots of time and could last for a longer period of time (Kollreider, 2009). This method is not undertaken by the companies' at large scale but most probably undertaken occasionally.

New Approaches to Budgeting in Organizations

The new approaches in budgeting which make the processes of budgeting easy and more convenient at different stages such as, forecasting stage, preparatory stage, approval stage, application stage and supervisory stage and along with social and economic activities. These all include,

- (1) Environmental sensitive budgeting approach
- (2) Citizen centered budgeting approach
- (3) Participative approach and
- (4) Gender responsive budgeting approach.

They are discussed below along with detailed explanation and characteristics.

Environmental Sensitive Budgeting Approach

Under the head of environmental sensitive budgeting approach there are two sub budgets.

Green Budgeting

This is also called efforts for integrating environment. It focuses on the assumption that the entire economic wellbeing of the prospect depends upon the green technologies of the country (Anjos, 2013).

Eco Budgeting

Eco budget is a type of environment sensitive budgeting approach which is based on the assumption that natural resources should be managed in the exact way as the financial resources such as, money which could be managed in the same way for the sustainable society (Bao, 2009).

Citizen Centered Budget

It is a new budgeting approach that is based on the involvement of the citizens in the budgeting process. This allows the citizens to participate across all stages such as, approval stage, implementation stage, auditing and evaluation stage of the concerned budget either on direct way or through an official invitation (Kollreider, 2009).

Participative Budgeting Approach

It was first introduced by the Municipal of Brazil government. In such type of budget there is direct involvement of the members of the community in the process of budget. The

members of the community are involved in the democratic process in order to contribute in the development of budgetary system (Ackoff, 1978).

Gender –Responsive Budgeting

This is also called as women's budget which deals with how differentiating needs of men and women that combinable make up the society which should be completed through establishing a gender idea across all stages of budgeting process and re-engineering the revenue and expenses in order to enhance the gender equality (Bocharov, 2013).

CONCLUSION

The aim of this paper was to figure out the various methods of budget that are being undertaken by the commercial organizations. We have sought out that what are the most common methods of budgeting that the organizations adapt while predicting their financial year revenues and expenditures. There are different ways that organizations can cut off their unnecessary expenditures unless they are of absolute significance. Various analyses have been taken into account while forecasting and preparing the budget of an organization. A very pertinent problem has substantially risen for the time and again was unnecessary expenditures that the organizations incur beyond their financial capacity. A thorough mechanism must be drawn up before including any amount of figure in the budget for the fiscal year to come. The primary focus was also on new approaches that have to develop in order to make the budget into a more systematic way. Different new approaches have been discussed and their impact on the company's financial position was also taken into account while drafting them down. The retrieved results have also shown that each organization needs to chalk out the budget that has to be very flexible rather than constant one. With respect to flexibility of budget, each financial year the fixed and variable costs change dramatically where with the same rate the budget must be changed accordingly. Moreover, it has suggested that while designing and preparing a budget each commercial organization needs to drastically involve all departments in its preparation process which could impart their valuable ideas and contribute efficiently in its effective implementation. Marketing, Human Resources and Finance departments are supposed to be involved for a well communicated budget for each financial year to come. The utmost concentration was also on the goals of the commercial organization before making or predicting any budget for the financial year. The competent authority and top level management must be well aware about their organization's goal that what for they are striving. A clear goal could lead the budget into a more accurate and systematic one, otherwise, if the goal of an organization is unclear then it could only lead to dull guesses and eventually to wrong interpretation and implementation of the concerned organization's budget. In addition to the aforesaid, we have also dragged out that while preparing any financial budget the organization must undertake some contingency plans if the concerned one does not work at the most favorable way. Some external and internal factors are the key drivers of the commercial organization that heavily affect the financial operations of the company. So, all the external and internal factors need to be addressed at a more careful way before designing and drafting down the budget. The paper revealed that customers and clients of each organization are the real stakeholders who need to be carefully dealt. The trends, demands and behaviors of potential customers would be the top most priority of each commercial organization. Resultantly, their demands, behavior and trends are the key drivers and should be considered in the preparation process of the budget. Some new approaches are developed and discussed in the paper of the budgetary year. The overall analysis of the study shows that in the process of budget every commercial organization

needs to keep the external and internal factors in view and should work on to prepare a very flexible budget rather than a constant one.

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