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BUDGETING AS THE PRIMARY METHOD OF FINANCIAL PLANNING

Relevance. Budgeting is one of the main tools of management. It has been actively used as a financial planning technology. However, few companies consider budgeting as a real tool for managing business performance and achieve strategic goals and objectives.

Key words: budgeting, budget function, traditional budget, flexible budget.

By budgeting the management often understands the funds that used in operating activities of the enterprise, while in the world practice budgeting - an element of management-oriented coordination, which have a methodology for planning, accounting and control of funds and financial results. Budgeting can also be represented as a process of analysis of previous decisions by which the company evaluates the feasibility of the actual use of assets.

Budgeting as a management technology includes three key components:

- technology budgeting, which have the types and forms of budgets, and financial and economic indicators as the basis for constructing budgets, order consolidation of separate budgets into a single consolidated budget;
- organization of the budgeting process, provides formation of company financial structure, through the identification of financial responsibility centers, budget rules, the stages of the budget process, slotting, the system of internal regulations;
- information technology, allowing not only to develop different scenarios for the future company financial condition, but also to carry out rapid collection, processing and consolidation of the evidence needed for budgetary control.

Budgeting system is a set of elements such as the structure of budgets, the procedure of formation and approval of budgets, control their actual performance, regulatory framework (rules, regulations, limits), standard procedures and mechanisms for decision-making.

In the economic literature decided to allocate five stages of budgeting system.

Stage 1 - Presentation of Financial structure, at this stage the model of the structure, which allows to establish responsibility for budget execution and control of sources of origin revenues and expenses by identifying centers of financial responsibility.

Stage 2 - The creation of budget structure by defining the general scheme of formation of the consolidated budget of the enterprise.

Stage 3 - Development of methods and procedures of management accounting, the formation of accounting and financial policies.

Stage 4 - Development planning regulations defining the procedures for planning, monitoring and analysis of the causes of budgets failure, as well as the current adjustment budgets.

Stage 5 - Implementation of budgeting system and scenario analysis.

The budget process in any enterprise should begin with the development of a draft consolidated budget. At this level, it is necessary to evaluate the production program, its qualitative and quantitative parameters, changes in price and credit policies, to determine the production potential of the company based on the analysis of rationality of the assets, the development of new technologies and products. Further, the draft budget must go through the agreement and approval of the supreme governing body. By the end of the budget period should analyze the implementation of the budget, identify deviations, to explain their reasons, to take the necessary management decisions. The budget process should be continuous; completion of the analysis of the budget execution of the current year should coincide with the development of next year's budget. Strict sequence of these steps enables financial service companies in the process of preparing the budget for the next fiscal year observations and errors detected by the analysis of the budget execution of the previous period. Currently, there are two main forms of budgeting: fixed budget (traditional form) and a flexible budget. Fixed-Budget Digital indicators are calculated and approved prior to the beginning of the planning period and not subject to revision. A distinctive feature of the flexible budget is that at any stage of development of the enterprise in the budget may be amended. Some businesses form the so-called renewable or «sliding» budgets when budgeting for the year, after the first scheduled quarter made planning for another quarter. By using the «sliding» the budget, the company has the ability to quickly take into account changes in the environment, to act in accordance with the specified objectives and adjust plans according to the results already achieved. As a result, income and expenditure forecasts become more accurate, and the planning period by using a «sliding» budgeting does not change [1].

Budgeting as a tool for financial planning, accounting and control of cash flow and analysis of financial results of company specific activities. The purpose of budgeting is to determine the amount and cost structure of the enterprise and its units for specific purposes and financial support to cover them.

Current financial planning or budgeting as an integral part of financial planning and performance specification is a long-term plans.

Budgeting is a method of resource allocation, described in a quantitative form, to achieve the goals as presented quantitatively. It can also be defined as a decision-making process through which the company evaluates the feasibility of the inflow and outflow of assets.

Consequently, the budget of the enterprise can be considered not only as a form of a financial plan, and as a primary management tool that provides accurate, complete and timely information to senior management.

Indeed, budgeting is not limited to the development of budgets, and implements a variety of functions, the main of which are: planning of operations, ensuring the achievement of the objectives of the organization; coordination of activities and the individual units, coordinate the interests of individual workers and groups in the whole organization; encouraging leaders of all ranks in the achievement of its responsibility centers; monitoring ongoing activities, ensuring planning discipline; forming the basis for the evaluation of the plan centers of responsibility; means training managers.

That is budgeting for the economic essence is a financial planning tool and requires a comprehensive review of several aspects of the budgeting system, the formation of which should be based on the following principles:

- the principle of systems implemented by linking operational and financial linkages between all elements of the system;
- the principle of collegiality, which provides the interconnection of all budgets and their compliance with the company's development strategy;
- the principle of continuity planning, which allows to adjust the parameters defined period based on actual data for the last a shorter period, to carry out the adjustment of the annual budget into the quarter, quarterly into the month, etc.;
- methodological principle of unity on a basis of a common methodological approach to the development of all types of budget;
- principle of hierarchy, allowing adequate budgets of the organizational and financial structure of the company;
- structuring principle of communication, requires a clear description of the intra-relationships between all the structural elements of the enterprise;
- principle of distribution of powers and responsibilities for the preparation and monitoring of plans and budgets of different levels;
- correspondence principle of budget planning and financial reporting to track the output of budgets and analyze the reasons for the deviation.

The budget structure of the enterprise is determined by three main factors: the requirements on the part of the company's management, the specifics of business, management structure. Under the requirements from the management understands the requirements on the composition, detail and frequency of budgeting procedure. The budget structure should reflect the areas of economic activity, follow-up is mandatory for regular management, i.e. be minimally sufficient for successful management. In this case, the structure imposed by the budget requirements of detail and accuracy of the information contained therein. The higher these requirements, the more complete structure must be low cost, i.e. cover all areas of economic activity.

The budgeting process is carried out in two directions: first- functional training budgets: the budgets of departments (or the organizational unit that can be made a separate budget and overseeing its implementation, and there are budget center); the second- standards development costs of production of certain products - operating budgets. The relationship of these trends is that, based on the budgets of individual departments determine the rate of distribution of their overhead costs between different types of products. This makes it possible to make a calculation of the total regulatory unit cost of production. In turn, the standard costs are used for budgeting costs of production. Based on the budgets of all departments constitute the general (consolidated) budget enterprise [2].

The purpose of budgeting is a financial planning tool that allows to achieve higher organizational performance by improving the efficiency of management processes. With this tool, management can describe the future, and in fact the events in conjunction with the processes taking place in the enterprise and subdivisions, which makes it possible to determine how to obtain such a result, but not the other, and also helps to determine how and what needs to be done, to get the desired result. It is obvious that this requires a qualitative understanding and quantitative description of the objectives, potential impacts and responses to these impacts.

As described before, budgeting - a production and financial planning of the company by drawing up the general budget of the enterprise, as well as the budgets of individual units to determine their financial costs and benefits.

Appointment of budgeting in the enterprise is that it is a basis for planning and management decisions at the company, evaluating all aspects of the financial viability of the enterprise, control and management of material and financial resources of the enterprise, to strengthen financial discipline and subordination of the interests of individual structural units of the interests of the enterprise as a whole and owners its capital.

Table 1 Company's budget classification

Classification feature	Type of budget
The spheres of activity of the enterprise	The budget for operating activities
	Investment budget
	Budget for financing activities
Cost elements	Budget current expenditures
	Capital expenditure
Latitude nomenclature costs	Functional budget
	Integrated budget
Development	Fixed budget
	Flexible budget
Time period	Monthly, quarterly, annual
Over the period of preparation	Operational budget
	Operating budget
	Forecast budget
By continuity planning	Independent budget
	Continuous (sliding) Budget
According to the degree of information content	Enlarged budget
	Detailed budget

Note: compiled from source [2]

All these types of budgets (see Table 1) are necessary for preparation the forecast of company financial condition and for line-item analysis. This qualifier allows to group budgets for activities to facilitate consolidation in the basic financial statements.

In the most general form of the appointment of budgeting in the organization is based on:

- planning and management decisions in the company;
- assessment of all aspects of the financial viability of the company;
- strengthening financial discipline and subordination of the interests of individual structural units interests of the company and the owners of its capital. [3]

At the same time in every company have to purpose the budgeting process. Therefore, it must be remembered

that in each company as technology management appointment budgeting can pursue their own goals and use its own funds, their own tools. First of all, budgets are developed for the company as a whole and for individual structural units for the purpose of forecasting of financial results, target-setting financial performance and profitability, limits most important (critical) costs justify the financial viability of a business that deals with this company, or sold its investment projects.

Budgeting allows management organization with a very strong chance to evaluate the effectiveness of decisions, the best way to allocate resources of the enterprise, charting the ways of staff development and enterprise, and avoid crisis situations.

In the process of budgeting goals of the budgeting system is determined on the basis of the organization's objectives.

Depending on the nature and scale of the organization determine: general, major private purpose.

On this basis, it is possible to identify the main objectives of budgeting as follows (Figure 1)

The main objectives of budgeting			
1. Planning and control	2. Burden sharing	3. Optimization	4. Staff motivation
Monitor the results of the company is carried out by comparing planned and actual results and subsequent detailed analysis of the causes of deviations.	Delegating responsibility for the costs incurred, the revenues and profits.	Provides the best use of limited resources.	Provides employees with information on the intended use in terms of quantity and provides an opportunity to assess the effectiveness of their work.

Figure 1 - The main objectives of budgeting

Note: compiled from source [3]

On this basis, we can identify the main budgeting functions as follows: (see Table 2)

Table 2 - Main functions of budgeting

The main functions of budgeting	
Title	Characteristic
Planning function	Based on the strategic objectives of the enterprise budgeting system solves the problem of allocation of financial resources at the disposal of the enterprise. Formed a quantitative definition of a selected development prospects of the company, all the costs and benefits of acquiring monetary value.
Accounting function	Forms the basis of management accounting. Allows to obtain accurate information: on divisions, product, etc. Also allows you to compare the target with the actual results of the company.
Monitoring function	The budget is a set of indicators (criteria) to be used in the control of the company. Also, budget planning allows to reveal deviations from targets and adjust actions.

Note: compiled from the source [4]

The structure of the general budget of the enterprise includes the interconnected system of financial and operating budgets.

The main financial budgets of the company are:

- The budget of income and expenses;
- Cash flow budget;
- The budget of balance sheet.

Operating budgets and financial support include different composition blocks:

- The budget of sales;
- Production budget;
- Procurement budget;
- The budget reserves of inventory, etc.

The value of the company depends on the organization of financial planning and budgeting. In small companies, there is no separation of management functions, so leaders have an opportunity to get into all the problems and solve them quickly. Work on the plan (budget) in large companies should be carried out in a decentralized, since it is collected at the unit level personnel with extensive experience in the production, sale, procurement, operational management. Therefore, it is of such parts of the company received proposals for the actions and decisions that it is advisable to take in the future.

Planning is always based on the data of the past, however, seek to control and determine the development of the company in the future. Therefore, the accuracy and correctness of the accounting estimates of the past depends on the reliability of planning. Anyone planning company is based on incomplete data. All plans should be drawn up so that they can be corrected in the future, while they themselves budgets must be interconnected.

In practice, companies are usually used two schemes of work on the preparation of budgets (plans) on a «top-down» (break-down) and by the method of bottom-up (build-up).The method of «top-down» (break-down) is as follows: work on budgeting begins «from above» in other words, the company determines the specific goals and objectives, for example, targets for profit. After that, the figures in a more detailed form communicated to all departments and included in their plans. This approach allows you to take full account of the strategic goals and objectives, time savings, and avoid the problems associated with the coordination of individual budgets. In this case, the lower the motivation of managers and middle managers with respect to achieving the goals will be weak, which is a significant shortcoming of this approach. In large companies use a «bottom-up» approach. The essence of this method is that the heads of departments make up the budgets areas, departments, which are then summarized in a single plan (budget). Then the company negotiates and coordinates the various budget figures. The disadvantage of this method is that the targets for expenditure overestimated and underestimated the income, in the performance of the plan to get undeserved reward [5].

In practice, it is advisable to use only one of these methods.

In conclusion, planning and budgeting - the current process, in which you must guide the work of all structural units to achieve a single financial results and constantly coordinate budgets of various departments.

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