

THE IMPLICATIONS OF BUDGETARY CONTROL IN BUSINESS PERFORMANCE ANALYSIS

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Abstract

The article presents the role of budgetary control in the detection and analysis of deviations from the budget, by comparing the results with the expected situation. The specialized literature presents several models for the analysis of deviations from budgeted values. Budgetary management of the company includes all the levels of management, the company's goals and also goals achievement. Budgeting involves management responsibilities, and approval of the budget allows to accomplish all the activities included. The company's budget system and budget execution control should lead to increased business performance and saving available resources.

Keywords: *budgetary management, system budgets, execution of the budgets, budgetary control, deviations from budgeted values*

JEL Classification: *M21, M41*

1. Introduction

Budget it is a plan that outlines ways to achieve the strategic objectives of the enterprise (such as: increased turnover by a certain percentage, cost reduction, fill a particular market place, international development, etc.). The various components of the budgeting of an enterprise is required to achieve the performance in a competitive environment and in the use of limited resources (human, financial, material, etc.). The activity planning and budgeting provides a support in managing performance. [1]

Jianu I. (2007) considers that the term “performance should be reserved for the description of the evolution of the results during a period deemed long enough for decision”. [7] Being efficient means to achieve or exceed goals.

The budget is used to size, in financial terms and in terms of economic efficiency, allocation and use of resources. In the process of achieving revenue and incur expenditure, the budget is a tool for analysis and control and to ensure the financial equilibrium of the company. [8]

Budgets are one of the ways in which management performance is measured through accounting. The reward system of an organization is often linked to the achievement of certain performance levels, measured by most of the time accountant.

Research has shown that the budgets do not always lead to improved performance. If the budgets are set at the level at which will achieve maximum performance, then adverse variations can occur with more frequency.

Budgetary Management means the process by which the undertaking defines both the short-term goals and the means to achieve them, and that is done through the budget.

In the meaning of J. Meyer (1994), the management of the budget is based on projections, taking into account the internal and external conditions specific to the enterprise. Based on these projections, the enterprise officers will have powers-programs and resources (in value and quantity, when possible) - for a limited period of time (usually one year). Analyze budgets and achievements on a regular basis, in order to highlight the differences that arise between them. Explaining and correcting these deviations represent control work. [2]

Budgetary control monitoring of activity is management by comparing the results of the budgetary management in order to detect the disfunctions, favorable and unfavorable deviations analysis and transmission of information for management decisions.

Caraiani et al. (2004) [4] considers that the principles governing the budgetary control are:

1. *Monitoring of budgetary provisions.* Budget officers permanently checks the budget estimates with actual results to identify and correct errors.

2. *The flexible Budget.* It provides estimates which can be automatically adjusted with changes in the level of productive output. This tool cost control is used in the analysis of performance.

3. *Analysis of deviations through selective management.* Analysis of deviations is the process of calculating the value and identification of the causes of differences between actual and budget. This analysis is applied selectively, are examined only favorable and unfavorable deviations which do not fall within the limits set by management.

4. *Creating a system of periodic reports on performance.* Is the focuses of the accounting system. On the basis of the dysfunctions observed, identify solutions and adjust the following data on the budgetary circuit.

2. Budget control and sales orders

Shall be assessed as for commercial services is preferable to set a goal (profit) margin than one turnover, such control shall be carried out according to the budgeted profit. It distinguishes between the production companies and those with individual production or unique items.

In the case of an undertaking's production, the result is influenced by activity: selling price and quantity sold.

Deviation due to price = (actual price-budgeted price) x quantity produced (1)

Deviation due to the amount = (amount budgeted amount accomplished) x budgeted price (2)

In the case of an undertaking individual or unique items production there is a further variant-mix product. Account should be taken of products which will sell more than others. All the differences in product mix between what has been provided and what has been achieved will be generating of additional misconduct and represents the deviation due to product mix. It considers that it is preferable to carry out an analysis of the residuals in commercial products profit from different starting points, so will determine for each product: a standard and a profit on the sale. [2]

Margin = sales price-cost of production standard (3)

In accordance with the general principle of control through exceptions, the only significant deviations are those designed to identify the causes and corrective actions that will enable the recovery trajectory for achieving goals.

These causes can be:

- insufficiency of commercial activities;
- an insufficient motivation of sellers;
- products not adapted to consumer needs;
- very high prices;
- expenses for delivery of the products;
- the deterioration of their quality, etc.

When the causes of deviations are known, sales executives will focus on removing any accumulated delays over time and restore the ultimate objective trajectory through a marketing effort, which may cause even the reallocation of available resources. This effort may result in:

- sales promotion actions;
- direct action over reviews;
- the geographical extension of the commercial network;
- acceleration of new products on the market, etc. [2]

Often the causes of discrepancies may be due to the evolution of external factors, other than that existing at the time of the expenditure budgeting.

The layout of the data in this document allows for the comparison of budgetary forecasts with the achievements obtained during the budgetary period considered (month in general), and achievements of corresponding month of last year, including highlighting the size of the aggregate result.

Orders, as well their bills, are settled at *the standard price* fixed in the budget, that is, in the general case, the catalog or price estimate. Discounts, rebates, etc. are shown separately and are registered as well as in accounting, for comparing them with corresponding specific category within the budget.

Budget control sales are presented as follows:

Table no. 1 **Budgeting / Achievements**

Specification Indicators	Month considered			Accumulate			Accumulation period N-1
	Budgeted	Achieved	Deviations	Budgeted	Achieved	Deviations	
Standard sales- draws, discounts, etc.							
= Net sales standard							

Standard gross margin trade control can be performed in two ways: through a dual evaluation of orders and then Bills at the top in standard selling price, reduced where appropriate by the value bonuses, stalemates or rebates, etc., and in the next phase, the standard rollback prices.

This double evaluation of invoices is conducted exhaustively and considering all the bills, because singling out certain gross margins per product or per customer could lead to deformation amount depending on a turnover that would actually be realized from the sale of several products whose margins are not homogeneous.

Low margin products, which have a relatively higher contribution than that prescribed, are compared with the high-margin products by using the so-called *deviations mix* constituting the expression changes in the distribution of turnover between products with different margins. [5]

Physical control of expenditures must coincide with the exits of inventories invoiced to customers.

Table no. 2 Control of expenditures

Indicators \ Specification	Month considered			Accumulation period N-1		
	Budgeted	Achieved	Deviations	Budgeted	Achieved	Deviations
Stock at end of period						
Standard-priced purchases						
Standard stocks at the end of the period						
Standard consumption of total purchases						
Deviations recorded at standard cost purchases						

Standard purchases both contained in columns with achievements and budget columns are calculated by multiplying the quantities purchased by the standard prices. Heading *deviations recorded at standard cost purchases* recorded in the achievements column for each product (real price - standard price) x (quantity).

Control margins is not always possible (for example, the case of the sale of goods which are transported *en detail*, made so without conducting a formal invoice, but only on the basis of an opinion of the expedition).

Control margins systems can be in this case based on the entry in the stock from the selling price. Control margins will be done in this situation on the basis of an assessment of the stock outstanding after the sale.

2.1. Supervision of revenue from the sales budget

It considers that an effective way of tracking claims reviews coverage is an array of collections, developed based on customer accounts, which are ordered by rank of seniority of the firm's claims against them.

Table no. 3 The receipts from customers

Specification \ Clients	Less a month	1-2 months	2-3 months	More than 3 months ago	Total reviews in the course of collection
Outstanding balances due					
Client 1					
Client 2					
Client 3					
...					
Total					

In these circumstances, the accounting system must provide for maintenance of *Customer's* account of the claim until the time of actual payment of it (even when the customer has accepted the payment effect), this allowing to measure total risk assumed for each client and all its debts. [5]

2.2. Budget control for selling

At the time of drawing up the budget, the monitoring carried out at the separation costs of sale in direct expenditure and indirect expenditure on the one hand, and the fixed and variable expenses, on the other hand.

Budgetary control consists in comparing actual achievements (that is, the expenditure accounted for properly with regularizations required) with both under budget projections monthly and cumulative budget.

Table no. 4 Control of trade expenses

Month:	Variable expenses		Fixed expenses		Total		The Year N-1
	Budgeted	Achieved	Budgeted	Achieved	Budgeted	Achieved	
Direct expenses relating to sales							
Other expenses							

Total monthly							
The cumulative ...							
Cumulative Total							

Sales budget execution control is important for assessing the performance of the company. Variance (deviation) of turnover (ΔCA) from the budgeted amount represents the difference between turnover (CA_r) and the budgeted turnover (CA_b)

$$\Delta CA = CA_r - CA_b \quad (4)$$

This deviation from budgeted turnover (ΔCA) has two possible explanations [6]:

- a *variation in price* (ΔP), since the actual quantities are sold at a price different than budgeted:

$$\Delta P = (\text{actual Price} - \text{budgeted price}) \times \text{actual quantity} \quad (5)$$

- a *variation in the quantity sold* (ΔQ) because the budgeted selling price, the quantities actually sold various quantities budgeted are:

$$\Delta Q = (\text{actual amount} - \text{budgeted amount}) \times \text{budgeted price} \quad (6)$$

3. Case study 1

At the end of the month, the management controller and person in charge of the Sales Department of the company “Z” S.A. carries out the control over the budget. In comparison with the budgeted actual sales results favorable to the misconduct of 9.800 lei budget. Details of such deviations are shown in the following table (adaptation from Boisselier, 1999) [3]:

Table no. 5 Sales budget control

Indicators	Achieved		Budgeted		The Deviation
	Product X	Product Y	Product X	Product Y	
Unit selling price (P)	70	100	75	90	
Quantity, PCs. (Q)	550	700	500	680	
Turnover (PxQ)	38.500	70.000	37.500	61.200	
Total		108.500		98.700	+ 9.800

This variation on decomposition products and explicative factors are presented as follows:

Table no. 6 Variation analyse

Price variation (ΔP)				
	Real price (Pr)	Budgeted price (Pb)	Actual quantity (Qr)	Variation (Pr-Pb) x Qr
Product X	70	75	550	-2.750
Product Y	100	90	700	+ 7.000
Price variation				+ 4.250
The variance quantity (ΔQ)				
	Actual quantity (Qr)	Budgeted amount (Qb)	Budgeted price (Pb)	Variation (Qr-Qb) x Pb
Product X	550	500	75	+ 3.750
Product Y	700	680	90	+ 1.800
The variance quantity				+ 5.550
Total variation				+ 9.800

Examined individually, explicative and product factors, deviations from the budget are quite important, although, on the whole, the change shall be offset against each other. For example, product X recorded a negative deviation from the budget to the selling price (- 2.750) and a positive deviation from the budget due to the quantity sold (+ 3.750). In terms of explaining the deviation from the budget through the two factors (sale price and quantity sold), it is observed that variations are not independent: an increasing amount sold can be generated by a fall in price (quantity-price elasticity).

Deviations from the budget are the responsibility of the Sales Department and general managers.

4. Case study 2

Table no. 7 Sales budget control

	BUDGETED			ACHIEVED		
	Product P1	Product P2	Total	Product P1	Product P2	Total
Quantity	160	240	400	200	225	425
The sale price	3,2	2,4		3,1	2,8	
Turnover	512	576	1.088	620	630	1.250
Variable costs per unit of production standard	1,6	1,2		1,6	1,2	
Standard variable costs of production	256	288	544	320	270	590
The margin on the standard variable production costs	256	288	544	300	360	660
Variable costs per unit margin of production	1,6	1,2	1,36	1,5	1,6	

The total deviation of decomposed product margin shall be determined as follows:

Table no. 8 Variation analyse

	Product P1		Product P2		Total	
	Budget	Real	Budget	Real	Budget	Real
Turnover	512	620	576	630	1.088	1.250
Standard cost of production of the goods sold	256	320	288	270	544	590
Standard cost due to margin	256	300	288	360	544	660
The total deviation due to the commercial margin		20		90		70

Deviation analysis on the commercial margin lies in its decomposition:

- deviation due to the volume of production;
- deviation due to the price of products;
- deviation due to product mix.

Deviation due to quantity produced = (total amount-total amount budgeted) x uniform weighted margin =
= (425 – 400) x 1,36 = 34 positive deviation (7)

Deviation due to price = quantity made x (actual unit margin-the margin per unit) = 200 x (1,5-1,6) + 225 x (1,6-1,2)
= - 20 adverse deviation + 90 positive deviation = 70 positive deviation (8)

Product mix due to the deviation = (amount realized with a real mix of products-quantity produced with a mix of standard products) x standard commercial margin (9)

According to the standard mix of products, sales of the product P1 will represent 40% of the total quantity of products sold, and the P2, 60%. Of the 425 products sold, the product P1 is 170 items, and the product P2, 255 articles.

Comparing with actual quantities sold product:

- P1: 200-170 = 30 articles sold in addition;
- P2: 225-255 = 30 articles sold in minus.

Commercial margin due to deviation resulting from deviation due to product mix is as follows:

Table no. 9 Commercial margin due to deviation

	Deviation due to the quantity of products	Uniform standard margin	Deviation due to the commercial margin
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Product P1	+ 30	1,6	48 favorable
Product P2	- 30	1,2	36 unfavorable
Total			12 favorable

The initial budget is insufficient to control the efficiency of economic activities. This is a static budget, in that it is based on a single hypothesis of sale or production. To determine the efficiency of a Department, it is important to build its budget on the basis of its actual activity. A revised budget is a budget rebuilt:

- on the basis of the above activities;
- as a means of evaluating the technical rules which formed the basis of the standards which have been established as the starting point of the initial budget.

The use of flexible budget requires a very good knowledge of cost variations, depending on the volume of work carried out both at the level of the undertaking, as well as at the level of individual responsibility.

5. Conclusions

Within an enterprise, performance measurement is done differently, depending on the level of responsibility and the objectives set. Control function of budget manifests itself at the time of the commitment and expenditure of obtaining income, provision of the necessary funds.

Using the *flexible budget* is essential in order to facilitate the work of control that can be exercised only by comparing the costs which have been entered in the budget with those that have actually been achieved as a result of the actual activities. Flexible budget is a detailed plan implemented for the purpose of controlling indirect costs and is valid for a significant period. It helps to control certain expenses for which expenditures are not easily standardized, because they are found in every final product.

Application *management through budgets* are based on the expression of the objectives in financial terms, which allows a permanent control of the management of financial resources and not only. In this respect, it is possible for managers to focus their efforts on reducing production costs and increasing efficiency.

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