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Budgeting

Detlef Müller-Böling

[see also: Accounting; Accounting for Planning and Control; Bookkeeping; Capital Budgeting; Capital Budgeting Techniques; Contribution Costing; Controllership; Cost Accounting; Cost Management; Motivation; Standard Costing]

I. Budgeting and Budgets; II. Budgeting as an Organised Process; III. Behavioural Effects; IV. Budgeting Techniques.

I. Budgeting and Budgets

The term "budgeting" stems from public-sector accounting, in which it describes the process of combining and juxtaposing items of revenue and expenditure, whereby expenditure items correspond to amounts authorised on the adoption of the budget (*Marettek* 1974). It was not until the twenties and the emergence of a surge towards budgeting and planning that budgeting was applied in business administration in the United States as well as in Germany.

Nowadays "budgeting" denotes more generally a *planning process* used in drawing up a *specific plan* in the organisation: the *budget.* A budget is a *target programme* which, as a rule, contains no indication of the measures to be employed for achieving that objective. The targets contained in budgets can be prospective *performance* or the *resources* necessary to facilitate that performance. In most cases the budget targets are financial quantities *assessed in monetary units* (turnover, profit, costs); as an alternative, *quantitative* values are occasionally employed (sales volume, production vol-

Table 1: Typology of Budgets with Variable Target Data

	Performance budget	Resource budget
Value-orientated	Profit, turnover, income	Costs, expenditure
Quantity-orientated	Volume of sales, output	Factor input volume

ume, factor input volume; see Table 1). Performance budgets assessed in monetary units are also described as *revenue budgets*, while the resource budgets are also termed *expenditure budgets*.

The functions of budgets are independent of the type of budget and include (cf. *Bamberger* 1971; *Wild* 1974; *Spettmann* 1979; *Grimmer* 1980):

- the *operationalisation of targets* which first makes it possible to have
- *monitoring and control* which lead to
- *allocation of responsibility* for results, which in turn leads to
- *performance motivation*, as well as the
- *agreement and coordination* of resources.

As part of the company's planning system, the budget cannot be seen in isolation from the other plans. *Budgeting* itself is the decision-making process which involves the development of volition, information processing and systematic procedures for drawing up a budget or a system of budgets (*Szyperski/Winand* 1980; *Teuscher* 1976). The aspect related to the development of volition leads to the behavioural effects of budgeting and budgets, the aspect of systematic procedure to the organisational structuring of the budgeting process.

II. Budgeting as an Organised Process

The organisation of budgeting must be related first to the selection and integration of the budget to be drawn up and secondly to the constituent activities carried out within the framework of budgeting, including the groups assuming this work.

1. Budget

When differentiating between types of budgets, the following factors must be taken into account:

(a) *budget areas*,
(b) *problem level*,
(c) *period for which the budget is planned*,
(d) *budget flexibility*.

(a) The *budget areas* can be subdivided according to the following criteria:

- function (e.g. procurement, production, sales, investment),
- division (product, product group),
- region (town, country, continent).

It is sensible to adapt the budget to a firm's → *Organisational Structure* in so far as the person responsible for the budget must also carry the responsibility in organisational terms so that the desired results can be achieved (principle of congruence between budget responsibility and organisational responsibility; *Wild* 1974).

(b) As far as the firm's *problems* are concerned, we must distinguish at least between operating and strategic *levels*. Accordingly, there are operating and strategic budgets.

(c) The *period* for which the budget is planned allows the distinction between short-term, medium-term and long-term budgets (budget periods). The absolute budgetary time-scale depends upon the company's line of business.

(d) The distinction between *fixed* and *flexible* budgets is particularly significant. Here we are dealing with the capacity of budget estimates to adapt to changing conditions, such as the extent to which productive capacity is employed. While fixed budgets maintain their estimates for a budget period at a constant level, e.g. on the basis of an average level of activity, flexible budgets are either linked quantitatively to the level of activity or different budget targets are formulated for different levels of activity. Direct or marginal costing is a prerequisite for such budgets (direct costing, → *Contribution Costing*; *Wild* 1974).

2. Constituent Purposes of Budgeting

Distinguishing individual activities within the framework of budgeting results in a differentiation of budgetary tasks. These include:

- *budgeting tasks concerning the content and material aspects* of information gathering, the setting and adoption of targets as well as
- planning, organisation and control of budgeting as part of *budget management* and
- support for the budgeting groups in relation to budgeting techniques and the coordination of individual budgets (*service tasks in budgeting*; *Müller-Böling* 1984).

Associated with the division of labour that is predominantly implemented in businesses with many employees (→ *Division of Labour and Responsibilities*), is the specialisation of *budgeting tasks* and their allocation to different *budgeting groups*. These include *top management, line management* and *budget department* as well as *budget committees*. In general there is no clear allocation of tasks to these bodies. Consequently all three categories of budgetary tasks receive attention from the four budgetary groups just mentioned (*Szyperski/Müller-Böling* 1984). As a rule *top management* at least ratifies the budget. The *line manager*, as a recipient of resources, puts forward claims for his organisational unit based on his own or external plans and is therefore first and foremost involved with those aspects of budgeting which are related to content and material questions. *Budget departments*, on the other hand, carry out all activities including budget management and service support for budgeting (*Szyperski/Müller-Böling* 1984).

Budget committees are groups of people representing several organisational units, which are usually fighting for the same resources, approving budgets or passing recommendations for their final approval (*Bamberger* 1971).

III. Behavioural Effects

Both budgeting as a decision-making process and the result of this process, the budget, are *coordination instruments* for the control of organisational units (→ *Coordination*; → *Supervision*). The budgeting process itself is characterised as a fight for limited resources, which is decided in a mixture of *firm-related* targets (efficiency of organisational units) and the *individual* objectives of those receiving resources (recognition, power, influence) with the aid of *factual arguments* and *power-related strategies for implementation.* In this respect the budgeting process is also a learning process, in the course of which certain behaviour is reinforced through the allocation of resources, whilst others are reduced through the denial of resources. Consequently, one of the tasks of budgeting management must be to support behaviour aligned with the firm's objectives.

Once the budget is approved, the *scope of action* of any given organisational unit is also defined. This means that *scope for action* is simultaneously *created* and *limited.* This scope serves to optimise decentralised decision-making as well as to reduce the uncertainty about the behaviour of other members of the organisation. In this respect the budget is an instrument for *controlling the behaviour of the budget recipients,* thereby making it easier to delegate decisions. Prerequisites for this behaviour-guiding function of the budget are:

- The responsibility for the budget and the organisational province must correspond *(principle of congruence).*
- The person responsible for the budget must actually be able to influence budgetary compliance or attainment *(principle of influence).*
- Allocation and control must be effected for the relevant period *(principle of reckonable period).* This requires an efficient accounting system (*Wild* 1974).

Only if these requirements are met, budget deviations can be positively or negatively sanctioned. However, budgets are not the only instruments of → *Coordination* within a firm. Thus, they must be integrated, and agreed, with superordinate *management control instruments* such as → *Organisational Structure,* style of → *Management* (→ *Leadership*) or transfer prices (*Grimmer* 1980).

IV. Budgeting Techniques

1. Continuous Updating

One of the most common forms of budgeting techniques is continuous updating. Here the basis of budgeting is the budget of the previous period which is frequently updated by a percentage price growth factor or a general cost-saving reduction. Generally, this method does not lead to solutions which are satisfying in terms of business administration, since they do not result in the target-oriented management of the firm.

2. Budgeting with the Aid of Reference Figures

Here we must distinguish between *direct* and *indirect* reference figures. Direct reference figures are directly linked to a firm's performance - in the production area this might be the machine hours, in the administrative area it might be the number of invoices made out. In the production area numerous direct reference figures are to be found because it is replete with well-structured problems. Such magnitudes are used in → *Cost Accounting,* → *Standard Costing* and in → *Accounting for Planning and Control* (*Haberstock* 1980; *Kilger* 1977). In the administrative area such reference values are only discernible for a few routine tasks. Hence, in this area resort is made to indirect figures, which are not geared to the performance of the administrative units, but to the production units to which they relate. A → *Cost Accounting* and performance accounting system for administration is still in its early stages of development (*Gaitanides* 1980; *Picot/Rischmüller* 1981).

3. Zero-Base-Budgeting

The main advocate in the Federal Republic of Germany of the zero-base budgeting system developed by *Texas Instruments,* USA, is the → *Management Consultancy* company *A. T. Kearney* (*Meyer-Piening* 1983). Under this system overhead cost categories are examined by reference to their necessity, nature and efficiency with respect to the provision of services. Cost saving is not the sole consideration here, the paramount intention is the *reallocation* which takes cognisance of strategic and operative targets (→ *Strategic Management*). The high expenditure including the internal changes means that this process can only be carried out infrequently.

4. Overhead-Value Analysis

In contrast to zero-base budgeting, *overhead-value analysis* (*Roever* 1980) focusses solely on cost reduction. Consequently it can also be limited to several departments (individual cost centres). In this respect it is a better approach when operational targets cannot be derived clearly from strategic objectives, for instance in the case of company branches serving several → *Markets* (*Maly* 1982).

On account of the radical changes which also affect staffing matters, zero-base budgeting as well as overhead-value analysis involve a considerable *resistance potential* (*Jehle* 1982), which means that in the Federal Republic of Germany these procedures require the *involvement of employees' or works councils* (→ *Codetermination*) at the planning stages.

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Business Accounting Principles and Standards

Manfred Layer

[see also: Accounting; Consolidated Accounts; Inflation Accounting; Principles of Proper Bookkeeping and Accounting; Public Procurement]

I. Introduction; II. Definitions; III. Objectives; IV. Historical Development of Inter-Company Principles and Standards in Germany; V. Design Possibilities; VI. Feasibility of the Objectives.

I. Introduction

In Business → *Accounting*, information is stored about the recordable events and relationships subsisting within the firm. The information must be gathered in accordance with *precise rules* and prepared in a manner which conveys information between the sender and the recipient (→ *Communication Systems*; → *Information Systems*).

II. Definitions

Principles and *standards* for the accounting system of the firm are *rules*, according to which the business transactions of the firm are to be *classified* in the *bookkeeping system* and *prepared* for *evaluation* by the *firm's management*. The orientation towards evaluation by the firm's management distinguishes the rules here being considered from the → *Principles of Proper Bookkeeping and Accounting*, which convey information to outside parties. The originator of principles and standards may be the firm itself, business associations or government departments.

III. Objectives

The objectives sought through the development and application of such principles and standards differ according to the degree of autonomy in drawing up the firm's plans. One of the aims is *always* to facilitate or