

Mukhamadiyeva A.A.,
Agumbayeva A.Ye.

Budgeting as a tool for managing enterprise strategy

In this article, the problem of effective conducting budgeting as one of management tools which costs in the center of attention of scientists as for today the organizations quite often practice creation of budgets is considered. However, now scientists did not give unambiguous definition and purpose of budgeting and therefore the budgeting system seldom brings to the entities desirable result. The purpose of this article to analyse efficiency of budgeting which showed that it is possible to allocate basic reasons of this problem: lack of the accurate purpose of a budgeting system in case of its implementation at the entity; a gap between strategic objectives of the entity and the purposes of a budgeting system; lack of support of implementation process of strategy by budgeting.

As a result of our research we found out that enhancement of a budgeting system by means of implementation of an algorithm of creation of budgets in it gives the chance of increase in efficiency of implementation process of strategy of the entity as: orients it to implementation process of strategy of the entity; the ordered system of creation of budgets will concentrate on value increase of the entity.

Key words: budgeting, integrated enterprise management system, budgeting process, algorithm of budgeting, Centers of Financial Responsibility, Cash Flow Budget, Income and Expense Budget.

Мухамадиева А.А.,
Агумбаева Ә.Е.

Бюджеттендіру кәсіпорынның стратегиясын басқару құралы ретінде

Мақалада басқару құралдарының бірі болып табылатын бюджеттеу процесін тиімді жүргізу мәселесі қарастырылған. Қазіргі таңда көптеген ұйымдар бюджеттеуді өз тәжірибелерінде жиі қолдана бастағандықтан, аталған мәселе ғалымдардың назарын аудартуда. Алайда, ғалымдар бюджеттеудің біржақты анықтамасы мен оның тағайындалуын әлі де болса нақтыламағандықтан, бюджеттеу жүйесі кәсіпорындардың керекті нәтижелерге жетуіне кепіл бола алмайды. Аталған мақаланың басты мақсаты бюджеттеу процесіндегі мәселелердің негізгі себептерін анықтауға мүмкіндік беретін бюджеттеудің тиімділігіне талдау болып табылады. Атап айтатын болсақ, келесідей себептер: бюджеттеу жүйесін кәсіпорынға енгізудегі оның нақтылы мақсатының жоқтығы; кәсіпорынның стратегиялық мақсаты мен бюджеттеу жүйесінің мақсаты арасындағы алшақтық; бюджеттеу стратегиясын жүзеге асыру процесіне қолдаудың болмауы.

Зерттеулеріміздің нәтижесінде бюджеттеу жүйесін оған бюджетті құру алгоритмін енгізу арқылы жетілдіру кәсіпорын стратегиясын іске асыру тиімділігін арттыруға мүмкіндік беретініне көз жеткіздік.

Түйін сөздер: бюджеттеу, кәсіпорынды басқарудың кешенді жүйесі, бюджеттік процесс, бюджетті құру алгоритмі, қаржылық жауапкершілік орталықтары, қолма-қол ақша қозғалысының бюджеті, табыстар мен шығындар бюджеті.

Мухамадиева А.А.,
Агумбаева А.Е.

Бюджетирование как инструмент управления стратегией предприятия

В данной статье рассматривается проблема эффективного ведения бюджетирования как одного из инструментов управления, которая стоит в центре внимания ученых, так как на сегодняшний момент организации довольно часто практикуют составление бюджетов. Впрочем, на данный момент учеными не дано однозначное определение и назначение бюджетирования, и поэтому система бюджетирования редко приносит предприятиям желаемый результат. Цель настоящей статьи – проанализировать эффективность бюджетирования.

В результате нашего исследования мы обнаружили, что совершенствование системы бюджетирования посредством внедрения в нее алгоритма составления бюджетов дает возможность повышения эффективности процесса реализации стратегии предприятия, поскольку ориентирует ее на процесс реализации стратегии предприятия; упорядоченная система составления бюджетов будет концентрироваться на повышении стоимости предприятия.

Ключевые слова: бюджетирование, комплексная система управления предприятием, бюджетный процесс, алгоритм составления бюджетов, центры финансовой ответственности, бюджет движения денежных средств, бюджет доходов и расходов.

BUDGETING AS A TOOL FOR MANAGING ENTERPRISE STRATEGY

Introduction

The attention of scientists is constantly directed to the problem of formation and improvement of budgeting as one of the tools of management, which is now actively used in practice of domestic enterprises. However, scientists still have not worked out the unique interpretation and purpose of budgeting and so often budgeting system does not bring the desired effect to businesses.

Analysis of the low efficiency of budgeting allows identifying the main causes of this problem: the lack of clear purpose of the budgeting system in its implementation in the enterprise; the gap between the enterprise strategic goals and objectives of the budgeting system; lack of support for the process of implementation of budgeting strategy.

Experimental part.

Improving the efficiency of budgeting

Today, the business activity of the enterprise characterizes its ability to develop and implement a strategy aimed at increasing its value. Successfully managing the process of implementation of the strategy and monitoring at every stage allows, in our opinion, the system of budgeting. In our opinion, budgeting – a planning tool, presented in the form of a budget system, containing value terms and objectives of the enterprise working on monitoring, evaluation, analysis and adjustment process of the implementation of the enterprise strategy to increase its value for the purpose of effective functioning. The criterion of effective functioning of budgeting system on the enterprise is the support of strategy process implementation, i.e. the possibility to manage by strategy system.

To improve the efficiency of budgeting it is necessary:

- To define the objectives and task of budgeting, the place of the budgeting system in enterprise management;
- To determine the scheme of the budget process;
- To develop an algorithm-based budgeting.

Goals and objectives of budgeting

Goal of budgeting

The main goal of budgeting is to provide a tool planning, management and monitoring the effectiveness of financial and economic activity and liquidity of the enterprise, based on the systematic forecasting of future development through budgeting.

The main tasks of budgeting

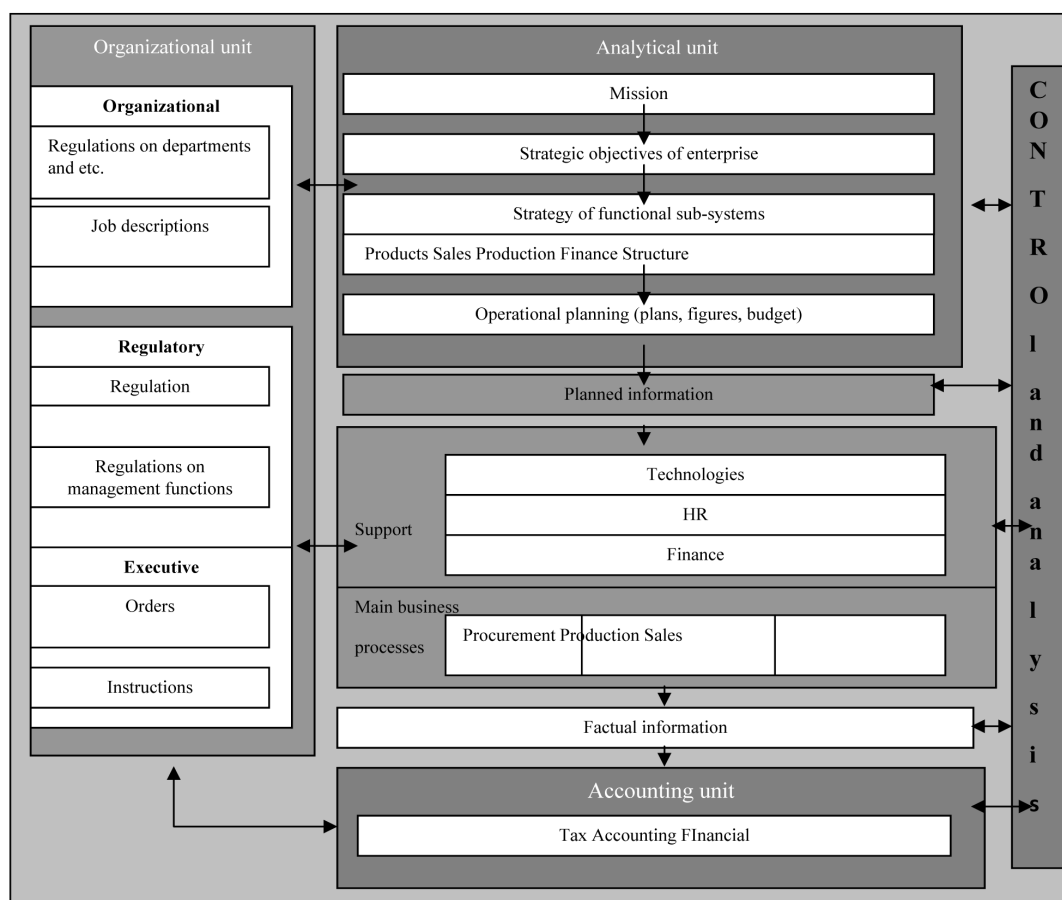
– Management and monitoring of the effectiveness of the enterprise;

– Planning of revenues and expenses on various activities, business processes and business units;

– Planning of the use of material and human resources;

– Preparation of the prospective financial statements;

– Analysis of possible changes in the financial condition of the enterprise because of the budget implementation.



Scheme 1 – Place of budgeting in enterprise management

Place of budgeting in enterprise management

Integrated enterprise management system– a comprehensive management mechanism, consisting of the following main units:

Analytical unit– a formalized system of data processing for the purposes of management decision-making (planning, control, analysis).

Accounting unit – document management system and methods of formation of accounting information to inform internal and external users (management, accounting, tax accounting).

Organizational unit – management structure: functions, regulation of activity of departments and services for business management process.

Technical unit – a kit of software products supporting analytical, accounting and organizational units.

The Scheme №1 shows the location of the budgeting system in enterprise management.

Budgeting in **organizational unit** is presented in development of regulations of financial management functions of the enterprise.

In **analytical unit** budgeting is implemented in the form of development of budgets, plans, schedules and various analytical data.

In **accounting unit**, task of budgeting is management accounting without of which is impossible to receive full factual information.

And finally, budgeting plays important role in control and analysis of enterprise performance.

Budgeting process

Budgeting process is a cycle which includes processes of identifying purpose-oriented financial indicators, formation, agreement and approval of budgets, their further execution, control and analysis of deviations, as well as, if required, stages of budget review.

Budgeting process is depicted on scheme 2 and is executed in the following order:

Planning (budget planning)

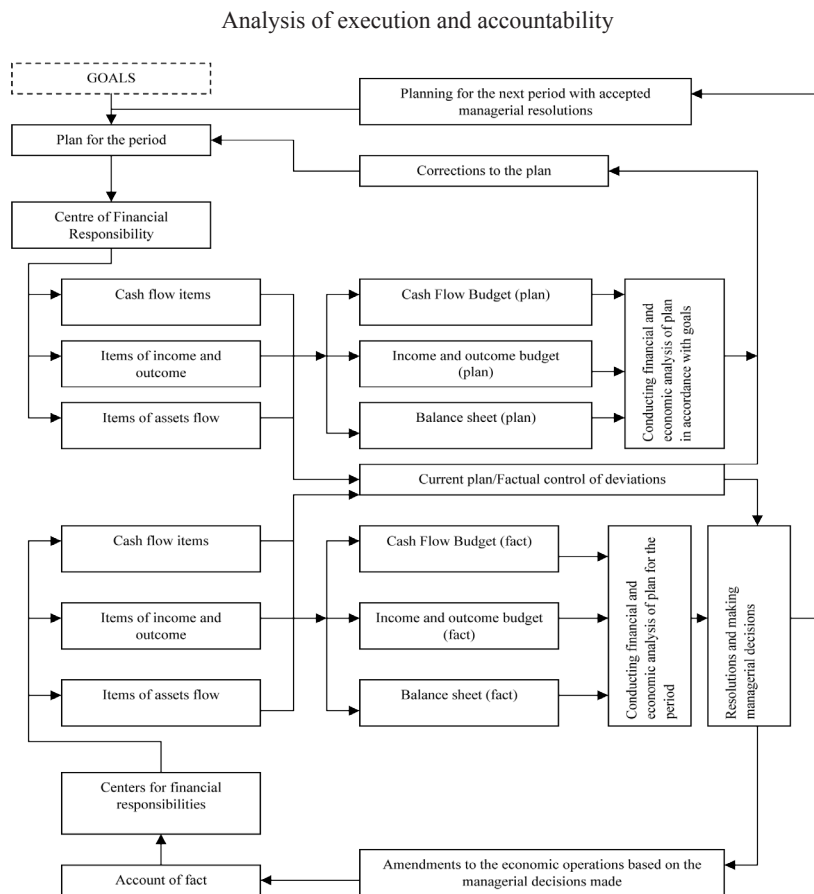
Enterprise defines its development goals, which are illustrated on the scheme as «Goals» in dotted-line rectangle. In accordance with approved regulation, based on the indicated goals, all CFR form their budget, which then is consolidated on the level of the enterprise, and based on these

three forecasted budgets are created: Cash Flow Budget (CFB), Income and Expenses Budget (IEB), Balance Sheet (BS). These budget forecasts allow us to represent, in specific financial terms such as liquidity, net profit margin and cost, the state of the enterprise to which its coming on the planning stage, if all the activities planned for achieving the goals will be successful.

Prepared and agreed forecast plan of the enterprise in the form of the budget, after the analysis on correspondence to the goals set is approved by the management and becomes directive document, obligatory for execution for all CFR's (and enterprises)

Account of evidence and control of deviations

Having started the practical execution of the plans, the enterprise accounts the evidence, depicted as «Fact» in rectangle. All CFR's and enterprise in general lead operational activities, taking into account in the same registers as planned. Functional responsibilities of each department are executed in the frames of its CFR, thus bearing responsibility for its maintenance, which serves as a guarantee for achieving of the planned financial result.



Scheme № 2 – Scheme of a budgeting process

Constant monitoring of arising deviation is conducted, in order to control the maintenance of the budget in real-time, which allows every CFR and the enterprise in general, identify negative tendencies with the purpose of prevention on early stages.

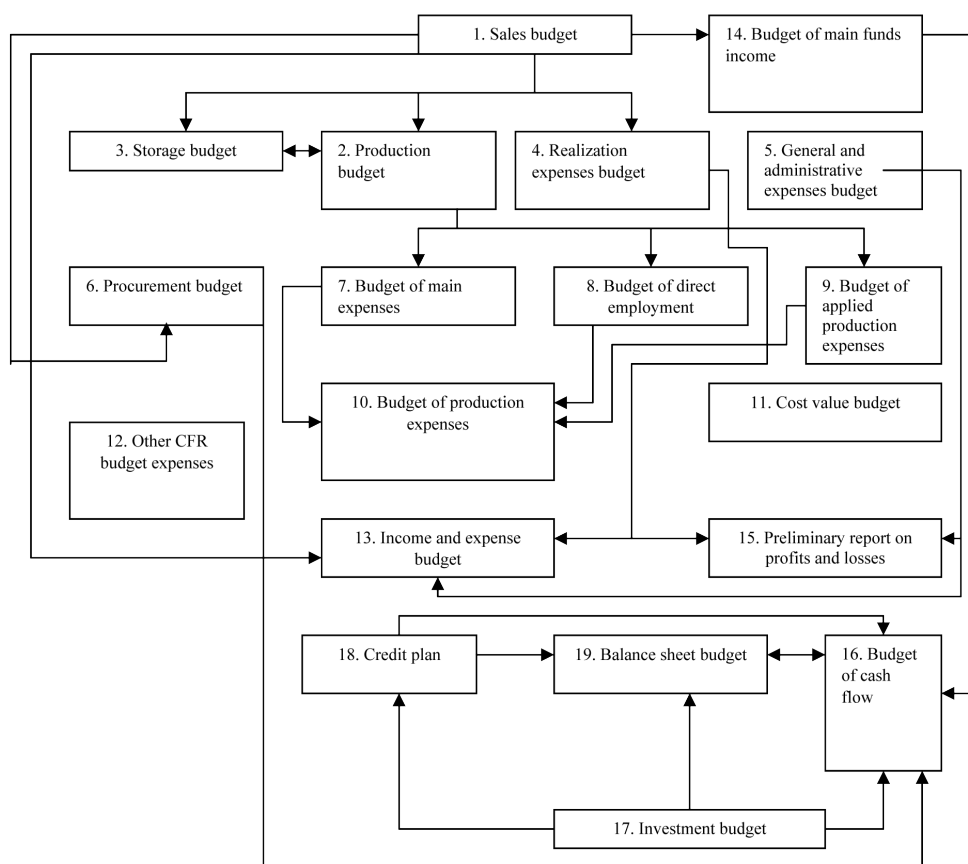
Analysis is executed on every stage of budget planning – first, plans are analyzed, then arising deviations in the current mode are analyzed, lastly,

real budget execution on interim (e.g. month, quarter) and budget period completion stages of CFR and all of the enterprise accountability analysis is conducted.

Managerial Decision Making

Data from the analysis for managerial decision making – in real time, and for plan correction – upon the completion of the budgeting period and new budget formation for the following planning period.

Algorithm of budgeting on a basis of LLP «SLFC»



Scheme 3 – Algorithm of budgeting on the basis of LLP «SLFC»

This being said, execution of current plans also mean that the part (stage) of the long-term (strategic) planning of financial and economic activity of the enterprise. In case, the company doesn't sustain current indicators planned according to the strategic goals, then the strategic plan on their achievement will not be accomplished. Thus, budget management organically builds in the system of strategic management and helps to realize the enterprise development strategy.

The first step (scheme 3) is to develop a Sales budget on the main activities (block 1) (developer – IC) «Realization of the production» (wholesale and retail).

The second step is to develop a budget of production (block 2) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory») and storage budget (block 3), which includes storage budget of rawleather (EC «Preparation of rawleather»), storage budget of

ready for sale products (developer IC «Production sale»)

The third step is to develop a budget of expenses on production realization (block 4) (developer – EC «Production sale») and budget of general and administrative expenses (block 5) (developer – EC «Management», EC «Preparation of rawleather», EC «Chief energy engineer services», EC «Chief mechanist service», EC «Chemical Lab», EC «Financial and Economical service», EC «Legal service», EC «IT», EC «Security»). Budget of expenses of realization is variable, therefore should be planned in chain with sales of ready for sale production.

The fourth step is to develop a Budget of main material expenses on the basis of production budget (block 7) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory») and budget of direct payment of employment (block 8) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory»). Here the norm of main material expenses should be used.

The fifth step is to develop Procurement budget (block 6) (developer – EC «Preparation of raw leather», EC «Procurement»), which is comprised of budget of raw leather procurement (developer – EC «Preparation of raw leather») and CSS (developer – EC «Procurement»). Data for raw leather procurement budget is taken from Budget of raw leather storage, for procurement budget of CSS – from Budget of main material expenses (chemicals and additional materials).

The sixth step form the Budget of additional production expenses (block 9) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory»), in other words the expenses, which enterprise bear to maintain production in a current state.

The seventh step is to start the development of Budget of production expenses (block 10) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory», EC «Procurement»), which is made of budget for main material expenses (block 7), budget of direct payment of employment (block 8) and budget of additional production expenses (block 9). Consequently, Budget of production expenses will be included in one of the main budgets – Budget of income and expenses (block 13).

The eighth step is defined as formation of produced goods' cost value budget (block 11) (developer – EC «Leather production», EC «Fur-coat production», EC «Fur-coat factory»), which is calculated based on the Budget of production

expenses and services provided by CFR. At the same time, cost value of the produced good is defined. Cost value of the produced good budget is used in the development of the second out of four main documents – forecasted MRFBA (block 15) (developer – EC «Finance and economic service»).

The ninth step is to make a Budget of income and expenses (block 13) (developer – EC «Financial and economic service»), the income part of which is formed from the Sales budget on main activities (developer – IC «Production realization») and Budget of expenses from non-main activity (developer – IC «Rent», EC «Financial and economic service»).

For the forecast of expenses part of BIE the budget of production expenses, and a Budget of expenses of other CFR (block 12) (developer – EC «Chief energy engineer service», EC «Chief mechanist service», EC «Chemical Lab», EC «Transportation», EC «Security»).

EC «Financial and economic service» also develops the Budget of Taxes to include them in the expenses part of the Budget for income and expenses.

On **the tenth step** the Budget of main funds income is formed (block 14) (developers – IC «Production realization»), which is included in the third out of fourth main budgets – Budget of cash flow (block 16) (developer – EC «Financial and economical service»).

The eleventh step is defined by the development of Investment Budget (block 17) (developer – EC «Financial and economical service»). Based on the needs of the Investment Budget and the need for crediting the floating capital the Credit plan is formed (block 18) (developer – EC «Financial and economical service»), which reflects the need for loan capital.

Lastly, **the twelfth step** is to form final main document – Balance sheet budget (block 19) (developer – EC «Financial and economic service»), and it's indicators show the cost of the enterprise for making optimal managerial decisions.

Conclusion. Improvement of budgeting system through the implementation of the algorithm of budget making provides the opportunity to increase efficiency of the enterprise's strategy realization, for the following reasons:

- directs at the enterprises strategy realization process and allows to:

- a) orient current activities of structural units (centers of financial responsibilities) towards the achievement of strategic goals of enterprise;

- b) to manage the process of strategy realization through the timely monitoring and analysis of factual

and planning indicators, and correction of strategy, based on the timely managerial decision according to the changing production conditions.

– sorted system of budget making system will be concentrated on the increase of enterprise cost.

Terms, definitions and abbreviations:

CFR – Centers of Financial Responsibility.

CFB – Cash Flow Budget.

IEB – Income and Expense Budget.

BS – Balance Sheet.

CST – commodity stocks and supply.

Income center (IC) – units, which are responsible for the income of the enterprise.

Expenses center (EC) – units, which are responsible only for the expenses in natural or monetary terms.

NVB – natural value budget.

IE – budget of income and/or expenses.

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