

## **BUDGETING AND BUDGETARY CONTROL ARE THE ESSENTIAL TOOLS TOWARDS SOLVING MANAGERIAL ACCOUNTING PROBLEMS IN MOST CORPORATE ORGANISATION**

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### **Abstract**

*The budgeting and budgetary controls are the crucial part of management control method of most corporate organisation. This process encourages managers to plan, consider the stakeholders involved, provides information for improved decision making, increases and enhances communication and coordination among departments, and for evaluation. This study evaluates the influence of budgeting and budgetary control on the managerial accounting problems in most corporate organisation, using manufacturing company in Nigeria (Nestle, breweries and Coca Nigeria Plc) as a case study. Since wants are plenty while resources are limited, every organisation tends to find means by which it can get what it wants with the limited resources at its disposal. Therefore, firms seek to adopt the concept of budgeting and budgetary control to satisfy their needs at the least possible cost and at the same time fulfil their stewardship obligations to the numerous stakeholders. A descriptive research design was adopted with data gathered through questionnaire administered to respondents. Non-parametric tool of chi square was employed to analyse the data. Hypotheses were tested and analysed on a 5% level of significance, and it was revealed that budgeting is a useful tool that guides firms to evaluate whether their goals and objectives are actualised. Considering the changing environment in which firms now operate, it can be concluded that budget, which is a continuous management activity, should adapt to changes in the dynamic business environment*

**Keywords: Budgeting, budgetary control, managerial accounting, manufacturing companies, stakeholders.**

### **1. Introduction**

Accounting is the act of identifying, measuring, accumulating, analysing, preparation, interpreting and communicating information that helps managers fulfil organizational objectives (Horngren, Sundem and Stratton, 2001). An important component of the accounting system is the management accounting system which makes information available

to managers, assisting them in decisions such as planning, organizing, and control and coordinating activities within their authority. An important component of the management accounting system in organisation is the budgeting system (including budgetary control) which is essential part of the managerial accounting system activities that involve in the budgetary control system (Seaman, Landry Jr, Williams, 2011).

In recent society, wants are abundant even though the means provided by the corporate's management are limited, most likely owing to the waste or underutilize of the limited means by the human factor involved in the production of goods and services. With various companies competing with one another, only small numbers of them that are capable of producing at possible minimum cost will survive the growing competition in the market. Therefore, it is utmost for every serious business embark on to produce at that possible minimum cost, to remain in business and also to achieve the corporate objectives of profitability and stability. In view of this, it is pertinent to do a realistic planning of the activities of the firm by taking the limiting factors and the long-term objectives of the firm into consideration. In order to achieve these goals, budgeting, a tool of planning and control for the future financial target, becomes essential in solving of this managerial system problems of most corporate organisation. Budgeting is ubiquitous and has long been considered as a necessary tool in managing a company.

A budget has been defined by Chartered Institute of Management Accountants (CIMA), as "a financial or qualitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. It may include income, expenditure and the employment of capital". CIMA also defined budgetary control as "the establishment of budgets relating the responsibilities of executives to the requirements of a policy and the continuous comparisons of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a basis for its revision. Egbunike (2014) opines that budget is a comprehensive and coordinated plan translated in financial terms for the operations of an organisation for some specific period to come.

Budget is a short-term finance planning tool of management. It is used to focus attention on company's finance and overall operations of an organisation. Budget highlights potential problems and advantages early, allowing management to take steps to avoid these problems or use the advantages wisely. A budget is a tool that helps managers in both their planning and control. Budget can be used as a benchmark and as a control system that allows managers to compare actual performance with estimated or desired performance. Hence, the budget is widely used as a managerial technique tool in an organisation (Horngren, Sundem and Stratton, 2001). It has been known that budgetary control has effectively helped to improve the overall performance of the organisation. Literatures have existed on over time on budgeting and organizational performance (Omolehinwa, 1989; Abdulla, 1998; Hartmann & Moers, 1999; Raili, 2000; Otle, 2001; Welmilla, 2001; Hartmann & Moers, 2003; Hansen, Otle & Van der Stede, 2003; Gustafsson & Parsson, 2010; Caleb, 2011; Collins; 2011). Batty (1982), defined budgetary control as a system which uses budgets as a means of planning and controlling all aspects of producing and or selling commodities or services. This is true as we tend to prepare revenue and expenditure variance analysis to be able to deduce areas of divergence for which the management needs to watch to avoid embarrassment as any adverse

variance will translate into inability to meet the corporate objective which will eventually lead to disagreement with stakeholders. According to Hansen and Van der Stede (2004), there are four potential reasons for budgeting in organisations, operational planning, performance evaluation, communication of goals, and strategy formation. Pandy (1985) however, observed that although many people will complain about budget and its process, budgets are indispensable in a large modern organisation as the benefit that occurs from budgets and its control is much greater than the cost involved. In view of this, the fact that resources are scarce, coupled with high competition that permeate most businesses, budgets when rightly applied, would be an effective tool for planning and control, especially in large corporate organisations like Nestle and breweries Nigeria Plc.

Furthermore, the budget arises in different circumstances and that performance is associated with different budgeting characteristics. Therefore, it can be said that budget is a parameter which measures the actual achievement of people, departments, ministries, and firms, while budgetary control ensures that actual results are positively or negatively in accordance with the overall financial and policy objectives of the establishment.

### **1.2 Statement of the Problem**

The decision as to how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organisations. In most large and complex organisations, this task would be nearly impossible without budgeting. Without effective budget analysis and feedback about budgetary problems, many organisations would become bankrupt. Some of the problems arise from inadequate data to formulate and implement a proper budget; and non-existence of well-defined structure, which leads to overlapping of duties. These deficiencies can therefore be addressed through the use of budgeting technique. Therefore, this study traces the extent to which budgeting can be used as a good planning and controlling tool in a manufacturing company.

### **1.3 Research Hypothesis**

For the purpose of analysing the data, the following hypotheses were tested:

Ho<sub>1</sub>: There is no significant relationship between budgetary planning and control on organisation performance.

Ho<sub>2</sub>: Effective budgetary control does not influence the result achieved.

Ho<sub>3</sub>: Budgeting technique is of no importance in a manufacturing firm.

Ho<sub>4</sub>: Budgetary control does not affect the working performance of an employee in a manufacturing concern.

## **2. Literature Review**

Hilton, (1997 cited in Abdullah, 1998, p.1) defines budget 'as a detailed plan, expressed in quantitative terms, that specifies how resources will be acquired and used during a specified period of time'. The budget is prepared for the primary purposes of planning, facilitating communication, coordination, allocating resources, control profits and operations, evaluating performance and providing incentives. According to Gustafsson and Parsson (2010), the budget has in the past had a control function, however today there are several objectives and purposes of the budget, and the purposes vary among organisations. Budgeting in this regard

is viewed as enabling the different functions of management control further, state that the budget represents their numbers and their benchmarks against which their performance is measured (Herath & Indrani, 2007).

According to Dugdale and Lyne (2010), budgets tend to become more important for control, not for planning. Conversely, budgets become less important for control but more important for planning in a more uncertain environment. In addition, budgeting has been integrated with non-financial measures in general and the balanced scorecard in particular. The accounting system of the operation provides information on what has happened in the past and helps managers to keep track of whether or not they are meeting their current budgets. Budgets are therefore an expectation of what a manager agrees is achievable within the immediate future and are mostly expressed in financial terms (The Institute of working future, 2011, p.3-5). According to Marginson and Sharma (2011), the budgetary practices and procedures encountered may be unique to that organisation. They mention that insights into the connections and interdependencies between budgeting and strategizing in day-to-day activities within an organisation. It appears that many aspects of the budgetary process, particularly budget implementation, and budgetary control in general, may differ from accepted view as firms design strategic objectives from budgetary information whilst simultaneously engaging in budgeting activities as strategies are developed. In these circumstances budgets may be used as a reflection of the performance of those responsible for specific areas of the operation. The budget process must be undertaken with the full cooperation of managers who understand the budgeting process. Budgets should produce figures that represent expected performance under current operational conditions (The Institute of Working Future, 2011, p.3-5).

## **2.2 Budgetary Control**

The goal of control is to ensure that operations and performance conform to plans. Controlling includes all activities that ensure that the actions of the organisation are directed towards the stated goals.

Koontz et al (1979) defined control as the regulation of work activities in accordance with predetermined plans, such as to ensure the accomplishment of the organisation's objectives. Control operates through standard and also measures the work performance according to these standards and correct deviations from the standard. It presumes that there is a standard or plan against which performance is compared. Lucey (2003), in support of the above, opined that control concerns itself with the efficient use of resources to achieve a previously determined objective, or set of objectives contained within a plan.

Steps involved in control include:

- a) Establishing plan, goal, or objective decision rule.
- b) Recording of actual performance of activity.
- c) Creation of a mechanism to compare the above two steps.
- d) Extraction of variances, that is, the difference between the first two steps.
- e) Investigation of the causes leading to the variances.
- f) Correcting the variance or taking appropriate action on the variances.

Control by continually comparing actual with budget performance. Since all activities are ultimately capable of being expressed in financial terms, the breath of control possible is very great. Hence budget control is part of the overall system of responsibility accounting within an organisation, as costs and revenues are analysed in accordance with areas of personal responsibilities of the budget holders through permitting financial monitoring.

Budgetary control relates expenditures to the personnel responsible for the various expenditures at the various cost centres so that each manager is held responsible for the cost by which he has control.

The terminology of CIMA (2006) defined budgetary control as the establishment of executive, the requirement of policy and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a basis for its revision. Suffices to say that budget is not an island on its own, emphasis is placed on control which is done in form of comparing action with budgeted plan.

Lucey (2008) defined budgetary control as the process of comparing the actual results with the planned results and reporting on the variations called variance. This according to him, sets control framework which helps expenditure to be kept within an agreement limits, deviations are noted all along for corrective actions. In some circumstances, it may be necessary to revise goal, but this should not be a normal occurrence but only in exceptional circumstances.

Practically, budgetary control involves departmental, sectional, or functional heads in the organisation receiving a copy of budget relating to their activities. Each month he will receive a copy of budget report showing visibly where he has over or under spent his budgeted allowance. From this he will be able to decide on the corrective step to take. This is in tandem with the fact that variances are the responsibility of departmental or sectional heads and every one of them must explain the variance and act in time to stop future occurrence of adverse variances. Professor Pogue underscores this practical aspect of budgetary control, when he states that if the actual sales as compared to the budget always results in adverse variance, provided it is realistic and attainable, it is not advisable to revise the figure just because they were not attained. Therefore, it can be concluded that budgetary control on its own controls nothing but rather it is management acting on the information received by way of results that exercise control, in short, management holds the control yardstick.

Batty (1963) budgetary control is a system which takes budget as a means of producing and or selling commodities or services. The same Batty (1970) went further to state that budgetary control aims at the performance of three primary functions of planning, corporation and control aided by feedback and corrective action. But Buyer and Holmes (1984) considered budgetary control as a means of control in which the actual state of affairs is empowered with that planned for, so that the appropriate action may be taken with regards to any deviations before it is too late.

### 3. Methodology

Primary data was employed in gathering information. The methods adopted in collecting the data are direct interviews, observations, and the use of questionnaire. Inquiries were also made both directly and indirectly through some unusual questions to the employees and management of the company.

#### 3.1 Population, Sample and Sampling Technique

The study focuses on budgeting and budgetary control of manufacturing company, with special reference to Nestle Plc and Nigerian Breweries. In order to carry out an in-depth and comprehensive study, 40 respondents were randomly selected. These respondents cut across all the cadres of the company and its customers.

#### 3.2 Validity and Reliability of the Instrument

To ensure the validity of this research, the instrument was subjected to criticism by specialist in the areas of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through a test-retest technique to analyse the data collected.

### 4. Results

**Table 1: There is no significant relationship between budgetary planning and control on organisational performance.**

Subject	No	%	T-calculated	Table value	Decision
Agreed	30	78.3	44.02	10.09	Reject
Disagreed	10	21.7			

Level of significance – 0.5.

Since t-calculated is greater than the table value (i.e.,  $44.02 > 10.09$ ), then the null hypothesis is rejected, while the alternative hypothesis is accepted, and we conclude that there is significant relationship between budgetary planning and control on organisational performance

**Table 2: Effective budgetary control does not influence the result achieved**

Subject	No	%	T-calculated	Table value	Decision
Agreed	28	77	40.50	11.19	Reject
Disagreed	12	23			

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e.,  $40.50 > 11.19$ ), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that effective budget control influences the result normally achieved.

**Table 3: Budgeting technique is of no importance in a manufacturing firm**

Subject	No	%	T-calculated	Table value	Decision
Agreed	22	74	36.90	14.05	Reject
Disagreed	18	26			

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e.,  $36.90 > 14.05$ ), then the null hypothesis is rejected, while the alternative hypothesis is accepted, and we conclude that budgeting technique is of great importance in manufacturing companies.

**Table 4: Budgetary control does not affect the working performance of an employee in a manufacturing concern.**

Subject	No	%	T-calculated	Table value	Decision
Agreed	27	79.5	42.15	12.19	Reject
Disagreed	13	20.5			

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e.,  $42.15 > 12.19$ ), then the null hypothesis is rejected, while the alternative hypothesis is accepted, and we conclude that budgetary control affects the working performance of employee in manufacturing company.

#### 4.1 Discussion

Based on the findings and the result, it is discovered that Nigeria business environment has made it necessary for organisations to develop and implement budgets, to ensure this, the financial year and major objectives of the organisation must be considered. In Nestle and Breweries for instance, these multinational companies, have a well-defined approach to budget planning, implementation, and control. All departments are involved in the entire budget process, as departmental heads prepare budget with full participation of their employees. Budgets are prepared on yearly basis, but with various control periods for review within the year, the implementation of approved budgets take effect at the beginning of the budget period. The Budgets are normally communicated to all staff on regular basis for proper and quick accomplishment of goals. As a structured organisation, there exists a formalised organisational structure in Nestle and Nigerian Breweries, through which responsibilities are assigned for control purposes. These controls influence the working performance of the employees. The feedback result of each department on the implementation of the goal is compared with the budgeted result and any variances are highlighted and are used to evaluate the company's performance and effect changes where necessary.

#### 5. Conclusion

There are small, medium, and large - sized companies in Nigeria. This study examined how budgeting control impacts on the performance of most corporate organisation. The relevant research questions raised above has been examined in the light of the mode of operation of manufacturing companies. In manufacturing companies' operation, it has been discovered that quite a number of the employees know the budgetary system of the company and there exist considerable participation of lower-level employees in planning and budgeting. It was also discovered that the work force is well motivated and competent enough to propel the company to a greater height.

Finally, the findings of this study suggest that companies who plan to improve their financial performance should give more priority to develop the formality of the budgetary planning, budgetary coordination, budgetary control, budgetary communication, and budgetary evaluation. Further, provide guidance to help accounting and finance professionals' increase

their knowledge to targeted practices of budgetary process of Nigeria that specifically support private sector organisations.

### **5.1 Recommendations**

From the above findings and in order for the manufacturing companies to operate profitably, they must take the following critical steps:

- a) Adopt a budgetary system of adequate planning with strict adherence to implementation, which cuts across the finance, production, administration, and marketing etc.
- b) The finance department should review all existing standards and introduce measures that will tighten the internal control system to prevent leakages of financial resources.
- c) Only judicious and profitable investments should be undertaken.
- d) Top executives of Nestle and breweries Nigeria Plc, who presently have firm grip on the beverages and confectionary market in the country, should assess the current marketing and distribution policies as well as economic, political, technological, and other socio-economic factors that affect the company.
- e) Budgeting and budgetary control system should not be too complex for the people to understand.
- f) To enhance the attainability of budgets, resources should be provided to complement the budgets.
- g) As the environment is dynamic, budget should be reviewed and adjustment made from time to time, where necessary.
- h) The management should ensure that workers pursue the set budget.
- i) There should be an excellent communication link between production and sales departments, so as to meet target thereby eliminating undue variances.

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