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## Cost And Management Accounting In The Budget Plan

As we all know that budgets are the most advance management control tools, budget is official report of anticipated profits and expenditures based on future ideas and goals. A budget is also a file that management makes to predict the income and expenses for the future period (Correia, 2018). The budget may be of short-term and long-term. The life span of short-range budget covers one year, and long-run budget plan have the time duration more than one year. As from the establishment of the company budgeting process is vital for the existence of the enterprise. Traditional accounting is the process of preparing spending plan for recent year by watching the last year expenses as a base. The company can save time because it does not need to think more. Most of the businesses choose this sort of budgeting because they can make a plan with of any kind information they have and then they can budget simply and speedily. Old-style budgeting method is especially preferred by small organizations. Although traditional budgeting is criticized by many authors, it is still used universally. Most companies are not making a plan for abandoning it. Budget planning is seen as a key administration action in recent years for every organization. Without a proper budget plan, an organization cannot run smoothly. For planning, organizing controlling the support of budget is very key in the business enterprise.

As analyzing the current environment, traditional budget is inappropriate but still very widespread amongst administrations and it will not be abolished quickly from the market. (Scott & Livermore, 2018). Throughout the years it has asserted that the budget planning has lost significance with the cutting edge business condition and is not fulfilling the requirements of supervisor. The other budgeting technique that suits well for the requirements of the recent industry were developed. Beyond budgeting, activity-based budgeting, better budgeting is the key alternatives developed in the last few ages. The beyond planning concept is attributed to Hope and Fraser. As some of the company are trying to find out the best way than traditional budgeting, many organization are still using the traditional budgeting to make plans and policies about the income and expenditure for the future (Domain, 2019).

Standard costing is the costing strategy that is utilized to think about the standard expenses and the income, so as to land at the changes with its causes, to advise the administration about the deviation and make the remedial move right away (Berger, 2011). The average price can also be well-defined as the charge for each piece of the product formed at a certain time period. Mainly standard costing focuses on computing the performance, monitoring the deviation and determining the export price of the goods and services. Standard cost is also called as predetermined cost, future cost, expected cost etc. There are three core components of average costing they are, direct material rate, direct labor cost and expenditures. The per-unit cost of material, labor, overhead can be obtained through standard costing. Especially standard expenses are resolved subsequent to considering each and every potential outcomes that may emerge later on in the future. Standard costing is so important in future cost estimation. Standard costing sets the target and helps to check the performance and correct the deviations. The standard costs are essential for preparing the budget of the company and analyzing the performance of the employees. The main and important objective of standard costing is to find the changes between standard price and actual price. After establishing the standard to be achieved the real cost must be determined. While determining the actual cost, there should not

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be any error. After determining the actual cost, it is compared with the standard cost. After the comparison, the gap should find out, and the corrective action should be taken. To find out the profitability position of the firm average costing is helpful in the company. Through standard costing an organization can improve cost control, helps in making plans and take decisions, reduction in cost and increase in revenue. It is very important for manufacturing industries to calculate per unit cost of material, labour. Without calculating per unit cost, the actual price cannot be determined. Through standard costing, the standard price per unit can be determined. By determining the labour and material unit cost the profitability of the firm can be obtained.

According to Jensen (2001), "Corporate budgeting has become a joke these days. It is time consuming and forces managers to lie and cheat, traditional budgeting disturbs the compensation program and demotivate the employee working in the organization." As in the example, we can see that the company was shipping the unfinished product to cover the sales and to fulfil the budget criteria through which the employee can make their bonuses. This step decreased the profit achievement goal of the organization. And another, there was a failure of a giant drink concern as the large workgroup of the company did not focus on upcoming demand in the major holidays. The budgeting procedure is intensely occupied with the corporate business world that representative lies and amusements are seen and acknowledged as common in business now a days (Chasalow, 2016). This types of lies and games are very much destructive for goal achievement in the organization. The use of budget target achievement is usually done to determine the level of compensation in most of the organization. Here the budget drives compensation and also the behaviour of employees according to Jensen. Jensen describes "A typical executive compensation plan" a minimum performance to be done by the employee is set, and when the manager or employee cross the target he or she will receive the bonus and then the bonus increases as per the performance of the employee in the organization. The director has a solid motivating force to push income and benefit in the following year, when the work performance hits high. When you begin compensating chiefs for negative estimate and contorting the basic data, you are undermining the whole existence of the association.

As a inspiring unit and department moves to falsify forecast and hide dangerous data, you weaken the salutary effects of budgeting. The single direction to dispose this issue is to expel all the sharp bends from the exhibition line and receive an absolutely straight reward plan or "A direct pay plan". In this reward plan employees are compensated for good presentation without caring of the budget targets. The employee is rewarded only for what they do not for what they can do. Jensen says that to escape from spending gaming issue an association should embrace a simply straight pay-execution framework that rewards genuine execution, autonomous of spending targets. It is so common to set an extremely aggressive goal in business today. It's very tough for firms to go through linear reward system plan. The curvilinear compensation plans are no remedy for dishonesties and gaming. They urge supervisors to build the inconstancy of a tear to tear execution measures. The employee will earn the same level of bonus both linear plan. Finally, the issue arises on limits of compensation: as all payments will directly be related to the performance. Even the managers become convinced, they still argue for the compensation plan. Both the performance and bonus level will be changed, and strong leadership is needed for all these changes.

Hope & Fraser (2003) introduced a new way of setting rewards called "The Beyond Budgeting Model". Some people believe compensation brings changes in the power of performance;

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others think it is only needed to complete the work forcefully, and this is not a good and proper management practice. Study of the beyond costing model over the previous five years shows that fixed target reinforced through incentives are one of the major cause of dysfunctional behaviour of employees in the organization. Beyond budgeting is the detailed idea which thinks the elimination of the traditional budget process, improve management control within the organization. Many great business leaders have a debate on the subject matter if incentives.

Most authors believe that the compensation scheme leads to a distortion of management behaviour and leads to negative business performance. The great business leader believes in the power if rewards; rather it is intrinsic or extrinsic rewards. It is imperative to realize that Kohn, Argyris, Senge and Pfeffer were condemning about the reward paid to the people; they were less worried about the group work. This means the team should be given exact emphasis for the rewards. The prizes should be given to the whole team not only to the individual. In the viewpoint of McGregor's Theory Y individuals are inspired by self-confidence and individual progress (Badubi, 2017). Many researchers conclude that extrinsic rewards do not work and some of them are convinced that rewards are significant to improved performance and success. The beyond budgeting model also depicts why the traditional approaches fail. Here a manager is only able to get compensation if he or she reaches to the hurdle point set by the organization and only get compensation up to the cap points (Becker et al., 2010). Only between hurdle and cap points managers are motivated to maximize profit. According to Harvard Professor Jensen, there should be an open connection among rewards and results. It will be overcome for gaming problem if an organization provides team-based incentives.

According to beyond budgeting model organization is machine and can change speed efficiency in the work. Various principles are developed to support beyond budgeting model. These are;

- If a firm really expects exceptional performance, then it should not base incentives on a fixed performance of managers.
- Performance should be rewarded by evaluating relative to peers, benchmarks.
- While evaluating performance use simple, clear and easy measure.
- Always rewards should be aligned with the strategic goal of the organization.
- Evaluation of team performance and the best reward for the best team.
- Never think of motivating employees through reward.
- The reward should always be fair.

The best practices of beyond budgeting by Hope and Fraser is shown by describing the two case of the relative success of working teams at group bull and relative success of the group at handelsbanken. Both of the cases depicts that the best budget beyond practices. Hope and Fraser also talk about the role of balanced or stable scorecards and shareholders value models. Adjusted scorecards are progressively used to assess the exhibition and to give the reward. However, shareholders value replicas are used by the firm to fix the level of rewards. The aim of beyond budgeting is not only to replace traditional budgeting but also to decrease the cost of budgeting and implement more adaptive planning process (Sandalgaard & Bukh, 2014). Beyond budgeting model also give emphasis on developing responsibility and accountability towards the customers because an organization cannot survive without a customer. This model also rejects the cause and effect relationship. Suitable approach contingent on the necessity of the company should be approved depending on the business plan, organizational level and philosophy. After all, we people are living in a globalized world with European companies in service in the middle east and middle eastern companies operating in Europe. Therefore,

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maybe the right question wouldn't be which culture is appropriate to the beyond budgeting scheme. But overall, the benefit provided by this model is necessary and important to the management of an organization in the current competitive dynamic market. The implementation of this approach is slow and challenging, but the chances of being productive and profitable are high.

As from the above explanation, traditional budgeting means preparing the plan for income and expenses for the present year by keeping the previous year budget as a base. Traditional budgeting is mostly fit for small firms if it doesn't have more overheads. If an organization follows this type of budgeting, they do not need to think more (Rohm, 2007). Although traditional budgeting is criticized by many authors, it is still used by some organizations. Even though traditional accounting has its own downsides most of the corporations are still consuming it. It is determined by the nature of the organization, culture, company life cycle etc. In traditional budgeting, the incentive payment system was driven by the budget of the company. Similarly, the beyond budgeting model focuses that incentive should be given to the best team by evaluating their performance. Beyond budgeting model never talks about motivating people by providing them compensation.

Performance is evaluated using a simple and clear method. This model also depicts that the reward should always be fair. Both the traditional budgeting and budget beyond model are very important for every organization. According to Badem et al. (2013) argued that standard costing and variance examination were inadequate for controlling cost and evaluating act due to the changing atmosphere. The environment is dynamic; it is very difficult to forecast the future environment. Due to change in various environmental factors such as; political, economic, technological etc. are affecting the variances. Standard costing is important tools to increase efficiency, effective utilization of resources, to make proper decisions and standard costing is very important to control the budget.

However, in this global business environment, there is mass competition between every firm nationally or globally (Passaris, 2006). In my viewpoint, traditional budgeting and standard costing are somehow related to each other. Traditional budgeting helps to plan the budget for future, here standard costing helps the budgeting process very much. Without the proper information about the per unit price of the variances the price of the product cannot be determined. Without having the proper knowledge of standard cost, the budget implementation will not be effective, and the target cannot be achieved. As the environment is changing the organization should be able to adopt such changes easily, while preparing the budget such changes should be focused much. Traditional budgeting has been criticized much, but still needed in some organization. Standard costing helps in performance measurement, and the right individual and team can be rewarded by incentive.

So for providing the incentives to people standard costing is related to traditional budgeting. We know that in the process of making the budget standard charge is needed and it is difficult to include exact actual cost of an product when the budget is finalized. So, to link actual cost result in following period is the key application of budget (Cagan, 2018). The measures utilized inside it keep on showing up in money related reports through the spending time frame. Maximum companies use standard cost calculation to develop product rates. So it is seen that standard costing will discover a few uses for what to come in future. Specifically, standard costing gives a benchmark against which the board can think about genuine execution. As the environment is changing in the rapid pace, there is a relationship between traditional budgeting and standard

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costing. Without the standard cost the budget cannot be prepared and implementation, a proper budget implementation need standard cost. Being a pre-determined cost, standard costing is particularly useful in planning and budgeting. Since the data concerning the error of real cost and standard cost is given continuously, the effective and accurate budget will be probable for the future year. So, these are the relevance of traditional budgeting and standard costing in the dynamic business environment (Elias & Etim, 2017).

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