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Evaluation of the Budgetary Practice as a Financial Tool

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ABSTRACT

In financial accounting, there are assorted tools and approaches to keep track of the business activities. These tools are required so that the overall planning and predictions can be done. Budgetary practice or simply the budget based planning makes use of the techniques so that the financial liabilities and the growth factors can be evaluated effectively. Budgeting is one of the key practices for the financial goals and the data based activities for final prediction and the outcome with greater degree of accuracy. This manuscript is having the focus on the presentation of key aspects of budgetary planning or practice as the key financial tool in the business organizations.

Keywords: Budgeting, Budgetary Practice, Budgeting as Financial Tool, Financial Activities, Financial Tools

INTRODUCTION

In the business organization, the managing of financial tools is very important to have the higher degree of competitive advantage with minimum loss factors (Hinterhuber, A. et al., 2017). It is required in the business to have the higher effectiveness based financial tools so that the overall planning of funds and values can be done with greater accuracy (Macaulay, S., 2018). The financial tools are used to forecast the profit and the expected negative points or simply the challenges in the organization which can be managed in prior without having actual experiences of those challenges. If such challenges are not forecasted, the overall outcome can be panic based and the funds can be moved to the wrong directions. By this way, the overall predictions on the business outcome can be done in effectual way and higher level of understanding of the output and profitability values (Kandachar, P. et al., 2017).

Following are the key perspectives and dimensions of the financial indicators which are required to be evaluated in the organization with the cavernous evaluation of the business points.

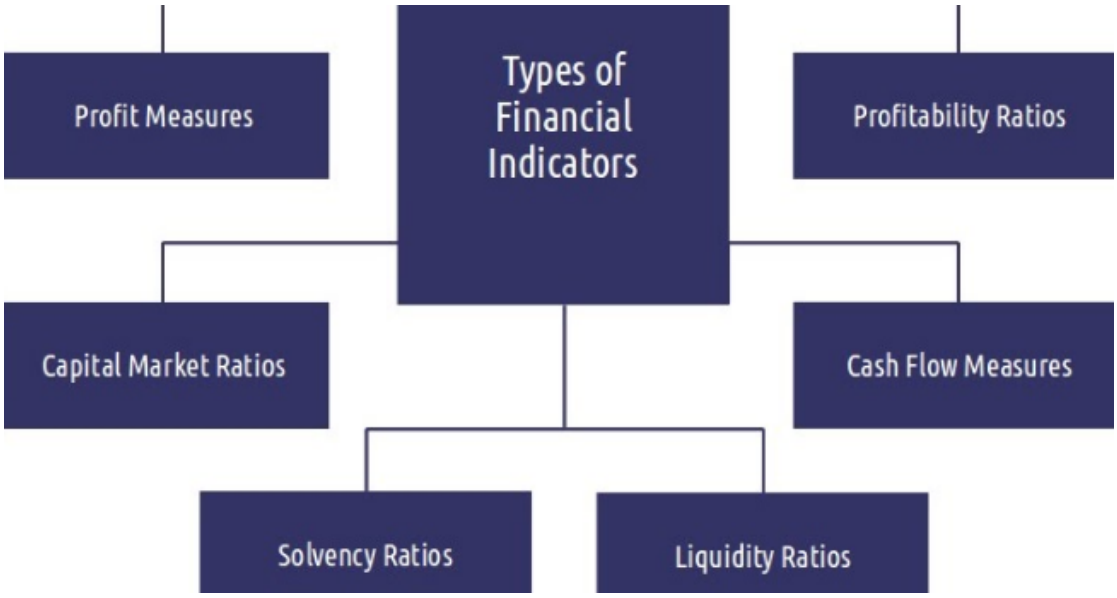


Figure 1. Financial Indicators

Budgetary Practices

The approach of budgeting is used for the allocation of resources and the funds in finite as well as feasible ways. In any organization, it becomes necessary to cope up and manage the financial perspectives for higher degree of growth and profitability (Ramadhan, B.F. et al., 2017; Ryan, P.A. et al., 2002; Bible, L. et al., 2006).



Figure 2. Budgets and Association Components

- Sales or Revenue Budget: The expectations on the income and the receivable funds
- Expense Budget: Anticipated Value of the Budgets on the expenditures of assorted types

- Profit Budget: Planned Predicted Values associated with the product line and the services line in the business organization

Following are the key dimensions of the budgets

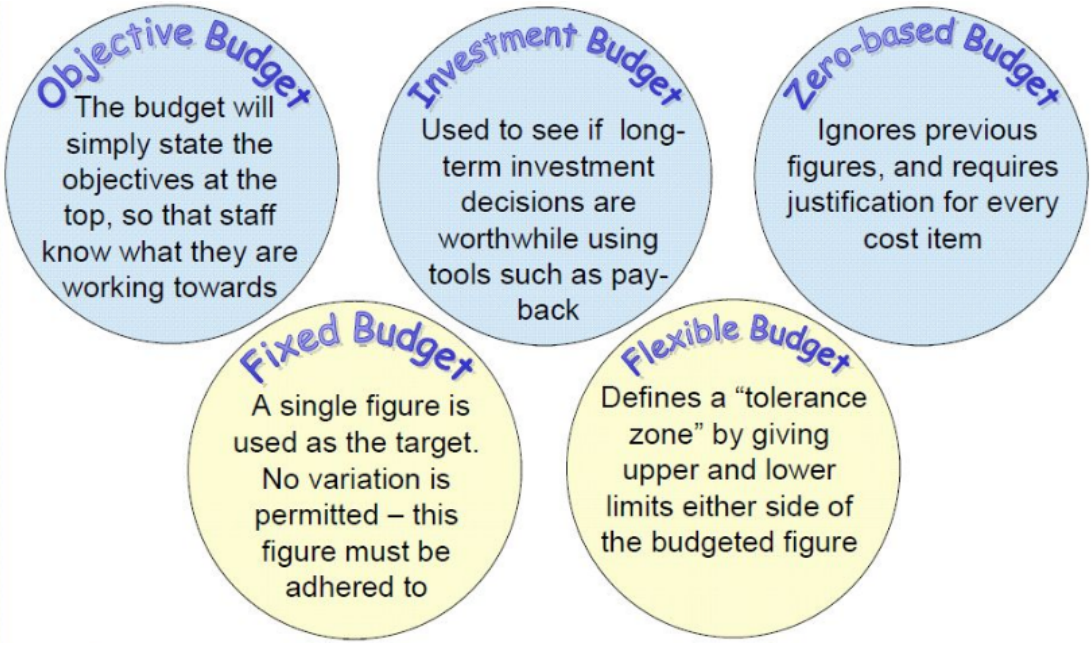


Figure 3. Taxonomy of Budgets

The key features of the budgetary planning includes the following perspectives

- Accuracy forecasting and clarification
- Matching the time frame and slots
- Specification of the assumptions
- Examinations of the dataset evaluated
- Recognition of the forecasting values
- Consistency in the evaluations
- Integrity in the Calculations

Theory and evidence suggest that the financial values are diversified when they have valuable and difficult to emulate resources that are valuable across industries, or are complementary to resources in other industries, and where these gains cannot be realized by contracting among independent business. Some of the other reason for the business to diversify is when they have effective internal resource-allocation mechanisms, particularly when background institutions and external capital markets are undeveloped. Theoretical arguments suggest that diversification has both value-enhancing and value-reducing effects. Several school of thought, very strongly believe that product diversification have a very positive impact on the corporate profitability in terms of less incentive to forego positive net present value projects, greater debt capacity and lower taxes and economies of scope. The work also investigated whether there is an optimal leverage at which point corporate is able to maximize its value. An advanced panel threshold regression model is applied to test the panel threshold effect of capital structure on corporate value among 92 Vietnam's seafood processing enterprises from 2005 to 2010. In this study, the researchers used ROE as

surrogate for corporate value and debt ratio (DA) as surrogate for capital structure and as the threshold variable.

The empirical results strongly indicate that two-threshold effect exists between debt ratio and corporate value. Besides, the coefficient is positive when debt ratio is less than 59.27%, which implies that debt financing can improve corporate value. The coefficient is negative and presents a decreasing trend when the debt ratio is between 59.27% and 94.60% or above 94.60%, implying that, in that regime, a further increase in debt financing, deteriorates corporate value. In the work by assorted scholars, the impact of capital structure on financial performance using sample of thirty non- financial points listed on the Nigerian Stock Exchange using panel data for the selected business points are generated and analyzed using ordinary least squares (OLS) as a method of estimation. The result showed that a capital structure surrogated by debt ratio, DR has a significantly negative impact on the financial measures Return on Asset (ROA) and Return on Equity (ROE) (Damodaran, A., 2007).

The studies indicated the consistency with prior empirical studies and provide evidence in support of agency cost theory. The works also depict that the significance of corporate governance has increased in the recent past due to factors like increase in corporate scandals. Such scandals tend to increase the risk of the stakeholders to a great extent. While stakeholders have the capability to influence the forbearance and performance of an organization, such impact varies with the industry. The study makes an endeavour to find the impact of promoter holding, institutional holding and individual holding on corporate performance by analyzing several diverse industries.

However, literature has two sets of findings with regard to diversification and leverage relationship. Even though researchers are divided on the effect of leverage, they have reached a consensus pertaining to influence of corporate size on performance. Their evidence exhibits that large corporates can utilize their resources efficiently and minimize downside risk, leading to improved corporate performance. Besides that, risk is another important variable that attract little attention in the study pertaining to diversification issue. Risk needs to be controlled because the theory states that high risk is associated with high return. Kim et al., (1993) used variance of return on assets as a proxy for risk to control the risk profile of corporates and capture effects on corporate performance.

A quantity of studies have hypothesized that diversification strategy may improve profitability and success, all the way through financial system or economies of extent and/or in the course of the anticipating of product space. The exposure of integration of DS, CS and FP across promising economies has attempted positive in recent years because the focus of researchers has also shifted towards emerging economies to get sustainable advantage. The greater part of research work of integration of DS, CP and FP concentrated in major countries but there are numerous nations which have not trapped the attention of researchers for learning the variables – DS, CS and FP mechanism, role and importance for sustainable business. For that reason, nations which were unexposed in precedent literature are supposed as well and be incorporated for upcoming research. In addition, the sample data and sample countries, considered for the future studies, ought to be changed to perceive any disparity in the outcome.
The data can be inspected for integration and its mechanism using new suitable statistical techniques like multivariate analysis, univariate analysis, path analysis, co-integration test, panel

co-integration test, panel unit roots tests assuming cross-sectional independence and dependence etc. with the usual tools and techniques for better understanding of DS, CS and FP. Thus, further conclude that able-bodied diversified corporates have strong performance through this integrated mechanism for successful and sustainable business. Moreover, future studies could also take up different measures of integration of such variables in a better way.

CONCLUSION

Budgetary planning is mandatory in the business due to rising pressure of corporate world and international business community was the time when the business organizations underwent an economic revolution that aimed at deregulating the economy and shifting from a path of relatively protected inward looking industrialization to a new phase based on greater competition in the domestic markets, openness to trade and investment, and fuller integration with the global economy. During the same time a radical restructuring of various policies affecting the economy was required and reforms at micro, macro and structural level were required to uplift the economy to the light of globalization. Crisis management and dealing with the balance of payments were also some of the prime agenda which were on the cards at that time and can be done with the budgetary control.

A control on accelerating inflation was also required to achieve macro-economic stabilization. It was also realized that macro-economic stabilization would provide a sound foundation for medium and long-term structural economic reforms and accelerate the rate of economic growth in a sustained manner. During the same time business were liberalized to invest in the global markets and vice versa investors from international markets were encouraged to invest in markets. Initially the markets were not much prepared as far as technology efficiency and quality of the products they used to manufacture but gradually with the incoming of world class companies and their manufacturing systems they also improved many fold. To cope up with the issues of financial control, the budgetary planning is mandatory so that the higher degree of performance in the revenue management can be done.

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