

THE INCOMES AND EXPENSES BUDGET OF AN ENTERPRISE AS AN INSTRUMENT OF FINANCIAL FORECAST

Corina Miculescu

***Abstract:** Forecasting financial inflows and financial balance on a certain period is realized using the budget of incomes and expenses. In financial practice we use different types of budgets structured according to budget activities. The objectives set when establishing and executing the incomes and expenses budget are achieved if we ensure the forecast function, the control function and the function to ensure the financial balance of the enterprise.*

***Keywords:** financial forecast, budget, income, expenses*

Introduction

The financial policy of an enterprise cannot be established outside a forecast activity, of financial planning. The instruments to make a financial forecast are budgets of enterprises that, unlike the balance and the profit and loss account are not for the public use but to satisfy internal needs oriented towards reaching a certain target in the future financial exercise (increasing performance, the value of the enterprise). The budget of the enterprise sets the trajectories to reach the proposed target. Future events on these trajectories will evolve in this way depending on the realism of the financial forecast and the managerial activity to do it.

The budget of income and expenses elaborated by any enterprise is a financial instrument to predict all cash and financial flows over a certain period of time usually a trimester or a year.

Using the budget of income and expenses we can predict cash flow both in lei and in foreign currencies, in order to sustain the activity programme approved by the administration Council as well as reaching payment capacity and cash flow depending on the degree of debts in a company.

The budget of income and expenses of the enterprise – instrument for financial forecast

In the process of making an income and calculating expenses, the budget represents an instrument of analysis and control, of ensuring

financial balance of the enterprise. Convergent and complementary to budget we can organize an accounting system that controls how much of the effective realizations correspond with the plan, and on this basis we can make the decision to correct. Thus, the budget as a leading instrument eases the integration of planning activities, of control activities and of tracking activities of the expenses, income and financial results.

Another feature of the budget is that on its basis we can ensure coherent activities and organizational structures of the enterprise, in order to increase profitability and saving resources. Analysed from this point of view the budget links financially the components of a firm in order to use material funds and cash efficiently. This capacity of the budget is based on the fact that any plan or objective of any link, including the firm as a whole must ensure efficiency and profitability dimensioned by the budget. Moreover, methodologically speaking, due to the nature and value expression of financial indicators, the budget reflects synthetically all phenomena and processes no matter how varied.

The modalities for the budget to realize the content of activities and organizational structure within the firm are decentralization. Each activity or internal organizational structure within the firm is considered a centre of income or expenses or management where financial objectives are planned, resources are allocated and budget control is realized. Moreover, the firm as a whole represents a centre of income and expenses that enters relationships with external media, economic and financial relationships.*

Each center of income and expenses is invested with the authority and responsibility necessary for managing resources to accomplish financial objectives from the general budget of the firm. In fact, the factor that gave an impulse to using the budget as a leading instrument is the necessity to increase efficiency of various activities or organizational structures in order to improve the complexity of the process to obtain benefits. By setting the budget in the centres of income and expenses we can plan, coordinate and control the movement of structural variables of the firm, in order to increase their contribution, their efficiency and saving the allocated resources.

Generally speaking, we can appreciate that the budget, as a leading instrument of the economic and financial activity has the following specific elements:

- Integration of planning, tracking and control activity of income, expenses and financial results;

*Iacob, C.: Contabilitatea gestiunii interne a unităților economice, Craiova (1994).

- Decentralization of the management process by dividing the firm activities in internal centres of income and expenses;
- Investing each centre with authority and responsibility in managing allocated resources to realize financial objectives;
- Approaching activity of each centre through the relation between expenses and income, and on this basis to increase firm activities and saving resources.

Another important activity in the company finance is the elaboration of the budget of the enterprise.

Budgeting is based on many principles:

1. **The principle of rationality and efficiency** – according to this principle financial results can be obtained and used in accordance with organizational objectives (profit or nonprofit);
2. **The principle of responsibility and performance** – responsibility as a budgeting principle is of many types: responsibility on centres of costs; responsibility on centres of profit, also called centres of financial performance; responsibility on investment centres.
3. **The principle of control** – is built on financial structures regarding inflows and outflows expressed in monetary units. Money represents the common element of many heterogeneous elements of outflows and resources. Control can also be dynamic on short periods or longer periods (monthly or yearly). By controlling we realize coordination, integration of the system.

The types of budget are described below:

- *Operational budget*;
- *Cash flow budget*;
- *Capital budget*.

Operational budgets are formed of two parts:

- a. **The program which** describes major programs of planning regarding profit, payment capacity, funds
- b. **Responsibilities.**

Elaborating budgets is based on organization of elaboration. Usually, there is a budgetary committee which follows the following steps:

1. establishing objectives;
2. estimating sales;
3. initial elaboration of each part;
4. negotiating estimations;
5. coordination and reconsideration;
6. final approval.

The principles of elaborating the budget of expenses and incomes are the following:

- ♦ **universality principle**, that is, all the incomes, costs and expenses over a calculated period of a budget exercise;
- ♦ **balance principle**, according to this principle the firm has to be balanced regarding necessities to be covered and resources to finance these needs;
- ♦ **reality principle**, according to this the responsible with the budget must have an honest attitude about the dimensions of possibilities and financial necessities of the firm.

The role of the budget is seen in its objectives and they aim at:

- ✓ projecting all flows in lei and foreign currency that come from the whole activity of the agent in order to control inflows and outflows, costs and expenses, the capacity to cope with payments;
- ✓ covering all incomes, costs and expenses in order to obtain profit;
- ✓ covering in extenso all resources that the economic agent has to finance development necessities, social and cultural activities and other activities allowed by the Law;
- ✓ evaluating cash relations between economic agents and employees, with the state budget (budget of central administration, local budget), social insurance budget, banks, providers, other entities that can be creditors or debtors;
- ✓ projecting the evolution of managed patrimony by economic agents – by highlighting modifications that are estimated in its structure.

The structure of the income and expenses budget, as instrument of the financial management is elaborated according to general rules but also based on Methodological norms for the elaboration of the income and expenses budget. Economic agents defined according to actual methodological norms are forced to annually draw up the income and expenses budget, on trimesters, composed of the following forms:

- 01 – General activity budget;
- 02 – Treasury activity budget (determining cash-flow);
- 03 – Loan guaranteed by the state;
- 04 – Main economic and financial indicators

The budget has an adequate content for the enterprise management.

In our country the budget is conceived and used relatively recently as an instrument in economic and financial activity. Its implementation

in the management system is based on some general measures generated by applying the new economic and financial mechanism. The goal when implementing the budget is to support economic activity within the firm, to increase collective responsibilities and financial discipline as well as economic and financial efficiency.

As managerial sciences develop, the budget gets more valences being analyzed and promoted as a main instrument in economic and financial activity. Taken into consideration as a plan document, the budget is used to appreciate financial terms and in economic efficient conditions, to allocate and use resources of the enterprise. On its basis we can plan objectives to be reached and necessary expenses, income to be obtained or allocated financial resources. The budget also establishes competences and responsibilities regarding efficient management of resources.

Conclusions

All the technical, economic, organizational decisions adopted in a firm affect the financial balance and require a new balance engaging modifications in the funds and resources to finance. Realizing a new financial balance imposes fundamentals on a superior plan of financial indicators by elaborating budgets of incomes and expenses.

The budget of incomes and expenses offers a preview both synthetic and detailed, of the ensemble of resources of the economic unit to cover production needs, providing services or executing development projects, organizing social and cultural activities and paying financial debts to the state. Also, it includes salaries evaluated according to the indexations, and debts to banks on long and short term.

The budget is used to establish how resources are affected, responsibilities of every centre. Thus, the budget is a figure forecast of affected resources and ensuring responsibilities to realize enterprise objectives profitably. To realize budget operations, the financial service has to own an informatics system with modern technique in order to work efficiently and to provide financial information that accompanies technical, economic, social, ecologic events in a company.

The budgeting process has the role to guide all compartments towards the same objective: profitability, liquidity, decreasing risks, etc.

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Note on the author

CORINA MICULESCU is lecturer at the Faculty of Management in Tourism and Commerce Timișoara, „Dimitrie Cantemir” Christian University. She holds a PhD. In Managerial Accounting with the thesis *Managerial Accounting in Textile industry*. She is co-author (with Patac Filip) of *Finanțe*, published at Eurostampa, Timișoara, 2007, and author of numerous articles. She is a member of Danube Adria Association for Automation & Manufacturing - DAAAM International Vienna.