International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2018; 1(1): 01-04
Received: 01-11-2017
Accepted: 02-12-2017

Samim Alam
Department of Management, Daffodil International University, Dhaka, Bangladesh

Correspondence
Samim Alam
Department of Management, Daffodil International University, Dhaka, Bangladesh

PBF (Planning budgeting & forecasting): An important area to monitor in business & in its department

Samim Alam

Abstract

Objective of this paper is to study Planning, Budgeting and Forecasting. It is a three-step process for shaping and describing company's long-term and short-term financial goals. The process is managed by company's finance department which is led by Chief Financial Officer. Financial Planning outlines company's financial prospects for the next three to five years. Financial Budgeting focuses on a shorter timeframe such as the upcoming fiscal year with specific details of month and quarter. Financial Forecasting is an extended part of Planning & Budgeting which uses the accumulated historical data and management expectations about the future to predict financial outcomes for future months or years. Identifying PBF key steps which includes; assessing the business environment, approve the business vision and objectives, identifying and quantifying the types of resources needed, calculating the total cost, summarizing the costs to create a budget, set realistic goals, identify income and expenses, design your budget, put budget into action, identifying problems within budgeted numbers, gathering actuals information, do maiden analysis, choose the forecasting model, forecasting and evaluating the numbers.

This study will help in analyzing PBF objectives & advantages and how it all helps in working of the business and its outcome. Which briefly says managing organization's time and resources effectively, will lead to achieve organizational goals and objectives.

Keywords: Financial planning, financial budgeting, financial forecasting, organization, pbf (planning, budgeting & forecasting), objectives

Introduction

Planning, Budgeting and Forecasting is a three-step process for shaping and describing company's long-term and short-term financial goals. The process is managed by company's finance department which is led by Chief Financial Officer.

Financial Planning: It outlines company's financial prospects for the next three to five years. Planning should establish the activities and budgets for each part of the company, which includes sales, marketing, manufacturing and supply chain plans. Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. The Financial Plan describes each of the activities, resources, equipment and materials that are needed to achieve objectives within the required timeframes.

Financial Budgeting: It documents how the overall plan will be executed month to month basis, specifying expenditures. Budgeting focuses on a shorter timeframe such as the upcoming fiscal year with specific details of month and quarter. Annual budgeting process that top-down financial targets are aligned with the bottom-up operational budget requests to arrive at an overall budget for the entire company.

Financial Forecasting: It is an extended part of planning & budgeting which predicts financial outcomes for upcoming months or years using the company's historical data & management expectations. Affective forecasting is where historically used activities such as sales forecasting, were used mostly to set the initial budget for a fiscal year, companies uses periodic forecast to update their budgets throughout the fiscal year. Periodic forecasts may occur bi-annually or quarterly and a common technique now being used is by rolling forecast.

A rolling forecast is where company determines future forecast based on a combination of actual financial results and the original budget and updates revenue and expense forecasts for future periods.

Purpose of Planning, Budgeting & Forecasting

Planning and budgeting are essential part of management control. Effective planning, budgeting and forecasting is required looking at the organization as a system and understanding the relationship among its components.

Planning, budgeting and forecasting are three important pillars of every organization. The strategy is to effectively translate long-term, mid-term and short-term plans in order to make sure strategic objectives of the organizations are met. Financial targets are reached and shareholders' value gets created in a proper and sustainable manner.

Study on detailed view of PBF

Detail on Financial Planning

Planning is always the first step of any business where it plans company's finances in short term and in long term. In the beginning a business does not have its own set of knowledge of how much operating cost is required, so they lay down plan based on comparable companies. Adapting the plans ongoing to incorporate new information will create a solid workable plan based on a business's actual needs in the long run. It outlines company's financial prospects for the next three to five years. Planning should establish the activities and budgets for each part of the company.

Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. The Financial Plan describes each of the activities, resources, equipment and materials that are needed to achieve objectives within the required timeframe. Performing Financial Planning is a critical activity for the success of any business. It provides the Business Plan with consistency, by confirming that the objectives set are achievable from a financial point of view. It helps CEO to set financial targets for the organization, and reward staff for meeting objectives within the budget set.

Steps of Financial Planning activity involves

1. Assessing the business environment
2. Approve the business vision and objectives
3. Identifying and quantifying the types of resources needed
   a. Labor
   b. Equipment
   c. Materials
4. Calculate the total cost
5. Summarize the costs to create a budget

Objectives of Financial Planning are as follows

1. Determining capital requirements: It is determined at short-term and long-term basis. It includes factors like cost of current and fixed assets, promotional expenses and long-range planning.
2. Determining capital structure: The capital structure is the composition of capital. It includes proportion of Debts, Equity and Loan.
3. Determining financial policies: with regards to cash control, lending, borrowings, etc.
4. Determining financial resources: It helps in utilizing scarce financial resources at maxima level in the best possible manner.

Financial Planning is important as

1. It ensures adequate funds.
2. It ensures a reasonable balance between outflow and inflow of funds to maintain the stability.
3. It ensures that the suppliers of funds are easily investing in companies.
4. It helps in making growth and expansion programs, which helps in long-run survival of the company.
5. It reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
6. It helps in reducing the uncertainties which can be a hindrance to growth of the company.

Detail on Financial Budgeting

A budget is a financial plan for a specific time period. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. Companies, governments, families and other organizations use it to express strategic plans of activities or events in measurable terms. Budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them. It documents how the overall plan will be executed month to month basis, specifying expenditures. Budgeting focuses on a shorter timeframe such as the upcoming fiscal year with specific details of month and quarter. Annual budgeting process that top-down financial targets are aligned with the bottom-up operational budget requests to arrive at an overall budget for the entire company.

Steps for effective budgeting are

1. Set Realistic Goals
2. Identify Income and Expenses
3. Design your Budget
4. Put Budget plan into Action

Objective of Budgeting

A budget helps to plan what steps should be taken now with the changing market. Once all steps are determined at planning stage, then company should decide on how a budget can be determined effectively. And as per my analysis objectives are

1. Projecting future needs
2. Match future needs to available resources
3. Obtaining approval from management
4. Distributing approved funds
5. Monitoring and evaluating

Financial Budgeting is important as

1. Planning orientation: This is the chief goal of budgeting, even if management does not succeed in meeting its goals; it still helps in thinking about the company's competitive and financial position and how to improve it.
2. Profitability review: It helps management to consider whether it should drop some parts of the business or expand in others.

3. Assumptions review: Periodic re-evaluation may result in amended assumptions, which may in turn amend the way in which management decides to operate the business.
4. Performance evaluations: This approach is most common with financial goals, though operational goals can also be added to the budget for performance appraisal purposes.
5. Cash allocation. There is only a limited amount of cash available to invest in fixed assets and working capital, and the budgeting process helps management to use funds effectively.
6. Bottleneck analysis. The budgeting process can be used to concentrate on what can be done to either expand the capacity of that bottleneck or to shift work around it.

Detail on Financial Forecasting

Forecasting is the process of making predictions of the future based on past and present data and most commonly by analysis of trends. It is an extended part of Planning & Budgeting which uses accumulated historical data and management expectations about the future to predict financial outcomes for future months or years. Affective forecasting is where historically activities such as sales forecasting were used mostly to set the initial budget for a fiscal year, companies' uses periodic forecast update their budgets throughout the fiscal year.

Forecasting starts with certain assumptions based on the management's experience, knowledge, and judgment. These estimates are projected into the coming months or years using one or more techniques such as Box-Jenkins models, Delphi method, exponential smoothing, moving averages, regression analysis, and trend projection. Since any error in the assumptions will result in a similar or magnified error in forecasting, the technique of sensitivity analysis is used which assigns a range of values to the uncertain factors.

Steps for forecasting numbers

1. Identifying Problem within Budgeted numbers
2. Gathering actuals information
3. Do maiden Analysis
4. Choose the forecasting model
5. Forecast Numbers
6. Evaluating the numbers

Objectives of Financial Forecasting are

The objective of forecasting is to produce better forecasts. And in the broader sense, the objective is to improve organizational performance of revenue, profit and increased customer satisfaction.

1. Amendment to the Budget with the changing market condition
2. Comparing forecast with actual to measure performance
3. To have realistic view of near future

Advantages of Financial Forecasting

1. Establishing a new business / project. The success of a new business will depend upon the accuracy of such forecasts.
2. Formulating Plans: The success of a new business will depend upon the accuracy of forecasts.
3. Estimating Financial Needs: A proper financial planning depends upon systematic forecasting.
4. Facilitating Managerial Decisions: Forecasting helps management to take correct decisions by providing a logical basis for planning and determining in advance the nature of future business operations.
5. Encourages Co-ordination: It helps in better co-operation and co-ordination among people of various departments of the organization.
6. Better Utilization of Resources: Forecasting ensures better utilization of resources by revealing the areas of weaknesses and providing necessary information about the future.

Analysis on inadequate and effective PBF

Incomplete or inadequate PBF may lead to

1. Management activity as largely reactive, stressful and disorganized.
2. Unclear authority and accountability of results.
3. Funding and other resource priorities are unclear or non-existent.
4. Inadequate cash flow in various department on business.
5. Organisation has difficulty obtaining the necessary resources.
6. Objectives, schedules, and budgets are not established or are not communicated to persons responsible for action.
7. Performance expectations are not specified or achieved.
8. Unexpected workforce reductions or excessive overtime are common.
9. Untrained or inadequately trained employees are assigned important tasks.
10. The organization has recurring difficulty meeting customer delivery and service requirements.

Effective PBF will results in

PBF enables the organization to anticipate and prepare for the future. Cleary defined objectives provide the means to delegate responsibility and accountability to those who will do the work. It spreads the workload across the organization and frees top management to focus on strategic issues. A strong management control and information system provides the information needed for timely corrective action.

1. Proactive management activity and time for strategic thinking and planning.
2. A focused, disciplined organization with good coordination among functions and activities.
3. Higher productivity and greater operational efficiency because of better work planning and coordination.
4. Crises and unanticipated events are contained and managed effectively.
5. A stable, well trained workforce performing key tasks.
6. Planned goals and objectives are regularly achieved.
7. Customized organizational models significantly reduce the time required for planning, budgeting and performance measurement.

Recommendation

If any organization want to manage its time, resources effectively or want to achieve its goal and objectives or want to deliver good results to its shareholders and stakeholders, then they should work on PBF process and inculcate it as blood for up and running of its business activities. As disadvantages are worse if it's not implemented and results are extraordinary if it's implemented properly and effectively.

References

1. Palecek JM. Machine accounting tabulations for budgetary planning. N.A.A. Bulletin, 1960, 75-82.
2. Palmer JL. Production budgeting. N.A.C.A Bulletin. 1925; 15:98-103.
3. Panaro JR. The future of computerized sales forecasting. Management Accounting, 1967, 46-48.
4. Pansza HG. Rx - Effective budgeting. N.A.A. Bulletin, 1962, 61-62.
5. Park C. Giving budgeting appeal for the foreman. N.A.C.A. Bulletin, 1951, 181-188.
6. Parker LD. Reactive planning in a Christian bureaucracy. Management Accounting Research, 2001, 321-356.
7. Parker LD. Budgetary incrementalism in a Christian bureaucracy. Management Accounting Research, 2002, 71-100.
8. Parker RJ, Kyj L. Vertical information sharing in the budgeting process. Accounting, Organizations, and Society. 2006; 31(1):27-45.
9. Parker RJ, Kyj L. Erratum to Vertical information sharing in the budgeting process Accounting, Organizations and Society. 2006-2007; 31:27-45.
10. Pasewark WR, McCabe KS. Preparing and maintaining a budget manual. Management Accounting, 1988, 33-35.
11. Pasewark WR, Welker RB. A Vroom-Yetton evaluation of subordinate participation in budgetary decision making. Journal of Management Accounting Research (Fall). 1990, 113-126.
12. Patto CV. Budgeting under crisis: The Confederacy as a poor country. Administrative Science Quarterly. 1975; 20(3):355-370. (JSTOR link).
13. Pegels CC, Southwick L Jr. Profit planning and control for decentralized corporations. Decision Sciences. 1970; 1(1-2):100-112.
14. Pendlebury C. Expense budgeting: Definition of budget. N.A.C.A. Bulletin. 1942; 1:260-270.
15. Pendleton SA. Variable budgeting for planning and control. N.A.C.A. Bulletin, 1954, 323-334.
16. Penno M. Accounting systems, participation in budgeting, and performance evaluation. The Accounting Review, 1990, 303-314. (JSTOR link).
17. Perez LF, Robson K. Ritual legitimation, de-coupling and the budgetary process: Managing organizational hypocrisies in a multinational company. Management Accounting Research (December), 1999, 383-407.
18. Perry HC. Forecasting and budgeting. N.A.C.A. Bulletin. 1940; (1):356-362.
19. Peters K. When reform comes into play: Budgeting as negotiations between administrations. Accounting, Organizations and Society. 2001; 26(6):521-539.
20. Peterson HG. The coordination of company financial planning with external economic conditions. N.A.C.A. Bulletin. 1946; (1):575-587.
21. Petro T, Milani K. Northrop Grumman's four-tier approach to earning value. Management Accounting Quarterly (Summer), 2000, 40-48.
22. Pfeffer J, Salancik GR. Organizational decision making as a political process: The case of a university budget. Administrative Science Quarterly. 1974; 19(2):135-151. (JSTOR link).
23. Pfeffer J, Moore WL. Power in university budgeting: A replication and extension. Administrative Science Quarterly. 1980; 25(4):637-653. (JSTOR link).
24. Pill RA. The meaning of the merchandise plan in a department store. N.A.A. Bulletin, 1959, 71-78. (Discussion of the relationship between merchandise and inventory planning and profits).
25. Pinch T, Mulkay M, Ashmore M. Clinical budgeting: Experimentation in the social sciences: A drama in five acts. Accounting, Organizations and Society. 1989; 14(3):271-301.
26. Player S. How does your budgeting system impact ethical behavior? Cost Management, 2004, 15-21.
27. Plaza TJ, Fleming MMK. Cost account directive – An effective management tool. Management Accounting, 1987, 49-54. (A document used to control jobs according to tasks, schedules and budgets).
28. Pond JD. Personal financial planning. Management Accounting, 1986, 29-33.
29. Poon M, Pike R, Tjosvold D. Budget participation, goal interdependence and controversy: A study of a Chinese public utility. Management Accounting Research, 2001, 101-118.
30. Potter F. The information framework. Strategic Finance, 2005, 25-31. (Hospital budget).
31. Powel RJ. The control of administrative expenses in banking. N.A.A. Bulletin, 1962, 79-82. (Budgeting).
32. Powel RM, Macleod JA. Budgets should be people-oriented. N.A.A. Bulletin, 1963, 37-42.
33. Preston AM, Cooper DJ, Coombs RW. Fabricating budgets: A study of the production of management budgeting in the national health service. Accounting, Organizations and Society. 1992; 17(6): 561-593.
34. Pryor LJ. Profit planning with probabilities. Management Accounting. 1970; 32-35:39.
35. Quinn JB. A study of the usefulness of research and development budgets. N.A.A. Bulletin, 1958, 79-90.
36. Quirin JJ, O'Bryan D, Donnelly DP. A nomological framework of budgetary participation and performance: A structural equation analysis approach. Advances in Management Accounting. 2004; (13):143-165.
37. Quirin JJ, Donnelly DP, O'Bryan D. Consequences of participative budgeting: The roles of budget-based compensation, organizational commitment, and managerial performance. Advances in Management Accounting. 2000; (9):127-143.
38. Rachlin R. editor. Handbook of Budgeting (4th Edition). John Wiley & Sons, 1998.
39. Rachlin R. editor. Total Business Budgeting: A Step-by-Step Guide with Forms. John Wiley & Sons, 1999.