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**An investigation of budgeting and budgetary
Control at Ernest chemist**

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**An investigation of budgeting
and budgetary control at Ernest chemist**

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A budget is a functional statement prepared prior to a predetermined period of time of the policy to be pursued during that period for the purpose of obtaining given objectives. Budgeting and budgetary control systems play a leading role in every company or institution by helping in establishing an efficient management control system for creating sustainable competitive advantage. The aim of this study was to conduct research concerning the budgeting practice in Ernest Chemist, a pharmaceutical company based in Ghana, and identify the perception of the budgeting experts in the company and assess their views towards the current status of the company. This research was necessary in order to assess the possibility of solving any problem this organization may face in designing an effective budgeting and budgetary control system.

A self-designed interview questionnaire was sent to a member of staff in the company to seek his views on the problems and concerns regarding budgeting and budgetary control in the organization. The results of the study indicate that the appropriate system of budgeting and budgetary control has been adopted and used to prepare the pharmacy's budgets but there were a few problems associated with ethical issues which were also revealed.

The results also indicated that the system provides guidelines for managers and supervisors to ensure that they think well ahead of time to foster effective utilization of limited resources in the organization

Key words: Budget, control, Variance, Ghana.

Daniel Badu

Budjetointi ja talousarvion kontrollointi Ernest chemistissä, Accra, Ghana

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Talousarvio on ennalta laadittu toiminnallinen esitys ennalta määrätylle ajalle, tarkoituksenaan, että kyseisenä aikana saavutetaan kyseiset tavoitteet. Budjetointi ja talousarvion kontrollointi järjestelmät ovat keskeisessä roolissa kaikissa yhtiöissä ja laitoksissa auttamalla luomaan tehokkaan johdon valvontajärjestelmän luoden kestäväää kilpailuetua.

Tämän tutkimuksen tavoitteena oli tehdä tutkimus budjetointia koskevaan käytäntöön Ernest Chemist lääkeyhtiössä Ghanassa ja tunnistaa budjetoinnin asiantuntijoiden käsitykset ja arvioida heidän ajatuksensa yhtiön nykyisestä tilanteesta. Tämä tutkimus oli tarpeen, jotta voidaan arvioida tämän yrityksen mahdollisuutta ratkaista ongelmat joita voi ilmetä tehokkaan budjetoinnin ja talouden ohjausjärjestelmän kehittämisessä.

Itse suunniteltu kyselylomake lähetettiin yrityksen toimihenkilölle, jotta saataisiin hänen käsityksensä ongelmista ja huolenaiheista budjetoinnissa ja talousarvion toteutumisen valvonnassa. Tutkimustulokset osoittavat, että sopiva budjetointi järjestelmä ja talousarvion toteutumisen valvontatapa on hyväksytty ja käytössä apteekin budjettien valmistelussa. Myös muutamia ongelmia, joihin liittyvät eettiset kysymykset, tuli esille.

Tulokset osoittivat, että järjestelmä sisältää johtajille ja esimiehille ohjeet, jotka varmistavat että he ajattelevat hyvissä ajoin resurssien tehokasta hyödyntämistä organisaatiossa.

Avainsanat: Budjetti, Kontrolli, Varianssi, Ghana

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“ May God bless you all ”

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1. Introduction

1. 1 Background

Planning is the primary and control is the last function of management. Budgeting and budgeting control occupies an important place among the various techniques which are used in performing these functions. According to ICMA London, a budget is a functional statement prepared prior to a predetermined period of time of the policy to be pursued during that period for the purpose of obtaining given objectives.

The Tennessee board of Regents (2006) defines budgeting as the process whereby the plans of industries are interpreted into an itemized, authorized and systematic plan of operation, expressed in monetary terms for a given period. Budgeting, at both management level and operation level looks at the future and lays down what has to be achieved.

In this regard the work of C.Adams et al (2003) can also be pointed out. These authors emphasized that to be effective, budget must be aligned with the organization's strategies, appropriate for the organization performance management processes and must be involve processes that are valued based, consequential and continuous.

Control, checks whether the plans are realize and put into effective corrective measures, where deviation or short-fall is occurring.

Egan (1997) maintains that without effective controls, an enterprise will be at mercy of internal and external forces that can disrupt its efficiency, and when this occur such enterprise will not be able to combat such forces. When budgeting and budgetary system is in use, budgets are established which set out in financial terms, the responsibility of managers in the relation to the requirement of the overall policy of the company, continuous comparison is made between the actual and budgeted result,

which is intended to either secure, through action of managers, the objectives of policy or to even provide basis for revision.

The motivations for this study also comes from the work of Herath and Indriani (2007) who investigated on the “role of budgetary control system as a component of the management control system in creating and sustaining competitive advantage” and came with a positive conclusion.

They concluded that budgetary control system plays a leading role in establishing an efficient management control system for creating a sustainable competitive advantage. I prefer doing this research work in budgeting and budgetary control practice at Ernest Chemist and make suggestion of what seems to be best practice base on literature, my choice on Ernest Chemist is related to the fact that it’s a pharmaceutical company. Ernest Chemist was established in 1986 and has three business structures, trading, manufacturing and export. The Company operates widely across Ghana and represents some of world leading pharmaceutical brands.

The greater Accra region is dotted with numerous pharmacies, most of which has been classified under small scale business.

When visits, are made to some Chemist shops, one will realize that, at the end of the day there is so much waste, for example the drugs ordered are more than necessary. In presence of budget utilization, manpower and material resource will be designed in a systematic plan. In a business organization, budget represents an estimate of future cost and revenues. With budgeting one will know the quantity of particular drugs to be ordered, the number of times and specific drugs patronized more.

This study is aimed at identifying problems, analyzing and making suggestions towards the current budgeting and budgetary control system practiced by Ernest Chemist based on the findings of the research.

1.2 Objectives of the studies and research question

This study will answer the following question: What is the general system of budgeting and budgetary control practice adopted in Ernest Chemist and how appropriate is it to the company?

The objectives of the study are to conduct a study concerning the budgeting practice in Ernest Chemist and identify the perception of the budgeting experts while assessing their views towards the current status of the company. This research is necessary in order to assess whether the current budgeting practice used in Ernest Chemist are the best possible for the company`s success.

During this research process questionnaires were sent to a staff member who deals budgeting to seek his views to know what are the problems and concerns regarding budgeting and budgetary control in the organization. This research comes up with some findings and provides insightful recommendation on budgeting and budgetary control in relation to development of Ernest Chemist

The findings of the study would help the researcher to provide answers to the research problems and question. It would also be helpful to other researchers who are to research on the same topic. It can serve as source of information. The study will assist managers of this pharmacy to assess whether targets have been achieved or not. The findings of the research will help to build recommendations and advice for the organization

2. Literature review

2.1 Nature of a budget

“ A budget is a quantitative expression of a plan of action prepared in advance of the period to which it relates. It is a plan expressed in terms money prepared and approved prior to the budget period which show income, expenditure and capital to be employed ” (Lucey 1993)

Horngren Forster and Datan (1997) describe a budget as a quantitative expression for period of time designed for future plan of action by management. A budget can cover both financial and non-financial aspect of these plans and act as a blue - print for the company to follow in the upcoming period. Thus a budget is also an itemized estimate of operating result of an enterprise for a future time period.

According to Brook and Palmer (1984), it is a business’s financial control system. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see to it that they conform to plan.

Appiah-Mensah (1993) explain that, budgeting is the way and means of preparing budgets and that a budgets is a plan of action which has been prepared and approved prior to the period when it will be used, detailing monetary, quantitative or other descriptive terms, the event to be accomplished in the budget period. A budget is different from a mere forecast, in that it is a formal management of events which are desired by management to take place in an organization within a defined period of time.

A forecast is not a scientific activity, because it can merely be a guess work. However a budget is scientific document because it is prepared under approved principles and procedures and in a systematic manner.

Cherrington, Hubbard and Luthy (1988), also describe a budget as an itemized estimate of the operating results of an enterprise for period. They explain further that, the form of the budget varies from organization, but it is eventually summarized into the form of normal financial statements.

The major difference between a budget and a financial statement is the data used to develop each, financial statement is based on actual results of past operation where as budget are based on planned operation for a future time period. For this reason budgets may be referred to as performance statement.

2.2 Ethical issues in budgeting

Budgeting creates serious ethical issues for many people. Much of the information of the budget is provided by managers and employees whose performance is then compared with the budget they develop.

Maher and Deakin (1994), suggest that companies should provide incentives for people to report truthfully, which means the company must reward both for honest estimate and good performance. But reality is that, many companies put considerable pressure on employees to achieve increasingly difficult targets.

2.3 Budget relative to time

Development of an annual budget is only one segment of the on-going planning process of a business. For the planning process to be most successful there must be some long-range goals, intermediate objectives and short-term plan of action.

Cherrington, Hubbard and Luthy (1988) explained that, the long-range goals identify the direction of the company over a five to ten years period. The goals are stated in general terms, but they deal with specific areas in which the company intends to be

successful. Areas often covered include sales, research and development, capital expenditure, personal policies and financial position.

Cherrington et al. (1988) continued to explain intermediate objectives and short-term plan where they stated that, intermediate objectives identify the specific steps that will lead to accomplishing the long-term goals. They provide a link between short-term plan and long-term objectives. The long and short-term plans are merged and integrated into specific plan by the intermediate objectives.

The short-term plan, called a budget or annual forecast, identifies the activities to be accomplished during the coming year. Izhar (1990) supports the argument of Cherrington et al (1988) that the long-term budget is a financial translation of purposed future capital investment; development of new products and abandonment of existing ones, breaking into new market and soon, this, he stated looks several years ahead. Each year is broken down into more details for the next year in an operating plan. This may intend be divided into quarterly and monthly budgets.

2.4 Function of a budget

According to Izhar (1990) the first functions of budgeting is planning. Forward planning forces managers to formally consider alternative future courses of action, evaluating them properly and deciding on the best alternative.

Planning encourages managers to anticipate problems before they arise giving them time to consider alternative ways to overcome them when they do arrive.

The second function that Izhar described is Co-ordination: left to their own, department manager may make decision about the future which is incompatible or even in conflict with other departments.

Function of budgeting helps to avoid such conflicts by encouraging managers to consider how their plans affect other departments and how the plans of the other departments affect them.

Control and performance evaluation: This function ensures that actual performance is measured against expected performances.

Control and performance evaluation help to take corrective measures to any adverse variances which were revealed during the evaluation period.

Participation: By actively involving managers at all stages of the hierarchy, the process of budgeting brings the different levels closer together. The junior members feel that they have a say in the running of the organization - this leads to increased job satisfaction and consequently productivity. It has therefore been said that, the actual process of budgeting is as beneficial as the budget itself.

2.5 Stages in the preparation of a budget

Cherrington, Hubbard and Luthy (1988) and Izar (1990) share the same opinion on the process of preparing a budget. A number of stages can be identified in the preparation of a budget.

Stage one. Involve identification of the key aims for the coming year and any major external changes likely to affect the business and communicating these to the budgeters so that they know what overriding factors to keep in mind when preparing their budgets. These will be largely gauged from the long-term corporate plan.

Stage two. Determine the key factors or limiting factors. Every business has some factors which eventually limit its growth. In most cases, it is sales demand. An error in the key factor budget would throw out all the subsidiary budgets. When using the factor in context of budgeting, it is sometimes called principal budget factor.

Stage three. Assume sales in the limiting factor, preparation of the sales budget. Unfortunately, this is the most difficult budget to prepare, because of many external influences which govern its level over which the firm has no control. Before this is attempted, a sales forecast is usually made by product type and geographical area.

Stage four is the initiation preparation of the subsidiary budget. This include the preparation of the production budget, direct labour budget, production overhead budget, selling and distribution budget, administration budget, capital expenditure budget and the cash budget.

Stage five involves review and co-ordination of the subsidiary budget by the budget officer or budget committee. This function is to check whether there are inconsistencies or conflict between the many subsidiary budgets.

Stage six. The individual subsidiary budget is consolidated in a single master budget presented in a form of a budgeted income statement and balance sheet.

Stage seven. At this stage, the work is presented to the board of directions for approval. Izhar stated that although the budget is "finalized" on director approval, in one sense the process of budgeting never ends. Furthermore, he added that, a budget is prepared under certain basis assumption about the future. Any change in this should lead to the budget being revised.

2.6 Persons involved in budgeting

Different persons are involved in budgeting. According to Izhar (1990), the budgeters, who prepare and are responsible for their budget, are their departmental line managers. They may or may not involve the sub-ordinate depending on their style of management and relationship with their juniors. In converting their budget into money terms they may enlist the help of an accountant. The person whose function is to co-ordinate the many individual budgets of the line men is the appointed budget officer normally an accountant.

In large public companies budgeting for the whole organization can be very complex process indeed, co-ordination of which is far beyond the limit of any one person. Here a budget committee may be set up comprising of high level executives in charge of the major functional divisional of the business.

2.7 Approaches to budgeting

2.7.1 Zero- base budgeting (ZBB)

Lucey (1994) argued that, zero-base budgeting is a cost benefit approach whereby it is assumed that the cost allowance for an item is zero and will remain until the manager responsible justifies the existence of the cost item and the benefit the expenditure brings.

Appiah-Mensah (1993) also argued that ZBB are prepared without reference to the budget of the preceding period. A fresh look is made at the activities of the organization and based on the new circumstances and entirely new budget is prepared.

2.7.2 Incremental budgeting

According to Appiah-Mensah (1993), incremental budgets are like ordinary budgets, except that in the case of incremental budget, in the next budget period a fresh budget is not prepared only a percentage increase or decrease is made to either the previous budgetary estimates or the actual results. Thus with the previous budget as the base, adjust for inflation and other changes in the economy, market conditions and the desire of management to attain some objectives are incorporated as adjustments.

2.7.3 Flexible budgeting

Flexible budget is a technique, according to Cherrington, Hubbard and Luthy (1988) that used to adjust the budget for various level of business activity. In developing the

flexible budget, expected or budget costs relationships are quantified so that the budget can be easily adjusted to any level of business activity.

In essence, the flexible budget says, “you tell me your level of business activity for the period and I will tell you what your cost should have been.” Maher and Deakin (1994) agreed that a flexible budget indicated revenues cost and profits for virtually all feasible levels of activities.

2.7.4 Continuous budgeting

One of the problems in preparing a budget is the disruption of normal operation while the budget is prepared. A large amount of time is required by many people throughout the organization to prepare a good budget. Also unforeseeable event may occur during the year to make the budget a poor standard of performance. A technique called continuous budgeting has been developed to avoid these problems.

Cherrington, Hubbard and Luthy (1988) explain that, continuous budget requires that budget for the next fiscal year is revised and updated at the end of each quarter. Actual operating results are prepared at the end of each quarter and compared to the budget for that quarter.

Based on these results and new information and events during the quarter, the budgets for the next three quarters are revised. In addition a new fourth quarter budget is developed and added to the remaining three quarter periods. Continuous budgeting spreads the time required to prepare the budget over the entire year and provides a more meaningful budget throughout the year.

2.7.5 Participative budgeting

Hilton, Maher and Selto (2000) explain that most people will perform better and make greater attempts to achieve a goal if they have been consulted in setting the goal. The idea of participative budgeting is to involve employees throughout an organization in the budgetary process. Such participation can give employees the feeling that “this is our budget” rather than the all - too common feeling that “this is the budget you impose on us”. While participative can be very effective, it can also have shortcomings. Too much participation and discussion can lead to vacillations and delay. Also when those involved in the budgetary process disagree in significant and irreconcilable ways, the process of participation can accentuate those differences.

2.8 Types of budgets

The types of budgets and the extent of the budgeting activity vary considerably from organization to organization. In smaller organizations, there may be a sales forecast, a production budget or a cash budget. Large organizations generally prepare a master budget.

Cherrington, Hubbard, Luthy (1988) explain that, a master budget involves the development of a complete set of financial statements for the budget period, with supporting schedule.

2.8.1 Sales budget

Brook and Palmer (1984) describe the sales budget as setting forth the sales department’s objectives for the budgetary period. The sales budget is the key to the overall industry budget, because the anticipated sales volume is used as a basis to

determine amount of goods to be produced, the labour equipment and capital required and the natural and amount of various selling administrative and financial expenses needed. Sales estimates are based on past performances and on the forecast of business conditions for the coming period. The accounting department, sales management and sales persons all have a role in developing the sales budget.

2.8.1 Production budget

According to Brook and Palmer (1984), after the sale budget has been determined, a production budget can be made to meet requirements of sale budget. The actual number of units to be completed is computed from the following data units to be sold, desired size of ending inventory and units in the beginning inventory.

2.8.3 Direct materials budget

Brook and Palmer (1984) explain that, the material budget is developed to indicate the material to be purchased and materials usage for the period. It shows the estimated raw materials volume that would be used to meet the requirements of the production budget for the budget period. It is usually prepared to show the quantity and value of materials required for the production programmed. The material budget is extremely important in determining future cash requirements.

2.8.4 Direct labour budget

The direct labour budget according to Brook and Palmer (1984) is an estimate of the total direct labour hours and direct labour costs required to complete the expected production during the budgeted period. Appiah-Mensah (1993), also explained that, it

may show wages of direct workers and direct labour utilization needed to complete the production schedule for the budget period.

2.8.5 Manufacturing overhead budget

The manufacturing overhead budget as stated by Brook and Palmer (1984) is usually more difficult to budget than either direct materials or direct labour. It shows the amount expected to be spent as cost running the factory. Manufacturing overhead cost is less consistent. Some of these costs such as indirect material are variable.

2.8.6 Operating expenses budget

Detailed budgets are normally prepared covering the selling and administrative expenses anticipated as a result of the estimated sales and production operations.

2.8.7 Cash budget

A cash budget is one of the most important budgets prepared in the organization. It shows in summary form, the expected cash receipts and cash payments during the budget period. As described by Brook and Palmer (1984), the cash budget shows the effect of budgeted activities selling, buying, paying wages, and investing in capital equipment and so on. Cash budgets are prepared in order to ensure that there will be just sufficient cash in hand to cope adequately with budgeted activities.

2.9 Budgetary control

Budgetary control normally involves the use of budget as control documents. This means that budgetary control deals with "action" that are taken to ensure that actual

performance of budgetary activity conforms to pre-determined plans. In other words, budgetary control deals with regulating the activity of the business to follow the pattern that had previously been planned in the budget.

According to Appiah-Mensah (1993), if actual performance is not controlled, then it will differ from planned performance and the business will not achieve its objectives.

2.10 Effective budgetary control report

The budgetary control report is very important in the feedback process and to ensure maximum effectiveness. It is important that its design, timing and general impact is not ignored or misunderstood otherwise it will not lead to effective actions and so will be useless.

The key items which should be shown are the budgeted level of costs and revenue for the period and year to date, the actual level of cost and revenue for the period and year to date, the actual level of cost and revenue for the period and year to date, the variance between the above two points stated together with the trends in variances, and indication of what variances are significant together, with, where possible, analysis and comments which can be used to bring the variances under control.

2.11 Why variances occur

Drummond (1998) explains that in the chemical and drugs production department, sale variance is caused by the following: more or less customers than budgeted and increase or decrease in the average spending of these customers or a combination of the two. Cost variance is caused by a greater or lesser cost paid for the goods, and increase or decrease in the quality used or a combination of the two.

It stands to reason that, an increase in drug sales would result in an increase in cost of sales. The use of flexible budget will allow us to extract the cost variance which is

directly related to a sales variance and those which are not, for example, the flexible budget show cause and effect therefore only the variance with the flexible allowance need further investigation.

Sales variance is a direct result of a change in a pattern of customer behaviour.

Variance occurs when more or less customers spend more or less money than you forecast for the budget. Drummond (1998) explains further, that when any of such variance occurs, it will involve budgeters in taking three steps towards controlling the budgets:

- I Reviewing
- II Reaching and
- III Revising

3. Methodology

This Chapter describes the approach the researcher used to conduct this research. The chapter contains research framework, population and sample, sample technique, data collection instrument, data collection activities as well as method of data analysis.

According to Baserville (1991) methods are systematic and orderly procedure or process for attaining some objectives. He continues by stating that methodology doesn't describe specific methods, nevertheless it does specify several process. These processes constitute a general framework, they may be broken down in sub-process and these maybe combined or their sequences may change.

Baserville (1991) continues to state that methodology refer to nothing more than simple set of methods or procedures, or it may refers to the rationale and philosophical assumption that underlie a particular study relative to scientific method. In context of social science and later in other disciplines, two research methods are normally applied depending on the subject matter and objectives of the research- Quantitative method and Qualitative method. Creswell, J.W. (2003) explains

Quantitative method as a systematic empirical investigation of quantitative properties and phenomena and then relationship.

The objectives of this research type are to develop and employ mathematical models and theories pertaining to the phenomena.

According to Creswell, J. W. (2003) qualitative research is a method of inquiry employed in many different academic disciplines, traditionally in the social services, but also in the market research, this is aimed to gather an in-depth understanding of human behavior and the reasons that govern such behavior.

For the purpose of this research it is appropriate to use qualitative methods because Bryman (2004) also explains that qualitative research develops research approaches and focuses on the uses of inductive approaches.

Bryman (2004) explains further that inductive approach compares the relationship between theory and the research with emphasis made on generation of theories. With regards to the various approaches explained, it was therefore necessary to indicate that qualitative method was best to apply for this research work. This is due to the fact that it is necessary to fully comprehend what organization are doing and could do to improve management control.

3.1 Research framework

This study is a case type of research which enables an aspect of a problem to be studied in detail within a limited time scale. The researcher identified problems relating budgeting and budgetary control at Ernest Chemist, collected data from Ernest Chemist by the use of questionnaire, analyzed the data, and made recommendations based on the findings.

The target population for the study was limited to a single staff member at Ernest Chemist. This is due to constraints such as money, time and limited resources.

However; this employee could provide all the data needed for this research work to be conducted.

3.2 Sample technique/data collection instrument

The instrument used in gathering the data for this work is a self designed interview. It was made of open - ended questions and close questions, respondents provide their own answer while with closed questions, a list of appropriate answers was provided for the respondent to choose from.

The researcher, used self designed interview to seek information from the respondent because it was good and fast way of deriving and gathering information. The researcher used interviews for this research because information is not quantifiable and interviews are often described as qualitative research method.

These sample techniques provided in-depth information needed for the research. Information and answers derived from these questions has been used to ascertain whether Ernest Chemist budget and budgetary control is effectively and efficiently managed or not.

3.3 Data collection activities

The researcher personally administered the questionnaires to Ernest Chemist through email. The interview was obtained back later through the same email. In all it took estimated time of three weeks to give out and collect back interview questionnaire. This research work is estimated to be completed and submitted after all necessary information has been obtained and compiled one to two months intervals.

3.4 Method of data analysis

“Data analysis is the process of systematically applying statistical and logical techniques to describe and illustrate, condense and recap, and evaluate data” (2011) Northern Illinois University.

For the purpose of this research the data gathered by the researcher is grouped into categories, analyzed and presented mainly in narrative form.

4. Finding, Presentation and analysis of data

The chapter discusses the analysis of data collected. The study is also aimed at identifying the general system of budgeting and budgetary control in Ernest Chemist, assessing how budgets are prepared, identifying the competence and number of staff available for the implementation of the budgets as well as identifying the measures put in place to control or deal with variances of any kind.

4.1 Preparation of budget

The response received tended to indicate that budgets prepared at the pharmacy are normally prepared for a period of one year. In practice, the year is broken down in twelve (monthly) control periods, the pharmacy has four (4) departments which are sales, production, finance and administration and each of these is controlled by a manager.

The preparation of budgets is done by a budget committee which is headed by the budget director, who controls and coordinates the process of the budget. Before the preparation of the budget the committee follows some stages and these are:

4.1.1 Identification of the principle budget factors

Identification of the Principal budget factor indicates which budget should be prepared first or last. Usually it is the sale volume that is said to be the principal budget factor, so the sales budget is prepared first, based on the available sale forecast. After this budget all other subsidiary budgets are then prepared and link to it.

4.1.2 Preparation of sales budget

Sale budget is the first component of master budget; this is because sales affect all the parts of the master budget. During the preparation stage of sales budget according to the respondent, amount of goods produced, the labour equipment, and capital required and the amount of various selling expenses are factored into the budget.

4.1.3 Preparation of production budget

Production budget is prepared after sales budget. The respondent said the production budget lists the number of units that must be produce during each budget period to meet sales need. According to the response received the size of closing inventory and units in the beginning of the inventory are factored in the production budget.

4.1.4 Preparation of cash budget

Based on the response received it indicate that cash budget preparation at Ernest Chemist shows the cash inflow and cash out flow in order to ensure that sufficient cash is available during the budget period.

4.1.5 Preparation of master budget

Master budget is the final and last budget that is prepared. It shows the summary of all the various subsidiary budgets. According to the respondent, after the completion of the master budget, it again presented to the budget committee director to review to see if it represent an acceptable plan for the organization for the forth coming year.

The respondent who is one of the staff in the finance department said after the various budget have been completed, a summary of the individual budgets are put together as a master budgets. On the question of to whom the final budget is presented for approval, the response indicates that it was the board of directors who are responsible for the final approval of the budget.

4.2 Approaches to budgeting

As to what approach the organization has adopted for the budget preparation, the response shows the company uses Incremental budget basically because this budget approach assists management to look into the future and also help to make provision towards market conditions, inflation and unforeseeable negative economy changes and assist also management to attain desired objective.

4.3 Budgetary control

Budgetary control normally involves frequent reporting of actual achievement and cost compared with budgeted achievement followed by management review, and any necessary corrective action.

With regard to what extent budgeting control has been used by the company, it was observed from the response that management usually prepares a variance report statement to compare the expected income and expenditure with the actual income and expenditure to show whether variance revealed are favourable or adverse. Management does this to be able to prepare better preventive measures towards any such future occurrences.

4.4 Ethical issues

From the response received with regards to ethical issues which are likely to influence budgets, The respondent said that the budget which Ernest Chemist prepares occasionally lack the true integrity of the company due to lack of true reports from the subordinates and also bad environmental issues such unstable increase in water bills, electricity bill, property tax and other taxes.

4.5 Variance measurement

From the response obtained from the questionnaire administered it was noted the pharmacy often achieves its target, which differs from year to year.

4.6 Reliability and validity

The interview question which was administered through email was the only sources of primary information for this case study. The respondent provided an essential contribution to the study. The interview question was open-end and closed questionnaire which was delivered to the interviewee through email.

5. Summary, conclusion, and recommendation

This chapter seeks to summarize what was discussed in the previous chapters and draw conclusions from what was established from the findings of the interview conducted. The conclusions are based on the facts obtained from the company`s response and various opinions gathered from other literature.

5.1 Summary

The purpose of the study was to identify the system of budgeting and budgetary control practice adopted in Ernest Chemist and analyse how effective it is for the company.

In addressing the purpose of the study, the major topics on which the literature was reviewed include; nature of budget, ethical issues and budgeting functions of budget, persons involved in budgeting, approaches to budgeting, types of budgets and budgetary control.

The instrument used in collecting the data for the study was a self designed questionnaire. The research reveals that, the preparation of budgets is mostly done by a budget committee under the control of the budget director. It is prepared mostly every year and it is presented to the board of directors for approval.

As a result of the frequent control measures in place, the company is able to avoid challenges like inflation and waste.

5.2 Conclusion and recommendation

From the findings of the study, it was concluded that the appropriate system of budgeting and budgetary control has been adopted and used to prepare the

pharmacy`s budgets. And this has stated clearly the various levels the budget preparation has to go through.

This system has also provided guidelines for managers and supervisors to ensure that they think well ahead of time to foster effective utilization of limited resources of the organization. Because budget preparation plans are made ahead of time, the targets which management of the pharmacy hopes to achieve are most often easily recognized.

The preparation of budget helps in designing or clarifying the lines of horizontal or vertical communication within the organization. The respondent also gave his general impressions on budgetary control at Ernest Chemist; he said the budgetary control system which is currently in use is more appropriate for the company since the system involves comparison of actual levels of performance against budgets and reports all variances with proper analysis to provide a basis for future courses of action.

Based on this he thinks the current budgetary control has intensively improved as compared to the past years and he hopes that it will be better for the years to come. On the other hand, though the appropriate system is adopted and is in use, there are still problems with its effectiveness.

These problems are associated with the ethical issues mentioned earlier, for example the lack of true integrity in the budgets. This stands to back the statement made by Maher and Deakin (1994), which suggests that companies should provide incentives for people to report truthfully, meaning the company must reward both for honest estimate and good performance.

The true integrity of the budgets can be checked for this purpose using the company`s existing budgetary control system. But the reality is that, many companies put considerable pressure on employees to achieve increasingly difficult targets without any form of incentives.

The findings of the study indicate that as a result of these problems, the cash budgets are sometimes overstated. Following the findings from the research I recommend that

the top executives should make provisions to give some form of incentives to motivate managers and budgeting staff so that they can prepare a good budget for individual department with adequate information which are reliable.

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Appendix

Questionnaires

The researcher is undertaking a study on budgeting and budgetary control system in this organization.

This research work is strictly for academic purpose and all information provided will be treated with the necessary confidentiality. Please answer the questions as fully and descriptively as possible, and use as much space as you need when answering the questions.

(1) Does the pharmacy prepare budget?

Yes No

If yes, how frequent are budgets prepared?

Daily weekly monthly yearly

(2) What are the stages involved in preparing budget at Ernest Chemist

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(3) To what extent does the company follow the stages described overleaf under the heading "Stages in the preparation of a budget"?)

How many departments are involved in the preparation of the budget?

1 2 3 4

(4) Who is responsible for coordinating the budget?

.....

(5) Explain the kind of approach used for preparing budgets in your company.

Please read the text entitled “Approaches to Budgeting” overleaf which of the approaches described best fits the approach used in Ernest Chemist and to what extent is this approach followed? Are there any common elements in Ernest Chemist’s budgeting with any of the other approaches?

(6) what types of budget do the company prepare?-----

(7) What actions does the company takes to deal with this variances if incase budgeted targets are not achieved?

(8) Mention some ethical issues which influence the budget during preparation

To what extent has budgetary control been used in the company and how suitable is it the company?

Thank for your time