

SALES BUDGET - MANAGEMENT TOOL IN BUSINESS BACKGROUND ENTITY

Cristina-Otilia, Tenovici¹

Abstract:

Budget as a management tool is used to size the activity of forecasting the financial and accounting terms and in terms of economic efficiency, the allocation and use of resources to an entity in a particular reporting period, that aims to achieve the necessary expenses and income achieved, establishing this and the powers and responsibilities relating to the efficient use of these resources. Sales budgeting should be given special attention given the correlation and the influence of these predictions with other budgets namely production budget; supplies budget; investment budget; budget overheads; treasury budget. There should be understood that estimates of other budgets are not related or that there are no dependencies between them.

Keywords: budget, management tool, sales budget, costing, production

JEL Classification: M41

1. Introduction:

Planning and forecasting of an entity requires implementation of annual objectives and management plans (both strategic and operational) and decisions and the ways to achieve the strategy, using a combination of existing accounting data from previous periods and beyond. These predictions are realized both medium and long term and short term. Planning activities for a period of up to one year are conducted through the entity's budget and operational plan should be circumscribed with a horizon of 2-3 years or entity's strategic plan of action developed for periods of up to five years. This mechanism pyramid shown in Figure 1.

The budget becomes a management tool used to size the prediction in terms of financial, accounting and economic efficiency terms, the allocation and use of resources to an entity in a particular reporting period of a year or objectives to be achieved, necessary expenses and revenues achieved, establishing this and the powers and responsibilities relating to the efficient use of these resources.

Non-public budgets, but are internal documents intended only for internal managerial needs of the entity, is essential in the analysis, control and ensure the financial stability of the entity. As a management tool, budgeting system performs the following functions:

1. The foresight - starts from the appearance that budgets, budget system components is a financial estimate of resources, funds and expenditures for all activities undertaken in the financial and economic entity. Using the system is dimensioned revenue and expenditure budgets, financial results regarding the entity's operating activities, resources and expenses for current assets, other resources and expenditure, respectively taxes, fees and other similar payments to the state budget.

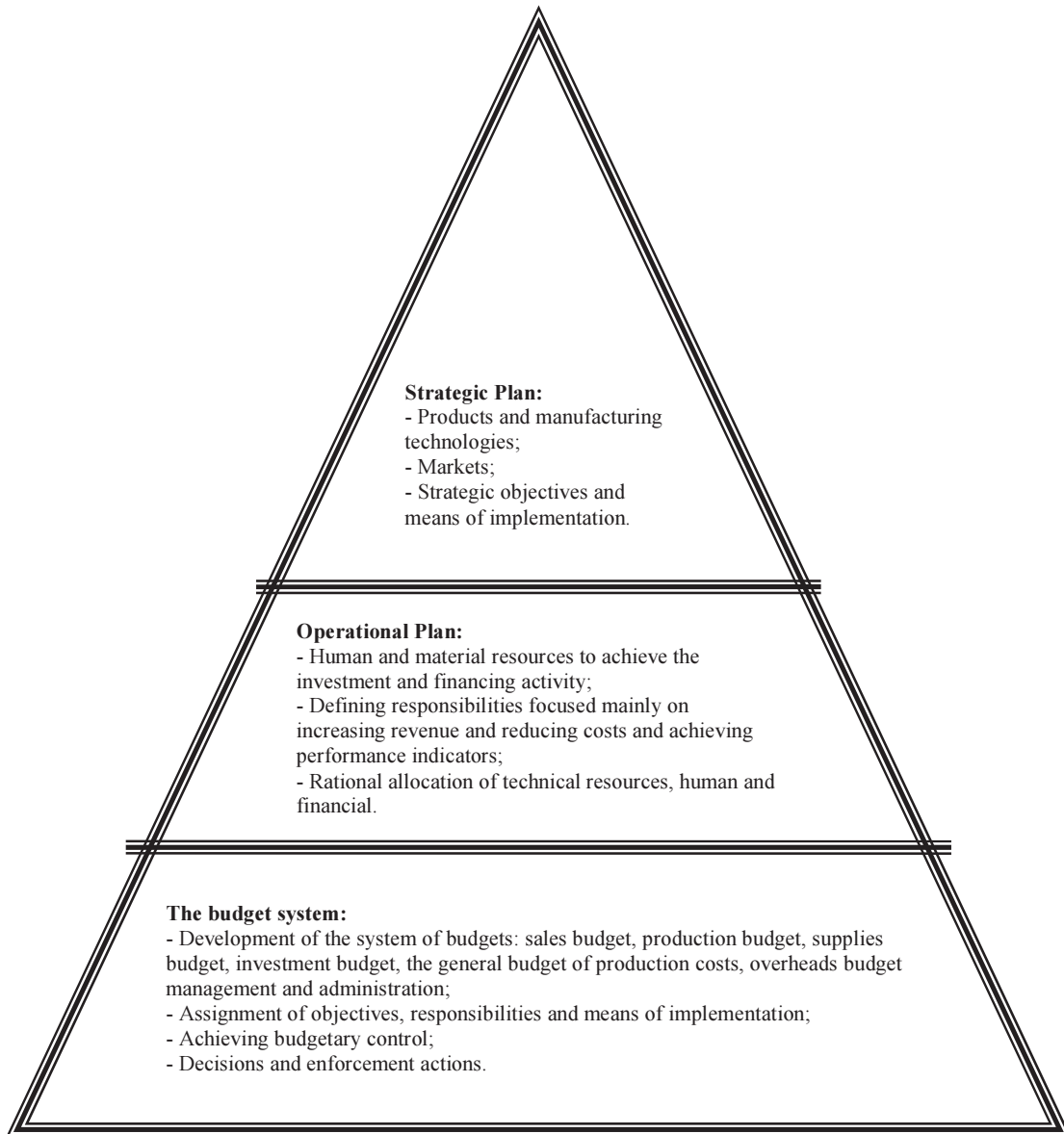
2. Control function - occurs when they are engaged and expenses incurred and revenues are realized as a result of their activities and funding is needed. Control function occurs in phase tracking and analysis of budget implementation, ensuring knowledge of how to achieve the expected goals, identify deviations and its causes deviations at all hierarchical levels respectively identifying departments must improve their work.

3. The insurance financial balance - is because the budget system is used to guide and rule the relationship between income and expenses. Financial equilibrium reflected providing resources for the achievement of the objectives and actions expected respectively necessary resources to cover obligations to third parties. This balance must be

¹ Lecturer Ph.D., "Constantin Brâncoveanu" University of Pitești, F.M.M.A.E. Rm. Vâlcea, Romania, cristina.tenovici@gmail.com

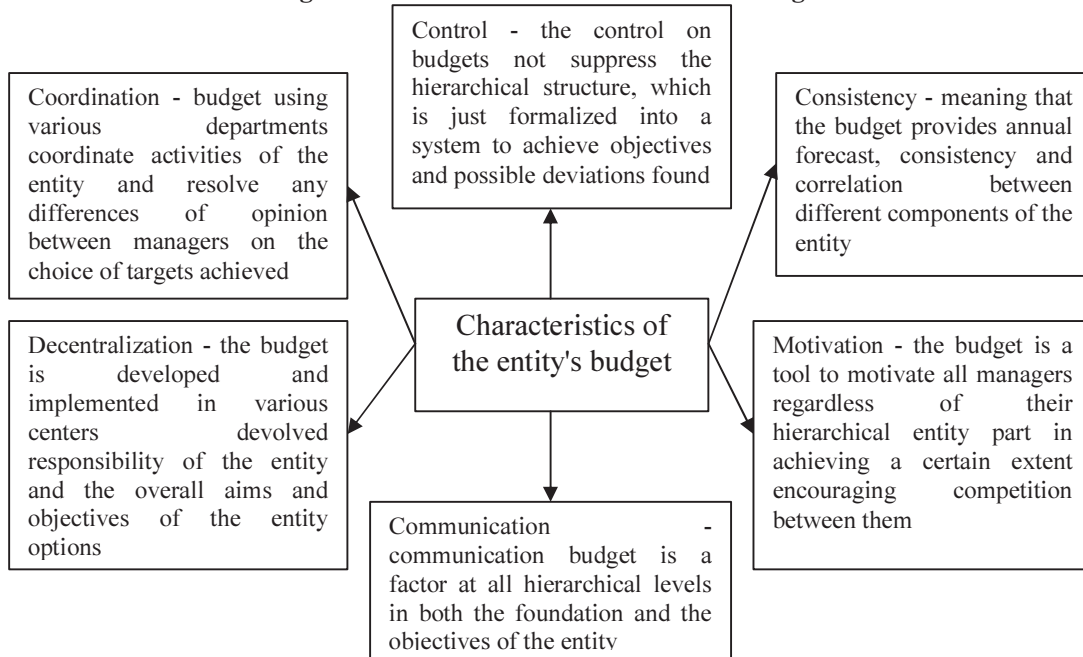
secured as a whole the total budget of income and expenditure and organizational structures within each entity.

Figure no.1. "The mechanism of the entity planning pyramid"



System features budgets, receiving quality management tool are shown in Figure No. 2.

Figure No. 2. "The main features of the budget"



Using entities budgets by managers has both strengths and weaknesses, as follows:

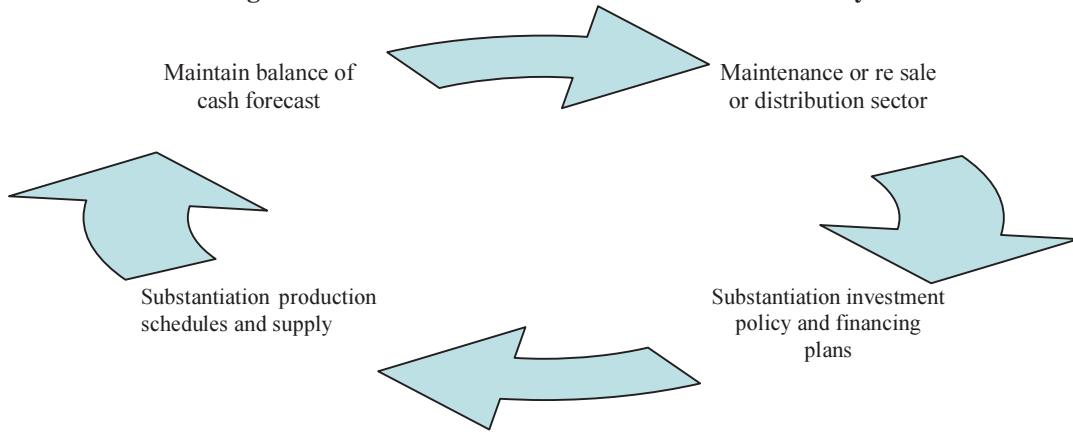
Strengths in using budgets	Weaknesses in the use of budgets
<ul style="list-style-type: none"> - Coordination of the work is clear and easy to assimilate both managers and those responsible for budgets; - The budgets are the benchmark for assessing performance and making comparative statements in relation to performance and objectives with those made in the current period, but in relation to other periods of budget management; - Responsibility centre managers are required to foresee the consequences of decisions; - To promote communication and coordination between the different hierarchical levels of the entity; - Providing entity objectives to be attained, the breakdown intervals and periods of achievement. 	<ul style="list-style-type: none"> - There is a risk of blocking the activity when used against those flexible fixed budgets; - Projected unrealistic goals can cause negative reactions from employees; - There may be negative influential on the cost generated by the view that lower cost achieved when there are sufficient resources will be passed in future periods, meaning that fewer resources will be allocated if the above could spend less; - Competition between different structures arising from the budgets motivates managers and employees can create some conflicts and insecurity in the employees.

2. Dimensions theoretical and practical foundation of sales budget

The budget director is dependent on the other sales budgets. To sell you must have the items in stock or made during the reporting period. To produce the necessary raw materials, labor and machinery. To purchase these items need cash. It is fueled by sales and outside contributions of shareholders equity and borrowed under budget (Guedj N., 1991, p.263)

Sales forecast envisages estimation of turnover forecast based on expected future sales levels (quantitative) and estimated selling price (value) correlated with overall company policy and economic and social restrictions in the entity (see figure no.3.)

Figure no. 3 "Influences on sales estimates in the entity"



Therefore the development of sales forecasts must take into account the main factors influence this (Briciu S. and staff, 2010, p.203):

- a. the past sales data: past experience, combined with aspects Understanding product sales, geographic regions and customer types, can help predict future sales;
- b. estimates made by sales centres: these entity sales centers are often the best source to information on customer wishes and plans;
- c. general economic conditions: forecasts of key macroeconomic indicators can influence sales volume;
- d. shares of competitors: sales depend on the force and action of competitors. to predict sales, an entity should consider the likely strategies of competitors, such as price changes, service etc.;
- e. changes in prices: sales can be increased by lowering the price and vice versa. An entity shall consider the effect of price changes on demand;
- f. changes in the product mix: the modification of products sold is amended overall margin;
- g. marketing studies: some entities employ marketing experts to get information on prevailing market conditions and customer preferences were then used to forecast sales;
- h. plans for advertising and sales promotion: a sales forecast must take into account the anticipated effects of promotional activities.

You can use several methods to determine sales forecasts, which help to determine the overall evolution of phenomena in order to take into account individual variations then. I present two such methods.

I. The method of adjustment is a statistical method of linear extrapolation of the trend evolution of sales for the previous period in the future, using "linear adjustment right expression" applying the principle of minimum quadrate or least squares.

Example: an entity with productive activity launched a new product for which we know the following situation in sales (in units of product) in the first year of life of the product:

Month „x _i ”	1	2	3	4	5	6	7	8	9	10	11	12
Quantity sold (pcs) „y _i ”	300	320	270	310	290	350	360	310	220	250	360	380

$$a = \frac{\sum X_i \times Y_i}{\sum X_i^2}$$

Director of the true coefficient linear adjustment is calculated as:

x_i	y_i	$X_i = x_i - \bar{x}$	$Y_i = y_i - \bar{y}$	$X_i \times Y_i$	X_i^2
1	300	- 5.5	- 10	55	30.25
2	320	- 4.5	10	45	20.25
3	270	- 3.5	- 40	140	12.25
4	310	- 2.5	0	0	6.25
5	290	- 1.5	- 20	30	2.25
6	350	- 0.5	40	20	0.25
7	360	0.5	50	25	0.25
8	310	1.5	0	0	2.25
9	220	2.5	- 90	- 225	6.25
10	250	3.5	- 60	- 210	12.25
11	360	4.5	50	225	20.25
12	380	5.5	70	385	30.25
$\sum x_i = 78$	$\sum y_i = 3,720$	0	0	$\sum X_i \times Y_i = 490$	$\sum X_i^2 = 143$

$$\bar{x} = \frac{\sum x_i}{12} = \frac{78}{12} = 6.5$$

$$\bar{y} = \frac{\sum y_i}{12} = \frac{3,720}{12} = 310$$

$$a = \frac{\sum X_i \times Y_i}{\sum X_i^2} = \frac{490}{143} = 3.4$$

Linear trend of sales in the future is determined according to: $y - \bar{y} = a \times (x - \bar{x})$

Therefore sales forecast for the first three months of next year is as follows:

x_i	$y_i = \bar{y} + a \times (x_i - \bar{x})$
1	$310 + 3.4 \times (1 - 6.5) = 291.3$ pcs
2	$310 + 3.4 \times (2 - 6.5) = 294.7$ pcs
3	$310 + 3.4 \times (3 - 6.5) = 298.1$ pcs

II. Correlation method is also a statistical method that can be used if two conditions are met: there is a correlation between product sales and another variable or two variable to its variations are known or likely to achieve a forecast them as varies with a linear trend.

Example: A unit conducting product A has provided the following data on product sales and revenues, as follows:

Month	Revenue (x_i)	Sales (y_i)
1	6,000	12,000
2	7,000	15,500
3	6,500	14,000
4	8,000	20,000
5	11,000	25,000
6	9,500	23,000
7	12,000	35,500
8	18,000	42,000
9	5,000	11,000
10	7,700	16,000

$$c = \frac{\sum X_i \times Y_i}{\sqrt{\sum X_i^2 \times \sum Y_i^2}}$$

Correlation index is calculated as:

x_i	y_i	$X_i = x_i - \bar{x}$	$Y_i = y_i - \bar{y}$	$X_i \times Y_i$	X_i^2	Y_i^2
6,000	12,000	- 3,000	- 9,400	28,200,000	9,000,000	88,360,000
7,000	15,500	- 2,000	- 5,900	11,800,000	4,000,000	34,810,000
6,500	14,000	- 2,500	- 7,400	18,500,000	6,250,000	54,760,000
8,000	20,000	- 1,000	- 1,400	14,000,000	1,000,000	1,960,000
11,000	25,000	2,000	3,600	7,200,000	4,000,000	12,960,000
9,500	23,000	500	1,600	800,000	250,000	2,560,000
12,000	35,500	3,000	14,100	42,300,000	9,000,000	198,810,000
18,000	42,000	9,000	20,600	185,400,000	81,000,000	424,360,000
5,000	11,000	- 4,000	- 10,400	41,600,000	16,000,000	108,160,000
7,000	16,000	- 2,000	- 5,400	10,800,000	4,000,000	29,160,000
90,000	214,000	0	0	360,600,000	134,500,000	955,900,000

$$\bar{x} = \frac{\sum x_i}{10} = \frac{90,000}{10} = 9,000 \quad \text{and} \quad \bar{y} = \frac{\sum y_i}{10} = \frac{214,000}{10} = 21,400$$

$$c = \frac{\sum X_i \times Y_i}{\sqrt{X_i^2 \times Y_i^2}} = \frac{360,600,000}{\sqrt{134,500,000 \times 955,900,000}} = 1.0056$$

How index correlation is almost one can establish a close correlation between the two variables's highly. It can draw the equation linear forecasting will expire as follows:

$$Y_i = \frac{\sum X_i \times Y_i}{\sum X_i^2} \times X_i$$

The process mathematical equation and arrive at the following mathematical

$$\frac{\sum X_i \times Y_i}{\sum X_i^2} = \frac{360,600,000}{134,500,000} = 2.68$$

expression:

$$y_i - \bar{y} = 2.68 \times (x_i - \bar{x}), \text{ that is } y_i = 2.68 \times x_i - 2,720$$

Apart from sales budget will be prepared and budget distribution costs, which must include at least the following elements expenses: employees involved in the sale and distribution, including those related to security and social protection; travel expenses of employees involved in selling - distribution; expenditure on commission sales; packaging costs; transport costs; advertising expenditures; expenses for participation in fairs and exhibitions; expenditure on market research on products; costs of launching a new product; depreciation and maintenance costs of assets used in the business of selling - a distribution; expenses related to water and energy stores, storage facilities for distribution and the like; insurance costs of the assets used, and products; other selling expenses Distribution (security, general public). If we compare the total costs of distribution sales volume to obtain the unit cost of distribution.

Budget and budgetary control is (Deshayes C., 1991, p.12):

- a set of coordinates that allow predictions especially knowing anticipated operating conditions;
- systematic approach to fixed periods, the actual results achieved by the set;
- rapid communication of relevant situations makers.

Budgetary control involves constant comparison of actual results and forecasts are provided for in the budget in order to investigate the causes of deviations, to inform various hierarchical levels, to take any corrective action necessary to appreciate the work that budgetary responsibility (Gevrais M., 1990, p.36).

Sales Budget control is control by exception, control needs and objectives controlled differ depending on company size, organizational structure and the hierarchical control and address the following topics:

1 Budgetary control sales period - is to identify deviations unfavorable sales periods and causes they generated, and taking corrective measures and related decision.

2 Control sales budget categories of customers - is to identify deviations and causes bad sales they have generated, and decision making and corrective measures related to customer categories, and for each client depending of contracts and other elements planned.

3. Budget control sales regions and sales channels - is considering at least two aspects: the first concerns the responsibility and motivation regional managers involved in sales and distribution, and the second to identify deviations in relation to sales forecasts by region, but also taking improvement measures to be taken into account both the influence of external causes (appearance of local or international competitors, the emergence of the economic crisis and other economic causes - social, etc.), and internal entity (deficiencies in supply / distribution, lack of coordination centres supply / distribution, human errors in the work of regional distribution, etc.). Control can also highlight other elements deficit related to the overall purpose of sales / distribution medium and long term, such as mail order sales implementation, creation of new regional centres for sale / distribution policy change motivational and accountability of managers involved etc.

4. Budget control on product sales - you must highlight at least two aspects, one related to deviations from the expected level on products and other related medium and long term objectives of the entity on the maintenance, development, expansion of production of that product, including accessories items concerning advertising, promotion or replacement of productive capacity is waived if the product and decide to launch a new one.

3. Conclusions

Lack of sales budget can create the following impediments:

- Inability global performance measurement, and bearing the cost or responsibility centres;
- Inability reaction to changes in the market and work products produced or services rendered;
- There is the temptation of the management entity to limit or reduce arbitrary expenditure for certain products or responsibility centres, without a rigorous justification;
- Impossibility of sales simulations and unable identifications deviations occurring in selling and substantiate decisions on current sales and / or future.

Budgeting sales and identify factors affecting short-term market company products shall only envisages the development of future projections, but also obtain information that would allow subsequent management of the business, thereby seeking to ensure the link between resources and ways planned development.

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