

**ST. MARY'S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING**

**AN ASSESSEMENT OF
BUDGET PREPARATION, IMPLEMENTATION, PRACTICES AND
CHALLENGES IN THE CASE OF HOPE ENTERPRISE**

**BY
ABEBA BERHANE
ATKILT YIMER
GENZEB ENDEWAGAW**

ADVISOR: ZELALEM TADESSE

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Budgeting serves as an important mechanism for achieving predetermined goals in every kind of organization including profit making companies, governmental entities and non-governmental or not profit units. It helps to entities to identify sources and uses of financial resources and financial reports provided by organizations (Azem, 2011:6).

Budgeting is the most widely used accounting tools for planning and controlling organizations. Budgeting systems turn manager's perspectives forward. By looking to the future and planning, managers are able to anticipate and correct potential problems before they arise, managers can then focus on exploiting opportunities instead of fighting fires. As one observer said "few businesses plan to fail, but many of those that flop failed to `” (Horngren and others, 2000:178).

In Ethiopian a lot of local NGOs are establishes for several purposes. One of them is Hope Enterprise. With this humble beginning, Hope Enterprises, hereafter referred to as Hope, was established on October 3, 1971. As one of the first local charities in Ethiopia, the Ministry of the interior registered the organization as a humanitarian association on August 13, 1974. Since the organization was established having a vision of showing the love of God to people in need to get them out of their hopelessness. Its future believes is responsibility to God and to one another is the linking pin of good will and community among all people despite their diversity in their means, attributes and handicaps. In order to actualize their visions and believes Hope Enterprise has the following goals. Provide assistance to the destitute, being a strong Christian witness, maintaining a spotless integrity throughout all aspects of the organizations and exclusively implementing the aforementioned in efficiency, effectiveness and positive leadership.

As the bulk of Hope's donation is goodwill offering rather than guaranteed long term financing, HOPE does not exactly know what it is getting until the very year for which it submits a budget proposal. This uncertain situation has forced HOPE to have two kinds of budgets. One is called budget proposal and the other is called operational budget. The budget proposal is prepared through a time taking budgetary process involving all the officials in the organization from first line supervisors on up. In February, the headquarters gives a framework to the various branches and projects of HOPE with a time line to prepare the budget proposal for the ensuing year. This framework is often incremental adjusting for price fluctuations. New programs can be suggested with their acceptance hinging on the justifications given. Then in March and April, the branches and the projects prepare their draft. The draft is then brought to the headquarters and individually discussed. After some adjustments, a consolidated draft is prepared and distributed by the headquarters to the members of the management committee for a budget hearing at a management committee meeting. The draft is discussed and whatever is passed is consolidated again and presented to the board in May as the budget proposal for the General Assembly for an approval the first Saturday in July. After its approval, it then is distributed to donors before the end of July.

At this point, the budget proposal is like a wish list to the extent nothing is pledged yet. But when the pledges come usually in December and in January of the subsequent year then the headquarters adds up all that is pledged in relation to what is proposed and prepares a draft operational budget early in February. Often as what is pledged is less than what is proposed the operational budget will evolve after a number of cuts and downsizing. The adjusted operational budget becomes the final operational budget governing the spending of the organization for that. This research paper tried to assess the budget preparation, implementation, practices and challenges of Hope Enterprise.

1.2. Statement of the Problem

Budgeting is a time-consuming process that involves all levels of management. Top managers want lower-level managers to participate in the budgeting process because lower-level managers have more specialized knowledge and first-hand experience with day to day aspects of running the project. Participation creates greater commitment and accountability toward the budget among lower-level managers. This is the bottom-up aspect of the budgeting process (Horngren, 2006:183).

The wide spread prevalence of budgets in companies ranging from major corporation with international presence of smaller local businesses indicates that the advantages of budgeting systems outweigh the costs. To gain the benefits of budgeting management at all levels of a company should understand and support the budget and all aspects of the management control system. Top management support is critical for obtaining lower-level managements participation in the formulation of budgets and for successful administration of budgets. Lower-level managers who feel that top management does not "believe" in a budget are unlikely to be active participants in budget process (Horngren, 2006:184).

Implementation of budget is distributing and using the allocation, i.e. the notification and publication of the budget, allotment and monitoring processes.

Budget, being a one-year plan prepared for the coming fiscal year, it requires a time schedule for each and every processes that should strictly be adhered to. The time schedule is usually handled through the budget calendar. In effect the budget calendar is the major instrument to manage the budgetary process.(St. Mary's University College Modules, 2006:58).

The superficial purpose of the budgeting process is to predict the results of the following year. In reality, however, there are a number of valid objectives, and the problem is that they differ from participant to participant. The single owner of a business what's a budget that plans to be profit realistically achievable: the main

concern of the lowest- level functional managers is to know what is expected to them and to given enough resources to accomplish it (Robert, 1993:6).

According to Horngren (2006:184), budgets should not be administered rigidly; changing conditions usually call for changes in plans. A manager may commit to a budget, but a situation might develop in which some unplanned repairs or unplanned program would better serve the interests of the company. As per the preliminary research conducted by student researchers the above problems are too observable in Hope Enterprise.

Furthermore, problems of cost allocation, lack of good forecasting, lack of proper budget follow up and lack of comparison of the budget to the actual performance are the major problems observed through preliminary research. To this end research paper attempted to assess budget preparation, implementation, practices and challenges of Hope Enterprise.

1.3 Research Questions

This paper tried to investigate the following major research questions:

1. What are the major problems that inhibit Hope Enterprise to prepare and implement its budget properly?
2. What are the budget practices of Hope Enterprise?
3. What are the techniques to control and evaluate the performance of the budget?
4. What are the effects of lack of proper budget preparation and implementation observed in the organization?
5. How is the level of Hope enterprise's employees' involvement in budget preparation?

1.4 Objective of the Study

1.4.1 General Objective:

The objective of this paper is to assess the budget preparation, implementation, practice and challenges of Hope Enterprise.

1.4.2. Specific Objective:

- To mention the major problems that inhibit Hope Enterprise to prepare and implement its budget properly,
- To describe the budget practices of Hope Enterprise,
- To point out the techniques that helps to evaluate the performance of the budget in Hope Enterprise,
- To describe the effects of lack of proper budget preparation implementation observed in Hope Enterprise,
- To measure the level of Hope Enterprise's employees' involvement in budget preparation.

1.5 Scope of the Study

This research paper focuses only on the assessment of budget preparation, implementation, practice and challenges of Hope Enterprise in the year of 2009 - 2011. We have selected this period of fiscal years because we believed that it shows us the current budget practice clearly. The study is also delimited to Addis Ababa branch because we believe it gives us a better representation of the enterprise due to its proximity to the head office.

1.6 Significance of the Study

The study will be important for decision makers of Hope Enterprise Management; they may take corrective actions based on the recommendation proposed by the student researchers regarding the organization budget preparation, implementation, practices and challenges.

- To provide suggestions to Hope Enterprise managers, planning staffs to minimize influence of factors that obstacle budget preparation, implementation, practices and challenges.
- To suggest recommendation for strength and limitation of activities.
- It can be used a base for other researchers who want to conduct an in depth study on the issue.

1.7 Research Design and Methodology

1.7.1 Research Design

The study used descriptive research method to assess the budget preparation, implementation, practices and challenges of Hope Enterprise. Furthermore, the method enabled the student researchers to describe budget preparation, implementation, practices and challenges of Hope Enterprise.

1.7.2. Population, Sampling Technique and Sampling Size

Hope Enterprise has currently 24 employees since the size of population is manageable, the student researchers used census.

1.7.3 Type of Data Used

The student researchers believed that both primary and secondary data are relevant for the study. Primary data were collected through questionnaire and interview, while the secondary data were obtained from the enterprise record, manual, and annual reports.

1.7.4 Method of Data Collection

The primary data were collected through questionnaires and interview. The questionnaires designed include both open-ended and close-ended questions. Secondary data were also gathered from different written documents, such as facts written on the topic under study in different Hope Enterprise profiles and annual reports.

1.7.5 Method of Data Analysis

Quantitative and qualitative data analysis techniques were used. In this study descriptive data analysis techniques were used. Thus, percentage and tabulation were used to analyze and interpret the data collected from respondents and data from the finance manager of the Hope Enterprise were discussed qualitatively.

1.8 Limitation of the Study

In undertaking this research, the student researchers face a number of limitations in relation to the organization. The research assumed to get sufficient secondary data from the organization. However, the secondary data made available from the organization was not relevant to the study. So the use of the secondary data is very limited. The absence of the budget manual in the organization also affects our study's credibility.

1.9 Organization of the Paper

The study is organized in to four chapters. The first chapter presents the introduction part namely, background of the study, statement of the problem, research question, objective of the study, scope of the study, significant of the study, research design and methodology, limitation of the study and organization of the study. The second chapter deals with literature review. The third chapter deals with data presentation, analysis and interpretation of the data. The fourth chapter consists of summary of the major finding, conclusions and recommendations. Finally, bibliography and list of appendices are attached.

CHAPTER TWO

LITERATURE REVIEW

2.1. Definition of Budget and Budgeting Concept

The word budget is derived from the French word "Bougette" meaning a 'small bag' or pouch in middle French. The use of the word spread to England, where it came to designate the leather bag in which ministers of the crown carried financial plans to parliament, and eventually it become synonymous with its content. The use of the word in the United Kingdom now refers to the spring financial statement, which focus on taxation measure. In most countries, the term refers to the annual expenditure and revenue plans tabled in the legislature. The budget is a document which forecasts and authorizes the annual receipt and expenditure of the state (Stourm, 1917:2). Different scholars define budget in different manners. However, most of them have come up with similar connotation of budget. Some of the definitions selected by the researchers are indicated below.

Budgeting is a process of allocating scarce resource to unlimited demand a dollar and cents plan of operation for a specific period of time or budgeting is a process of preparation of budget which determine the target of budget and it includes preparation of plans, implementation and evaluation. Budgeting is the common accounting tool companies' use for planning and controlling what they must do to satisfy their customers and succeed in the market place. Budget provides a measure of the financial results a company expects from its planned activities. By planning for the future, managers learn to anticipate potential problem and how to avoid them. Instead of subsequently facing problems, manager can focus their energies on exploiting opportunities. Remember that 'few businesses plan to fail, but many of those that flop, failed to plan (Lynn, 1982:3).

2.2. The Power of Budgeting

Budgeting can be the vehicle for addressing objectives, strategies, and problems in the most intelligent way, it should be the vehicle which gives reality to the company's objectives and strategies and should reflect the organization considered decisions on strategies, courses of action and responses to problems, further it should consistently communicate all these things to the entrée organization finally it is the only vehicle that can be accomplish all these things because it expresses the decisions response and action with numerical specificity in relation to tem and is subsequently used tom measure the performance of the company and its company's department (Robert, 1993:5).

Because the budget is used to express both the company plans numerically and latter to measure performances. It should be a powerful management tools. Should guide and motivate the company to ward the best performance possible in its ever-chining environment. It should assist all levels of management in timely recognition and reaction to the surprises problems that all companies experience. And it should promulgate to all employ the all- important message that "management knows what it is going".Good budgeting leads to good management, which leads to good business performance (Robert,1993:5).

2.3. Budgeting Objective and challenges

The superficial purpose of the budgeting process is to predict the results of the following year. In reality, however, there are a number of valid objectives, and the challenge is that they differ from participant to participant. The single owner of a business what's a budget that plans to be profit realistically achievable: the main concern of the lowest- level functional mangers is to know what is expected to them and to given enough resources to accomplish it (Robert, 1993:6).

To be successful, the budgeting process just is responsive to the needs of all participants. Fortunately the goals of the different participants are similar enough that a

realistic composite set of objectives can be formulated and used as a basis for budgeting requirements, these composite objectives are a budget that (Robert, 1993:6).

- Is realistic, accurate and consistent.
 - Plans the best results achievable consistent with acceptable risk and long term health.
 - Contains the information most useful to management.
 - Is consistent with strategy.
 - Facilitates goals setting and measurement at all levels.
 - Communicates strategy, plans and required output to the organization will be beaten.

Unfortunately, there is a significant conflict between two of the budgeting objectives—the contradiction between planning “the best result achievable” and a budget that “will be beaten: this conflict of objective is the first of the inherent problems, the budgeting obstacles that are fundamental to the activity of budgeting and cannot be avoided or removed. Other inherent problems are that performance is measured against the budget, the future is uncertain, the outside environment is uncontrollable, and budgeting is fundamentally a psychological process. The fundamental problem of budgeting can be summarized from the obstacles, the budget deal with next year. Many things about next year are uncertain because (Robert, 1993:7).

1. It is in the future and
2. Much it is uncontrollable

Of the part that can be known, the people who know best—the functional managers directly on the firing line—are not motivated to be realistic in their budgeting submissions the finished budget is then (usually) cast in concrete and (always) used to measure the participant (Robert, 1993:7).

Role of Budget

Budget plays a number of vital roles in economic management of public sector. According to UNESCO (1983:6) the role of budget is grouped in to three categories. These include distribution of resource, allocation of resource and control activities.

- Distribution of resource: through national budgets. One can distribute the scarce resource to different public sectors and produce well and services. The budgeting activities should play a major role in planning and program.
- Allocation of resource: As resources are limited and human wants are unlimited at times the government should identify the most relevant activities to be done first and allocate her necessary resources.
- Controlling of activities: Government taxation and spending influences the nation's general level of economic activity. That is when tax collections are less than or equal to or greater than the spending of government activities (UNESCO, 1983:6).

2.4. Budget and the Budget Cycle

A budget is (a) the quantitative expression of proposed plan of action by management for a specified period and (b) an aid to coordinating what needs to be done to implement the plan. A budget can cover both financial and non financial aspects of the plan and serves as a blue print for the company to follow in an upcoming period. Budget that covers financial aspects quantifies management's expectation regarding income, cash flows, and financial position. Just as financial statements are prepared for past periods, so can financial statements be prepared for future period for example, a budgeted income statement, budgeted statement of cash flow, and a budgeted balance sheet (Horngren, and others, 2002:178).

2.5. Advantages of Budgets

Budgets are a major feature of most management control systems, when administered wisely, budgets (a) compel planning including the implementation of plans, (b) provide

performance criteria, and (c) promote coordination and communication within the organization. However, budgets must be carefully and intelligently administered by management (Horngren and others, 2002:179).

2.6. Budget Approach

The way in which the budget program is initiated will have marked effect upon its acceptance throughout the enterprise. Psychological (that is behavioral) factors are important determinants of budget acceptance. Careful planning by top management prior to budget initiation is essential. It is generally desirable that a committee of top-management officials be appointed to analyze the budgetary need of the enterprise, to develop the specific objective of a budget initiation and implementation. In designing and implementing a budget and planning and controlling program the following steps are recommended (Hilton and others, 2004:633).

- Appointed a high-level management committee to provide broad recommendation.
- Analyze the internal environment based on factual studies.
- Conduct economy feasibility studies.
- Specify the broad objective of the program.
- Specify management responsibility in planning and controlling.
- Decide on the basic budgetary approach.
- Select appropriate concept, techniques and approach.
- Plan the implementation of the system.
- Institute budget education (Hilton and others, 2004:633).

The program and planning programming budgeting (PPB) approach

Has come to be known as planning programming budgeting system (PPB or PPBS). As was the case with performance budgeting. PPB emphasis originated with the federal government when concept developed in early part of 20th century where refined by the Rand Corporation in the late fifties and experiments with the Department of Defense in the early sixties. The movement to PPB received its greatest impetus in 1965 when

precedent Johnson instructed most federal departments and agencies to apply this approach to their program planning and budgeting. The main contribution of PPBS lies in the planning process, i.e. The process of making policy decision that lead to specific budget and specific multiyear planes (Lynn and Freeman, 1982: 66 and 67).

Among the benefits to state the localities attributed to state and localities to the PPB approach is;

- ◆ Long range fiscal planning become routine.
- ◆ Plans and programs are reviewed continuously.
- ◆ Governmental activities are classified in terms of program and other purpose.
- ◆ Interagency coordination of program is strengthened.
- ◆ Intergovernmental planning is improved
- ◆ A program evaluation cycle of program formulation, progress reporting and program revision is established.
- ◆ Each program is to be evaluated in terms of national goals
- ◆ Another reason for the apparent demise of performance budget as such was the shift emphasis in the late fifties, to what has come to be known as the planning –programming –budgeting system often referred to as PPB OR PPBS

The major distinctive characteristics of PPB as described by Hatry; are;
(Harty and Cotton,1967:14 and 15).

- ◆ It focuses on identifying the found mental objective of the governmental and then relating all activities to these (regardless of organizational placement).
- Future year implications are explicitly identified.
- All pertinent cost is considered.
- Systematic analysis of alternatives is performed (e.g. cost benefit analysis and system analysis and operation research (Lynn and

2.7. Principles of good budgeting

Comprehensiveness: the budget must cover all the fiscal operation of government, encompassing all public expenditure and revenues, to enable full and informed debate of the trade offs between different policy options.

Predictability: spending agencies should have certainty about their allocation in the medium term to enable them to plan ahead. Stable funding flows support departmental planning, efficient and effective delivery.

Constantability: No item in the budget should have an automatic claim to finding all policy and attached funding should be regularly reviewed and evaluated in order to insure prioritization and optimal.

Transparency: All relevant information required for sound budgetary decision making should be available in an accessible format, and in a timely and systematic fashion. Budget information needs to be accurate, reliable and comprehensive.

Periodicity: The budget should cover a fixed period of time performance of spending agencies. Typically one year and the process of completing the budget should follow a clear and reliable schedule that is agreed up on and published in advance (World bank, 1998:8).

2.8. Types of Budget

Different types of budgets serve different purpose .a master budget, or profit plan, is a comprehensive set of budgets.Covering all phases of organizations operations for a specified period of time (Lynn and Freeman, 1982: 57).

2.8.1. Master Budget

The master budget is a comprehensive expression of management's operating and financial plans for a future time period (usually a year) that is summarized in asset of budgeted financial statements. It embraces the impact of both operating decisions and financing decisions operating decisions center on the use of scarce resources. The many

advantages of budgeting make this a very wise investment of their energy (Horngren, 2000: 178).

2.8.2. Line Item Budget

Line item budgeting encouraged by the approach, may have been a necessary reaction to the "boss rule" scandals of the turn of the century period; but critical assert that in to day's complex environment the executive branch must have reasonable discretion and flexibility to manage diverse and complex programs (Lynn and Free man; 1983: 62)

2.8.3. Performance Budgeting

A budget where in expenditure are based primarily upon measurable performance of activities and work programs a performance budget may also in corporate other bases of expenditure classification, such as character object class, but these are given a subordinate status to activity performance. This approach embodies a shifting of emphasis from objects of expenditure to "measurable performance of activities and work programs. "The primary focuses evaluation of the efficiency with which existing activities are being carried out; its primary tools are cost accounting and work measurement (Lynn and Freeman, 1983: 63).

2.8.4. Zero base Budgeting (ZBB)

This type of budgeting is similar to planning, programming and budgeting. The most basic concept behind ZBB is that all programs and expenditure are reevaluated every year. Another ZBB is that the responsibility, to present and defined program. Principal advantage of ZBB is that each type of cost incurred in every budget period will be justified (Lynn and Freeman, 1983:72).

Fall's in to the hands of managers of respective institution. 'Moreover, according to the method of ZBB, "decision packages" have to be developed. The key to ZBB lies in the identification and evaluation of alternatives. This is followed by ranking of "decision packages", the most crucial stage in the application of this method. Despite the obvious advantages of ZBB, it has also disadvantages (Lynn and Freeman, 1983:72).

- Given enough time and manpower, there would not be controversy on the application of ZBB.
- However, if such problems exist, reviewing all programs every year would be cumbersome and sometime impossible.
- Another more serious problem is the ranking of programs.
- If there is no way to continue with that inefficiency
- Activity in the future.

2.8.5. Activity Based Budget

If focus on the cost of activities necessary to produce and sell product and services. It separate indirect cost in to separate homogeneous activity cost pool. Management uses the cause and effect criterion to identify the cost driver for each of these indirect cost pools, its merits (Horongren, and others, 2002:141).

1. Ability to set more realistic budgets
2. Better identification of resource needs
3. clear or linking of costs with staff responsibility and
4. Lining of cost to out puts.

Demerits:- it requires more effort and time consuming to determine the demand for each individual activity based on budgeted, production new product development.

2.8.6. Incremental Budgeting

Previous budgets are considered as base. The previous budget figures can be increased or decreased depending on circumstance which is determined on the volume of activity the organization wants to perform. The incremental budgeting eases the proportion of the budget since the budget prepares starts from a budget already prepared and adjust these data. However, the incremental budgets have disadvantageous. The greatest disadvantages, is that prior period budget may include inefficiency (St.Mary's University College Modules 1-3, 2006:25).

2.8.7. Government Budget

In governmental entities, budget serve as a means of managing resources to achieve predetermined objectives with on reference to profit or any other financial returns. It is key tool or mechanism by which the legislative body uses to ensures that actual expenditures are in line with budgeted amounts and that the objective and levels of activity envisaged in the budget are achieved. Besides, to get a share in governmental resource allocation, preparing and submitting budget, showing proposed expenditures and means of financing them are the first requirement for each governmental entity. Towards the end, preparing budget by every governmental entity is mandatory. Besides, governmental budgets are legally binding upon the executive body and once fixed by law, they are generally unchangeable with out mach effort. Thus, governmental budgets are highly rigid. Such rigidity, however, is a requirement of budgetary control which involves ensuring that only those items and amounts of expenditures authorized in the budgets should be incurred (St.Mary's University College Modules 1-3, 2006:9).

2.8.8. Fixed Versus Flexible Budgets

Fixed budget is a budget for a specific or fixed total amount that may not be exceeded due to changes in the demand for governmental goods and services. This budget is prepared for a specific planned activity actually demanded. Fixed budget is most suited for activities whose resource consumption does not materially vary over time (Lynn and Freeman, 1983:58).

Flexible budge, on the other hand, is a budget which fixes expendable resources per unit of goods and service whose total varies wit the change in the quantity of goods and services offered affect availability of resources and expenditure requirements (Lynn and Freeman, 1983:58).

2.9. Variance Concepts

A variance is the difference between an actual results and a budgeted amount when that budgeted amount is a financial variable reported y the accounting system. The above mention definition a way be taken as a general one, but if we see variance from a manufacturing point of view, it may be taken as the (Horngren and others, 2000:220).

2.9.1. Analysis of Budget Variance

Comparison of actual result with budgeted objectives has been stressed as an important part of the control process. A distinguishing feature of the performance report was the variances between actual results and budget standards. It was also indicated that a variation if significant, should led to a careful management investigation to determine the underling cause: for the causes rather than the results need remedies through appropriate corrective action by the management (Welsh and Others, 2004:569).

In evaluating and investigating a variance to determine the underlying causes, the following possibility should be considered: The variance is immaterial.

The variance was due to reporting errors- both the budget goal and the actual data supplied by the accounting department should be examined for clerical errors. For example, a single accounting entry charring the wrong department may cause unfavorable variance in one department and a favorable variance in another department (Welsh and others, 2004:569).

The variance was due to a specific management decision to improve efficiency or to meet certain exchanges management often will make decision that creates variation. For example, may be decided to raise a salary, to meet competitive efforts by another firm to attract a key employee, or to under take a special advertising project not previously planned (Welsh and others, 2004:569).

The variation was due to a specific management decision to improve efficiency or to meet certain exigencies management often will make decisions those cerate variations. For example, may be decided to raise a salary, to meet competitive efforts by another firm to attract a key employee, or to under take a special advertising project not

previously planned. Many variations are explainable in terms of the effects of uncontrollable factor that are identifiable (Welsh and others, 2004:570).

These variations for which the precise underlying causes are not known should be lo of primary concern and should be carefully investigated. In other word, we must give special attention to the variation that "needs explaining" these are the exceptions that generally require corrective action (Welsh and Others, 2004:570).

2.10. Basic Budgetary Terminology

Although the prating budget of each year stands alone from a legal stand point, budgeting is a continuous process. Budget official will be engaged during any given year in assuring that the prior year's budgetary reports are properly audited (Lynn and Freeman, 1983:54).

2.10.1. Tentative Vs enacted Budgets

One of the most important bases of distinctions between budgets its their legal status. Prior to approval by the legislative body various documents may be called budgets and have greater or lesser degrees of finality. Capital programs represent plans but not requests by the executive branch; they are subject to change from year to year. Similarly, a departmental budget request may be called a budget but may be changed several times by the department head or higher authority before it is included in the chief executives final budget presented to the legislative (Lynn and Freeman, 1983:57).

2.10.2. General Vs Special Budgets

The budgets of general governmental activities commonly financed through the general, special revenue and debt serviced funds, are referred to as "general" budgets. A budget prepared for any other funds is referred to as a "special" budget. Appropriations are not normally required for trust and agency funds since the government Aries is acting merely as a fiduciary in such situations; consequently, formal budgets are rarely prepared for these types of funds. Special budgets are

commonly limited to those for capital projects and special assessment funds. Internal service and enterprise funds are some times formally budgeted (Lynn and Freeman, 1983:57).

2.10.3. Executive Vs Legislative Budget

Budgets are also some times categorized by preparer. As noted earlier budget preparation is usually considered an executive functions though the legislature may revise the budget prior to approval. In some instances, however, the legislative branch prepares the budget, possibly subject to executive to; in other instance, the budget may originate with a joint legislative-executive committee or with a committee comprised solely of citizens or constituents. Such budgets are frequently referred to by terms such as "executive budget" legislative budget, "joint budget" or "committee budget" (Lynn and Freeman, 1983:58).

2.11. Budget Preparation

Sound financial requires that preparation of the budget be started in time for its adoption before the beginning of the period to which it applies. To insure that adequate time will be allowed, a budget calendar listing each step in the budget procedure and the time allowed for its completion should be prepared (Lynn and Freeman, 1983:75).

2.12. Budget Practices around the Globe

Surveys of financial officers of the largest industrial companies in the United States, Australia, Holland, Japan, and the United Kingdom indicate some interesting similarities and differences in budgeting practices across countries. The use of master budgets is widespread in all countries. Difference arises with respect to other dimensions of budgeting. U.S. controllers and managers prefer more participation and regard return on investment as the most important budget goal. In contrast, Japanese controllers and managers prefer less participation and regard sales revenues as the most important budget goal. Surveys of Australian and Japanese managers report that budgeting is the

management accounting practice that has the single highest benefit to them (Horngreen and others, 2002: 181).

2.13. Budget manual

The budget manual is a set of written instructions that specifies who will provide budgetary data when and in what form the data will be provided, how the master budget will be prepared and approved, and who should receive the various schedules comprising the budget (Ronald W. and Hilton, 2002: 392).

2.14 Budget Implementation

Implementation of budget is distributing and using the allocation, i.e. the notification and publication of the budget, allotment and monitoring processes.

Budget, being a one-year plan prepared for the coming fiscal year, it requires a time schedule for each and every process that should strictly be adhered to. The time schedule is usually handled through the budget calendar. In effect the budget calendar is the major instrument to manage the budgetary process. (St. Mary's University College Modules, 2006: 58).

CHAPTER THREE

3. DATA PRESENTATION, ANALYSIS AND INTERPRATATION

This research study is intended to assess the budget preparation, implementation, practices and challenges of Hope Enterprise. Therefore this chapter deals with analysis and interpretation of the study based on the data gathered from the respondents in the organization. The population size of the respondents is 24. The student researchers used census method in order to select the respondents from the general employees of the organization. Among the questionnaires distributed to 24 employers, 19(79%) of them have returned the questionnaires and 5(21%) have not. In order to enhance the representativeness of the population, different departments were also represented in the population selected for the research. The departments include administration, finance, vocational training, Hope school and child care.

3. 1. General Characteristics of the Respondents

Table 3.1 below shows that the general characteristics of the respondents classified by gender, age, educational level, working experience and departments in the organization.

Table .1 General Characteristics of the Respondents

No	Description of respondent' s	No of Respondents	%
1	Gender:		
	Male	13	68
	Female	6	32
	TOTAL	19	100
2	Age group:		
	20-30 years	7	37
	31-40 years	6	31.5
	Above 40	6	31.5
	TOTAL	19	100
3	Educational level:		
	second degree	2	11
	First degree	11	58
	College Diploma	5	26
	Certificate	1	5
	TOTAL	19	100
4	Work experience in the organization:		
	1-5	4	21
	6-10	4	21
	11-15	6	31.5
	Above 15 years	5	26.5
	Total	19	100
5	Department:		
	Finance Department	7	36.5
	Administration	2	10.5
	Hope School	2	10.5
	Child Care	2	10.5
	Vocational trading	6	32
	Total	19	100

As it is shown in the above table 1 of item number 1, 13(68%) of the respondents were male and the rest 6(32%) were female. This indicates that the majority of the

respondents were male. This may show that there is gender disparity among the employees of the organization.

With regards to age category, item number 2 of the same table showed that the number of respondents whose age is between 20-30 were 7(37%), between 31-40 years were 6 (31.5%) and above 40 years were 6(31.5%). This implies that more than 60% of the staff respondents are above the age of 30. which means that most of them have accumulated a huge experience and efficiency that can help the organization a lot.

Concerning the educational level of the respondents as shown in item number 3 of the above table the majority of the employees in the sample i.e. 11(58%) were first degree holders while 2(11%) were second degree holders. The proportion of college diploma and certificate holders take 5(26%) and 1(5%) respectively. This implies that the respondents have better educational qualifications which can assist the organization to build better professional asset.

According to item number 4 of table 1, 4(21%) of the respondents have from 1-5 years of experience. 4(21%) have from 6-10 years of experience while 1(5%) of the respondents have from 11-15 years of experience. The employees that have worked from above 15 years were 5(26.5%). This implies that the majority of the respondents have long experience.

Concerning the departmental composition, in item number 5, shows that 7(42%) of the respondents were from finance department. The administration department was represented by 2(10.5%) of the respondents. The home school and child care departments were represented by 2(10.5%) each while the vocational training had 6(32%). The majority of respondents were from finance department. The table generally shows that finance and vocational training departments were represented by relatively large number of respondents than the other departments.

3.2 Analysis of the Major Findings

Hope enterprise has two major financial sources i.e. the donors and income generating activities. The preparation of budget in the organization follows the following procedures, in March and April, the branches and the projects prepare their draft. The draft is then brought to the headquarters and individually discussed. After some adjustments, a consolidated draft is prepared and distributed by the headquarters to the members of the management committee for a budget hearing at a management committee meeting. The draft is discussed and whatever is passed is consolidated again and presented to the board in May as the budget proposal for the General Assembly for an approval the first Saturday in July. After its approval, it then is distributed to donors before the end of July.

Table. 2. Preparation of Budget

N o	Questions	Response	No of Respondents	%
1	Is your department involved in preparing the organization's budget?	Yes	15	79
		No	2	10.5
		I don't know	2	10.5
		Total	19	100
2	How do you rate the participation of the department in budget preparation?	Very High	4	21
		High	11	58
		Moderate	-	
		Low	-	
		I can't rate	4	21
		Total	19	100
3	How do you rate the subordinates' participation in budget preparation?	Very High	4	21
		high	11	58
		Moderate	-	
		Low	2	10.5
		Very low	2	10.5
		Total	19	100

In the above table 2, item 1 shows that 15(79%) of the respondents are involved in preparing the organization's budget, 2(10.5%) are not involved in budget preparation and the rest 2(10.5%) stated that they don't know the participation of their

department. Thus most of the respondents said that their department is involved in preparing budget.

Item 2 of the table also shows that 4(21%) of respondents rated their department's participation in budget preparation as very high, 11(58%) of the respondents rated their department participates highly, 4(21%) of the respondents indicated that they cannot rate their department's participation in budget preparation because they are not aware of it. Generally the analysis indicates that most of the departments participate in budget preparation and the participation level rated as high. The interviewees also responded that the enterprise has two types of budget system. They are proposal budget and operational budget. The budget proposal is prepared through a time taking budgetary process involving all the officials in the organization. The budget proposal is like a wish that the enterprise would hope to get. Operational budget is the final budget that governs the spending of the organization. As it is cited in the literature review, the enterprise uses predictability type of principles of good budgeting in which the enterprise should have certainty about their allocation in the medium term to enable them to plan ahead. Stable funding flows support departmental planning and efficient and effective delivery (World Bank, 1998: 8).

In the same table, item number 3 also indicated that 4(21%) of the respondents stated that their subordinates' participation is very high in budget preparation. 11(58%) of the respondents stated that subordinates participation is high. 2(10.5%) of the participants believe that their subordinates' participation is low while other 2(10.5%) of the respondents said that their departments participation is very low. As it is cited in the literature review the enterprise uses consultative type of budgeting in which a subordinate is asked to discuss ideas about the budget but no joint decision making occurs (World Bank, 1998:9).

The researchers also interviewed some of the respondents including the finance manager. In the interview they explained about the mandatory issues in the budget

preparation. These are identify sources of income and amount of income, agreement with donors, project work plan, number of beneficiaries, number of employees, nature of the project, total expenditure of the organization and budget utilization of the previous year.

Table 3 .Budget implementation in the organization

No	Questions	Response	No Respondents	Of %
1	Does technical department play a great role to facilitate its duties to further support budget implementation	Yes	15	79
		No	3	16
		I don't know	1	5
		Total	19	100
2	The budget allocated correctly utilized for the intended purpose	Strongly agree	7	37
		Agree	5	26
		Neutral	6	32
		Disagree	1	5
		Strongly disagree	-	-
		Total	19	100
3	The budget allocation and utilization are fair in each department?	Yes	2	11
		No	13	68
		No response	4	21
		Total	19	100

As it is observed from the above table 3, item No 1, 15(79%) of the respondents said that the technical department in their organization involves in supporting the budget implementation. 3(16%) of respondents said that the technical department does not play a great role in supporting the budget implementation of the organization. 1(5%) of respondents said that they don't know whether or not the technical departments involve in supporting the budget implementation. This shows that technical departments play their role to support of budget implementation.

As we can see from item No 2 of table 3, 7(37%) of respondents strongly agree that their departments utilize correctly the budget allocated for the intended purpose.

5(26%) of respondents agree to the same notion of correct utilization of the budget for the intended purpose, 6(32%) of respondents are of no opinion and the rest 1(5%) of respondents disagree that the budget is utilized correctly to the purpose intended. So, 63% of the respondents strongly agreed and agreed that the enterprise has correct budget allocation and utilization for the intended purpose. As it is expressed in the review of related literature in the principle of good budgeting:-Periodicity: The budget should cover a fixed period of time performance of spending agencies. Typically one year and the process of completing the budget should follow a clear and reliable schedule that is agreed upon and published in advance (World Bank, 1998:8).

When we look at item 3 of table 3, 2(11%) of respondents believe that the budget allocation and utilization are fair in each department, 13(68%) respondents in the contrary believe that there is no fair budget allocation and utilization in each departments. The rest 4(21%) of respondents do not have any idea of how the budget is allocated and utilized. This implies that in Hope enterprise budget allocation and utilization are different in each department. According to the interviewees who responded "yes" in the first item of the above table, the enterprise utilizes its budget as per the allocation. However they added that there are times when the enterprise faces variation of budget allocation and utilization. One of the times when this happens is due to price fluctuations.

Table. 4. Budget Practices in the Organization

No	Questions	Response	No Respondents	Of	%
1	Does the organization use budget plan properly?	Yes	15		79
		No	1		5
		No response	3		16
		Total	19		100
2	Does the enterprise have good budget controlling mechanism?	Yes	15		79
		No	1		5
		I don't know	3		16
		Total	19		100
3	Does managerial activity make correction in each year?	Yes	15		79
		No	1		5
		No response	3		16
		Total	19		100
4	Do you have the budget manual of the organization in your department?	Yes	-		-
		No	19		100
		Total	19		100
5	If you have the manual how do you evaluate it?	It is clear	-		-
		It is not clear	3		16
		I don't know	16		84
		Total	19		100
6	Is the management ready to read the performance reports based on budget and take corrective actions?	Strongly agree	6		32
		Agree	8		42
		Neutral	4		21
		Disagree	1		5
		Strongly disagree	-		-
		Total	19		100

Table 4, item 1, indicate that 15(79%) of respondents believe that their department use budget plan properly. 1(5%) of respondent feel that the organization does not use budget plan properly while the rest 3(16%) of the respondents did not have opinion to express in the questionnaire. This implies that in the organization, there is proper use of budget plan. In addition, during the interview which included the finance manager the interviewees explained that the organization has two budget preparation mechanisms or types of budget plans. These are the annual budget and the five years budget.

The above table 4, item 2 indicated that 15(79%) of respondents rated that the enterprise have good budget controlling mechanism, 1(5%) of the respondents rated that the enterprise has no good budget controlling mechanism and the rest 3(16%) of the respondents said I don't know. This implies that the enterprise has good budget controlling mechanism.

Item 3 of table 4, also indicated that 15(79%) of the respondents know that there is a budget correction made by the managerial team. 1(5%) of the respondents disagree that there is a budget correction activity in the organization while the rest 3(16%) are of no response. This implies the organization is capable of correction of budget. But during the interview, the finance manager explained that once the budget is set the management can not adjust in the middle of sometime, but the managerial activity makes correction in each year.

According to item 4 of the above table 19(100%) of respondents said that the organization does not have budget manual. So this implies that Hope Enterprise is working without budget manual that gives direction for the preparation, implementation and controlling mechanisms of the budgeting.

Regarding to table 4, item 5, implies that because there is no budget manual in the organization the respondents could not give a relevant opinion.

From the above table 4, item No 6, 6(32%) of respondents strongly agree that the management is ready to read the performance reports based on budget and take corrective action. 8(42%) of respondents agree that the management is ready to read the performance reports based on budget and take corrective action while 4(21%) of respondents do not have any opinion about the management's readiness to read and take corrective action on the performance reports. The rest 1(5%) of respondents disagrees with this idea. This indicates that the management evaluates performance reports and takes corrective action accordingly.

Table. 5: Challenges Of budget Preparation, Implementation & Practices

No	Questions	Response	Respondents	%
1	Does the organization face shortage of budget?	Yes	8	42
		No	7	37
		No response	4	21
		Total	19	100

Table 5 indicates that 8(42%) of respondents believe that there is shortage of budget in the organization where as 7(37%) of respondents feel that the organization does not have shortage of budget. The remaining 4(21%) of respondents do not have any opinion of whether the organization has a budget problem or not. During the interview, the interviewees explained that the problems that the organization faces in the preparation, implementation and practices are inflation, rise of price of materials, price fluctuation, and lack of knowledge about current price of items. Therefore this less predictability and dynamism in the market are among the major challenges they face during planning and implementation. This in turn affects the securing the budget from the respective donors. The impacts of foreign exchange fluctuation, the price and cash shortage can be seen in the variations of monetary donations, fluctuation of foreign currency exchange rate from time to time mainly on donation money, the price of raw materials mainly on imported raw materials. The cash shortage also can affect the total expenditure and performance of the organization.

As it is cited in the review of related literature, the fundamental problem of budgeting can be summarized from the obstacles, the budget deal with next year. Many things about next year are uncertain because:

3. It is in the future and
4. Much is uncontrollable

Of the part that can be known, the people who know best-the functional managers directly on the firing line-are not motivated to be realistic in their budgeting submissions

the finished budget is then (usually) cast in concrete and (always) used to measure the participant (Robert, 1993:7).

On the suggested solutions for the major problems identified above the following suggestions were outlined: market stability, develop international updated information on foreign currency and imported raw materials and further training on how to utilize resources effectively and efficiently.

Problems related to Budget preparation and implementation

According to the data obtained from respondents (primary data), the researchers have identified the following major problems of Hope Enterprises in the preparation, implementation, practice and challenges of budget resources include:

- The Enterprise has shortage of budget,
- There is no fair budget allocation and utilization among each department,
- The organization does not have a budget manual,
- The enterprise faces problem of inflation,
- The enterprise faces problem of price fluctuation,

CHAPTER FOUR

4. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

4.1. SUMMARY OF THE MAJOR FINDINGS

In this research paper work, attempts are made to know the research entitled **budget preparation, implementation, practices and challenges in the case of Hope Enterprise**. The researchers gathered both primary and secondary data that are relevant for the study. The primary data were collected through questionnaire and interview, while the secondary data were obtained from the enterprise's records and reports. This chapter presents summary on the research as follows:

- From the respondents reviewed 68% were male and the rest 32% were female
- Most of the respondents i.e. 58% have first degree, 26% have college diploma and 11% have second degree.
- 79% of the respondents said that their department involves in the organization's budget preparation
- 21% rated their department's participation as very high and 58% of the respondents rated as high
- 21% of the respondents rated their subordinates participation as very high and 58% stated that subordinates are very high participative in budget preparation,
- 79% of the respondents said their departments use budget plan properly
- Concerning technical department participation in budget preparation 79% of the respondents said that the technical departments participate in facilitation of its duties to further support the budget implementation.
- In budget allocation 63% of the respondents agree that the budget allocated is utilized correctly for the intended purpose
- However 68% of the participants believe that the budget allocation of the organization to different departments is not fair.
- Concerning budget controlling mechanisms, 79% of the respondents said that the enterprise have good budget controlling mechanisms
- According to 42% of the respondents rated that the enterprise face budget shortage

- Concerning budget correction 74% of the respondents agree that the management reads the performance reports and makes corrective actions accordingly
- The organization has no budget manual and this is the greatest limitation of the organization

4.2. CONCLUSIONS

As clearly indicated in the summary of the previous section the data gathered from primary and secondary sources has shown different implications. Hope enterprise has a good professional composition that helps it work better in the budget preparation, and implementation. We can say that the staff is a good asset to even tackle the challenges the enterprise would face in any way. The organization also has a budget plan practice and this shows the organization does its operation based on budgeting. The finance department's involvement in the following up every activity related to budget preparation, implementation, control and evaluation in order to keep the smooth flow of budget is also exemplary.

The organization also has a good practice of participating majority of the staffs in the budget preparation. This helps the staff develop ownership in the budget as well as the whole process in it. Different departments of the organization also have a reasonable representation in the budget preparation of their respective departments.

However the participants' response concerning the fairness of budget allocation for departments clearly shows that there is unfairness in the budget allocation. This in turn shows that the staffs who participate in the budget preparation either do not reflect their departments' budget need properly or their expression of the budget need is not taken seriously. This also implies that either the participants have a clear capacity gap in understanding their departments' budget need or that they don't have confidence in the management's consideration of their proposal. This makes the whole participation by different departments and staffs less meaningful.

Hope enterprise's management has also a good practice of reading the financial performance reports compiled from various monitoring works. The management also takes appropriate corrective and reviewing measures according to the reports. This is an indication that the organization's management has a good budget follow up mechanism. The good follow up mechanism helps the organization ensure problem in

relation to budget implementation are solved quickly. A major learning from this research is that Hope enterprise has a good experience of utilizing the budget for the intended purpose. This is mainly because the organization involves majority of the staffs and respective departments in the budget preparation.

According to the understandings from the interviews Hope enterprise has a budget shortage challenge. This in turn affects the implementation of the budget as different operations in the enterprise may not have enough budgets allocated for their works. This causes repeated revisions in the organizations budget plan in order to reallocate the shortage from a relatively sufficient budget but likely to under spend. The present inflation and a price fluctuation following it are also major challenges in the organization that call for repeated budget revision and amendments. The budget planned at the beginning of the budget year may not be sufficient in the middle of the budget year due to the inflation and price fluctuation.

But Hope enterprise also has a major gap of absence of budget manual. As a result the budget preparation and implementation process is not uniformly guided among different departments. This makes the organization's budget preparation dependent on individuals' experience. Individuals experience also has a risk of bias to ones preferred trend. The staffs that participate in the budget processes do not have a clear direction that guides them through. So we can conclude that the whole process of budget preparation, implementation and practice is unclear for the staffs though the staff assumes to participate in the whole process and regard their participation as a positive practice. The budget preparation, implementation and practice are therefore at risk. The management also faces difficulty on what basis they should prioritize the budgeting.

4.3. Recommendations

This part of the study will try to provide certain recommendation that would help the Hope Enterprise budget preparation, implementation, practice and challenges. The opinion which will be recommended allows the enterprise to analyze different factors that hinder the budget preparation, implementation and practice that achieve its vision, mission and objectives. Accordingly, the researchers would like to recommend the following possible remedies that should have to be taken by the organization.

- Even though Hope enterprise has a commendable practice of involving the majority of staff in the budget preparation, we have also learned that a reasonable share the staff does not have a good understanding of the budget preparation process. As a result their participation is limited. Therefore we recommend that the organization gives a kind of training or capacity building in relation to budget preparation and implementation to the general staff that need to involve in this process. This will strengthen the existing participation in terms of doing it by knowledge.
- We have also learned that different sectors of the organization are included in the budget preparation process. But their involvement does not seem to go an extra mile of having a say in the budget needs of their respective departments. Therefore we recommend that the departments' representatives' opinion on budget needs should be considered well. So that every sectors can get adequate information on the budget requirements of the various departments.
- We also strongly recommend that Hope enterprise has its own budget manual that guides the whole budgeting process. The staffs also need to have a regular internalization of the manual once it is developed. This will make the budget process meaningful to the staff and easy for the management to guide the budgeting.

- In order to promote a fair budget allocation Hope enterprise needs also to strengthen the capacity of its staff to make them able contribute their departments' needs.
- The budget based performance evaluation of the organization should have to involve the whole sections, departments and workers.
- The problems faced by the organization like shortage of budget, inflation, and price fluctuation should have to be solved through enlarging source of income either from local, abroad in the form of donation or from diversifying income generating activities.
- The organization still needs to make the budget plan in terms of dollars as it has a reasonable amount of budget from donation. This helps the organization cope up with the inflation and price fluctuation problems it faces.

