



**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**ASSESSMENT OF BUDGET UTILIZATION AND CONTROL (A CASE OF  
ETHIO AGRI-CEFT PLC**

**BY  
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**JULY 3, 2021  
ADDIS ABABA,**

**ST.MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF BUDGET UTILIZATION AND CONTROL:  
THE CASE OF ETHIO AGRI-CEFT PLC, ADDIS ABABA, ETHIOPIA**

**BY**

**HIWOT ARARSA.**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDENTS OF  
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REQUIREMENT FOR THE DEGREE OF MBA IN ACCOUNTING AND  
FINANCE**

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ADDIS ABABA, ETHIOPIA**

**ST.MARY’S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIESA**  
**MBA IN ACCOUNTING AND FINANCE**

Declare that this thesis entitled “Assessment of Budget Utilization and Control in case of Ethio Agri-CEFTPLC” submitted to school of graduate studies of St Mary’s university in partial fulfillments of the requirement for the degree of MBA in accounting and finance. Thesis is my original work and has not presented for any other awarded degree in University.

Approved by Board of Examiners

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## **Declarations**

I Hiwot Ararsa ID Number SGS /0085/2011B, declare that this thesis entitled “Assessment of Budget Utilization and Control in case of Ethio Agri-CEFT PLC” submitted to school of graduate studies of St Mary’s university in partial fulfillments of the requirement for the degree of MBA in accounting and finance. This thesis is my original work and has not presented for any other awarded degree in University accomplish this thesis under the guidance of Mohamed seid (Asst prof).

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**Endorsement**

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor : Mohamed seid (Asst prof)

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**List of Abbreviations/Acronyms:**

CIMA- Chartered Institute of Management Accountants

CPM- Critical Path Method

EAC- Ethio Agri CEFT PLC

PERT- Program Evaluation and Review Technique

SMEs -Small and Medium Scale Enterprises

SPSS -Statistical Package for Social Sciences

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## **ABSTRACT**

*The main purpose of this study is to conduct an assessment of the budget utilization and control in Ethio Agri CEFT PIC. The general objective of the research paper is to assess the budget utilization and control and the study was designed to assess methods and processes of budget utilization in these company. This research examines effectiveness and efficiency of budget utilization and control, to assess budget control system and to investigate challenges that have been facing during budget preparation and utilization. The research adopted quantitative and qualitative analysis. A total of 75 respondents while the interview was conducted with 3 finance officers. The data collected using primary and secondary. Data were analyzed with the statistical package for social sciences (SPSS) version 20. As the findings show that budget utilization and controlling process of the company is inefficient, budget monitoring and evaluation didn't performed on regular and timely schedules. Therefore study concluded that budget controlling and utilization process of the company is inefficient. Finally the research the following recommendations: the company should plan its annual budget by participating departments and analyzing the actual performance of the past budget years against the demand of expenditure: operational units, capital investment and running costs and it has some weakness in its budget utilization system and controlling mechanism. Thus the company should improve its budget planning/preparation that enables the management of to compare the planned ones with the actual results and based on that they can take an action to modify budget variance and operation of the business.*

**Key words: Budget planning, Budget Allocation Budget Utilization, Budget Control**

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter presents the background of the study. It consists of: introductory paragraphs that deal with: general points related to the research topic and a background information about the organization covered in this particular study, statement of the problem, research gap, general and specific objectives, research questions and the significance, scope, limitations and organization of the study.

#### **1.1 Background of the Study**

A budget is a formal expression of plans covering various business activities in quantity and monetary terms for a specific period in the future (Olusola & Olowaseun, 2014). Budget are a quantity of future plan of action and aid to the coordination and implementation of Plan. A budget can also cover both financial and nonfinancial aspects of these plans and act as a blueprint for the organization to follow in the upcoming period. It also needs to be enacted before the fiscal year begins and be integrated with the financial accounting system so that actual results can be compared to the budgeted plans at regular intervals then develop corrective measures (Watlher, 2009) .The budget establishes which activities will be undertaken (and therefore, the type, quantity, and quality of services provided to citizens) and how resources will be obtained and allocated .Budgeting force us to be aware of overall financial constraints, help in making difficult trade-off, and support efficient implementation of policies. According to Raghunanda, Ramgulam and Mohammed (2012) a budget is one of the most useful management tools that can realize huge rewards if understood and implemented properly.

The business world today is characterized by high competition and changes that are applied by organizations in order that they survive long in the sector and achieve their goals. Agricultural business is one of the oldest types or forms of business. Because of the above mentioned nature of the business environment agricultural businesses today need not only to focus on the improvement of business performance at a production level but also at a much higher organizational level. In general they need to give the necessary attention to the implementation of the best management practices.

One of the elements of best management practices that hugely impact the performance of a business organization is the implementation of an effective and efficient budget planning, utilization and control mechanism. Different scholars and studies have defined the concept of budget in which some underlined the planning aspect, others emphasized its being a collection of accounting information while still others define it by underlining the planning and monitoring elements.

According to ASEAN (2012), the nature of budget and its role says that a budget is a short term plan of up to one year which is expressed in monetary terms and in terms of quantities such as number of customers to be served per day, number of tickets sold or the number of clients on a tour. One of the roles of budget in the activities of a business is serving managers as a means to monitor the performance of the business and the existence of a good budgeting system in general is a powerful tool that assists owners and managers of a business to plan and monitor the flow of money through their business.

But still whatever the differences among scholars and researchers be on the most important aspect of budgeting there are some generally agreed purposes of preparing budget. Preparing budget helps a business organization or firm to: improve its planning and control activities with ultimate intention of increasing profit and financial position, find the most profitable course of action through which its efforts may be directed in meeting its primary objectives, assist management in holding the business as nearly as possible on the survival course, force management to focus attention on particular operating and financial problems so that effective planning would be made for them, translate its objectives into action, coordinate the various factors of production with a view to satisfying all stakeholders and communicate its organizational objectives across the firm. (Oyebode, 2018).

In order that budget play the roles mentioned above organizations should ensure that their budgeting system plans and utilizes the budget in an effective manner. Therefore here it is important to note that the proper planning of a budget is no guarantee for effective utilization of budget unless it is accompanied by an effective budget implementation the lack of which may result in misappropriation and/or mismanagement of funds allocated to institutions. In further highlighting this point Shim & Siegel (2005) also hold that lack

of proper planning and effective implementation system of budget in an organization results in conflicting and contradictory plans as well as in wasting corporate resources. Thus budgets should be revised as circumstances materially change. In order to use the proper planning and implementation of budget as an input for the achievement of organizational success, budgets should be controlled and used efficiently. It is in recognizing this important role of budget utilization and control in organizational success and its impact on the agricultural sector and the country's economy that the researcher conceived the idea of conducting this study on the Assessment of budget utilization and control of Ethio Agri-CEFT PLC.

## **1.2 Statement of the Problem**

As has been mentioned previously today 's rapidly changing and highly competitive agricultural business requires enterprises and companies to implement the best planning, execution and management practices to survive for a long time in the business and be profitable and successful. Among the different factors that greatly impact the realization of success in the business activities of an organization is the management of budget i.e. planning, utilization and control. Apart from this budget and budgeting serve as an information input and controlling mechanism for the management of an organization. Hence all types of organization can use the budget to plan and control their operations and to support their managerial strategies. Apart from this the budget also sets out the benchmark against which performance will be measured CIMA, (2008).

In this regard the budget utilization and control in a company or organization has a key role to play in its overall performance. In every business firm operational, projects and administrative activities depend on budgets, and budgetary control measures taken towards improving performance through adequate resource allocation and utilization. Budget and Budgetary control, both at management and operational level looks at the future and lays down what has to be achieved and checks whether or not the plans are realized, and puts into effect corrective measures. For example according to some studies for example (Boquist, 2001) companies continue to blunder and fail because they have flawed budgetary planning and control systems, which they apparently fail to recognize.

The budget allocation and utilization in EAC is conducted in such a way that the enterprise prepares its annual budget according to previous year's performance and operation and administration plan of Farm. Every year the finance department sends budget request format to identify their budget requirement for the coming fiscal year which consists direct and indirect budget i.e. salary of the employee, telephone and related service budget, fuel and capital project budgets. After it is approved by the general manager, the finance department allocates the budget.

However the budget allocation and utilization practice of the organization has problems that are affecting its performance. First there is big budget variance every time and the level of its variance is high .Second almost all plantations do not operate accordingly with the allocated budget. Third budget adjustments is not done when there are variances as the enterprise uses master budgeting instead of flexible budgeting. Forth budget monitoring and evaluation is not done at the right time. Fifth the amount of allocated budget is mostly highly exaggerated and no gap analysis is done in determining the amount of budget to be allocated.

While there are these and other big problems in the budget allocation, utilization and control in this company which is one of the largest actors in the agricultural and agro processing sector of the country to the knowledge of the researcher, few researches have been conducted on its budget utilizations and control and except one study that dealt with the organization's information system. The same is true in the context of the budget utilization and control practices in the agricultural business sector in Ethiopia that except for a limited number of studies such as (Hashim 2019, Haymanot 2016, Gebeyehu 2013) little attention has been given to addressing the budget utilization and control problems in organizations engaged in the agricultural and agro processing sector. So the reason for this study is to understand budgeting utilization and control process on agro processing sector and improve practice of budget preparation, implementation and controlling.



### **1.3 Research Questions**

- What the budget utilization practice of the company?
- How does the company control its budget?
- What the major challenge that affected the implementation of effective budget utilization & control?
- Has the company taken any practical measures to improve its budget utilization & control?

### **1.4 Objectives of the Study**

#### **1.4.1 General Objective**

The general objective of the study is to assess the budget utilization & control in Ethio Agri-CEFT plc.

#### **1.4.2 Specific Objectives**

The specific objectives of the study are to:

- To assess the budget utilization practice in the company
- To assess the budget controlling system of company
- To assess the major challenges that affected the implementation of effective budget utilization & control in the company
- To assess any practical measures to improve its budget utilization & control practices or not.

### **1.5 Significance of the Study**

This research attempts to assess the budget utilization & control of Ethio Agri-CEFT Plc by analyzing the trend in the past three budget years and by examining the current practices and the financial position of the company. Therefore the researcher believes that the findings will help the company to better identify the problems and find out a means to solve the problems. It is also hoped that the findings of the study will serve as an input for members, shareholders and creditors, financial analysts, and others who engage in their decision making processes regarding the activities of the company. It is also hoped

that the study will serve as a reference material for those who conduct studies on a similar topic in the future.

### **1.6 Scope of the Study**

This research will attempt to assess the budget utilization and control of Ethio Agri-CEFT plc. by focusing on the head office and some departments in Addis Ababa. The document analysis which is used as another important source of data in this study covers the last three fiscal years i.e. 2020, 2019 and 2018.

### **1.7 Limitation of the Study**

The study was conducted only in Head office which is located in Addis Abeba but there are other farms which include in the study. And the Agro processing center ( which utilizes the allocated budget) located in the capital around Mekenisa Abo. Due to the lack of the availability of financial data the study will use the budget reports of the last three years in the discussion and analysis of its findings. For these reasons the findings of the study will be limited to explain the matter in the case of the particular enterprise and they will not be used to make generalizations about the entire agricultural and Agro processing sector in Ethiopia.

### **1.8 Organization of the Study**

This thesis is organized in five chapters. Chapter one presents: the background of the research, statement of the problem, objectives of the study, research questions, the significance, scope, limitation and organization of the study. Chapter two the critical literature part has four sections that deal with the conceptual, theoretical and empirical. Chapter two presents review of theoretical and empirical literature on capital structure and profitability. Chapter three discusses the research methodology that while chapter four and five present the results and discussion of the study and conclusions and recommendations respectively.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### **Introduction**

This chapter presents the critical review of related literature. It has three main sections that deal with the conceptual theoretical and empirical frameworks of the study. The conceptual framework presents a discussion of the concepts and the different types of budget, budget utilization and budget control. The theoretical framework section deals with a discussion of the major theories of budget utilization and control while the empirical framework section presents a summary of selected studies conducted in other parts of the world and in Ethiopia.

#### **2.1 Theoretical Literature**

##### **2.1.1 The Concept of Budget / Budgeting and Its Role**

A budget can be defined as the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. It is a tool that provides targets, direction and control over the immediate environment by helping to master the financial aspects of the job and department, and solve problems before they occur. A budget is also a financial plan which is expressed in numbers, such as dollars, units, pounds, hours, manpower etc. and can be used to control future operations and results (Shim and Siegel, 2005).

According to (Etale & Edumesaro,2019). the term budget or budgeting is a system of forecasting expected revenue and expenditure in quantifiable terms; time and personnel, space, building or equipment usually expressed in monetary value. Budgeting can be viewed as a means of tabulating the projected inflows and outflows of any organization in order to map out problems to be achieved at the specified period of time and as a component of long term planning which takes account of the past and present but focuses attention on the future.

Here by underlining the point that budgeting is used by businesses as a method of financial planning for the future (ASA2, 2015) says that among the areas of business for which budgets are prepared: purchases, sales (revenue), production, labor, trade

receivables, trade payables and cash together with intended time plan. Budget or budgeting plays a number of roles in the activities of business organizations and firms. Apart from the benefits mentioned before budget and budgeting by serving as a means to evaluate alternative actions before decisions actually are implemented play a significant role in assisting an organization's move towards success. In further explaining this point Horngren et al (2019) maintain that, budgeting plays three main roles in this regard. First due to its formal time table or schedule which compels managers to think ahead apart from taking care of their current activities. Second because of its approval and authorization by the superiors provides definite expectations that are the best framework for judging subsequent performance. Third it helps to coordinate the various departments of the organization by harmonizing the goals (objectives) of the individual departments into the organization wide goals (objectives).

### **2.1.2 Budget Preparation Process**

Though the techniques and details of preparing, reviewing, and approving budgets vary among companies there are five important areas of the budget preparation process. These are: planning, coordinating, directing, analyzing, and controlling. By adding one additional element other scholars in the area list six activities as steps of budgeting namely: setting objectives, analyzing available resources, negotiating to estimate budget component, coordinating and reviewing component, obtaining final approval and distributing the approved budget. But whatever the number of items in the list the important point here is that the budget process should be tailored to each entity's individual needs.

### **2.1.3 Methods and Types of Budget/ Budgeting**

There are different methods of budgeting among which four are commonly known: incremental budgeting, activity based budgeting value proposition budgeting and zero base budgeting. Similarly there are many types of budgets which can be prepared and expressed in terms of time, purpose, the kind and volume of business activity etc.

Budgets are planned for specific sections of the business: these budgets can then be controlled by a budget holder, who may be the manager or supervisor of the specific section.

The list of the common and main types of budgets include : purchases budget ( which deals with what the business needs to buy to make/supply the goods it expects to sell ), sales (revenue) budget ( which refers to the business expects to sell ), production budget ( which deals with how the business will make/supply the goods it expects to sell ), labor budget ( a type of budget that refers to the cost of employing the people who will make/supply the goods, trade receivable budget ( one that tells how much the business will receive from credit sales ), trade payable budget ( that provides information about how much the business will pay for credit purchases ) and cash budget ( a kind of budget that tells about how much money will be flowing in and out of the bank account.

The end result of the budgeting process is often the production of a master budget, which takes the form of forecast operating statements – forecast income statement – and forecast balance sheet. The master budget is the ‘master plan’ which shows how all the other budgets ‘work together’ (ASA, 2015)

According to (CIMA, 2008 ) in addition to the ones mentioned above budgets in terms of managerial or control issues may be classified as top down (imposed) bottom up ( participative ) and parallel or negotiated budgets. And over the past decades alternative approaches to traditional budgeting were introduced such as: activity based budgeting- which is based on an activity framework it uses cost driver data in the budget setting and variance feedback processes zero based budgeting – requires all costs to be specifically justified by the benefits expected rolling or continuous budget – one continuously updated by adding a further accounting period when the earlier accounting period has expired.

#### **2.1.4 Characteristics of Effective Budgeting and its Benefits**

Budgeting, when used effectively, is a technique that results in a systematic and productive management since it facilitates control and communication and also provides motivation to employees. But in order that budgets serve the purposes mentioned above they need to be planned and implemented well. In relation to this (Shim and Siegel 2005) say that in budgeting, consideration should be given to the company’s manpower and production scheduling, labor relations, pricing, resources, new product introduction and development, raw material cycles, technological trends, inventory levels, turnover rate,

product or service obsolescence, reliability of input data, stability of market or industry, seasonality, financing needs, and marketing and advertising. Consideration should also be given to the economy, politics, competition, changing consumer base and taste, and market share.

There are eight principles that are believed to be the guiding principles of effective budgeting and its characteristic features. They are: management support, employee involvement, statement of organizational goal, the implementation of responsibility accounting, strong tie between budget and organizational structure, flexibility, communication of results and the application of a sound accounting system.

## **2.2 Budget Utilization**

### **2.2.1 Its Meaning and Measurement**

Budget utilization defines the means by which all planned activities will be delivered and responsiveness in the activities will create the outcomes for reporting by the end of the implementation period. There are different criteria used to measure whether the budget utilization of a private or public business organization or institution is an efficient one or not.

According to Mwanza and Benedict (2008) there are a number of factors that affect the proper and efficient utilization of budgets both in private and public organizations. In the first place budgets are considered expensive as they require time and other resources to prepare. Secondly it is a challenge to utilize budgets as they constrain responsiveness in unstable and unpredictable environments. Third lack of sufficient data for forecasting more because of inadequate bookkeeping skills among managers of small businesses. Similarly (CIMA 2008) writes that inflexibility, their being time consuming and costly to put together, constraining responsiveness and flexibility often being barrier to change their being rarely strategically focused and contradictory instead their on centration on cost reduction and not on value creation strengthening vertical command and control and reflecting the emerging network structures that organizations are adopting are among the major drawbacks of budgets.

The findings of studies on this topic revealed other factors that hindered efficient budget utilization. For example according to Kathungu (2016) high revenue collections are necessity for low deficit existence in the budgets with poor collections aiding the high levels of deficit thus need for more financing for implementation of the itemized budget lines. The study found out that county revenue collections influenced the county performance whereby the higher the revenue collections the higher the indication of county performance and prudence in financial management. What is more the study found out that the capital structure composition in the counties determine the county performance on how the budgets itemization is allocated and is to be funded.

In the Ethiopian context for example a study conducted by Hashim (2019 ) revealed inflation, tax compliance, the kind of budget related government policy as major structural factors that affected budget utilization. According to the findings of this research here existed strong positive relation between structural factors and the level of budget utilization. This proves that the more tight the structural factors are the same will be the level in budget utilization will be. Inflation rate has been also shown to have strongest positive relation with the level of budget utilized showing that the inflation rate increase will result in increase in the level of budget utilization.

## **2.3 Budget Control**

### **2.3.1 Elements of Budget Control**

While there are differences in the number and types of elements of budget control from one organization to the other still there are fundamental principles that make a part of the controlling process. These basic elements are : establishing a plan or target of performance which coordinates all the activities of a business, recording the actual performance, comparing the actual performance with that planned, calculating the difference or variances and analyzing the reasons for them, and acting immediately for example if necessary taking a remedy the situation.

In relation to this Shim and Siegel (2005) underline that while doing the budget control activity it is important to ask questions such as: "was there a proper evaluation of costs? Were all costs included that should have been? What are the cost trends? Are budgeted figures too tight or too loose? Are budgeted figures properly supported by

documentation? A budget audit appraises budgeting techniques, procedures, manager attitudes, and effectiveness. The major aspects of the budgeting process have to be examined."

In order that an organization's budget control system be effective there are some features or characteristics that it should have. For example according to Egbunike and Unamma (2016) these characteristic features are : a sound and clearly defined organization with a clearly defined manager's responsibility, an effective accounting record keeping and procedures, support and commitment of top management for the budgetary control system in place, training of managers in the development, interpretation and use of budgets and flexibility of budgets to ensure revision of budgets where amendments are needed to make them appropriate and useful.

Techniques used in budgetary control include variance analysis, responsibility accounting, and adjustment of funds and zero base budgeting. In describing what budgetary control entails (Horngren et al 2019) say that budgetary control system facilitates participation of department managers as well as senior level managers in explicitly planning for the future. The plan can be optimized with various optimization techniques the list of which includes: linear programming (for product mix problems), transportation (for planning transport of finished goods) and assignment (assigning machines for jobs or operators for jobs) and other operations research techniques.

### **2.3.2 Types of Budget Control Techniques**

The list of traditional and modern budget controlling techniques include standard costing (traditional) and the modern ones: break even analysis, PERT- program evaluation and review technique, CPM- critical path method, statistical quality control and management audit.

### **2.3.3 The Role of Budget and Budgetary Control in Organizational Performance**

The implementation of an effective budgeting and budget controlling system is beneficial in many respects. First the budget assists planning in that by formalizing objectives through a budget, a business can ensure that its plans are achievable. Second using the budget and budget control as an input the organization will be able to decide what is



needed to produce the output of goods and services and to make sure that everything will be available at the right time. Besides it is because the budget can be used as an instrument to monitor and control in that effective budget enables the management of an organization to compare the planned ones with the actual results and based on that they can take an action to modify the operation of the business as time passes or possibly to change the budget if it becomes unachievable.

Budget control is aimed at achieving some key among which : the combination of ideas of all levels of management in the preparation of budget, coordination of various activities in business organization, revelation of where an organization needs to remedy a situation, planning and controlling of all income and expenditure to achieve maximum benefits for the organization, provision of yardstick against which actual result can be compared along with predetermined result and channelization of capital expenditure in most profitable manner are the main ones. (Oyebode 2018)

In this vein (ASA, 2015 ) emphasizes that in order to avoid the consequences that come out of poor budget preparation and controlling system ( for example the one that does not involve employees engagement ) and a demotivation that follows because of the way employees perceive budgets as either a form of encouragement to achieve the targets set, or as a form of punishment if targets are missed budgets need to be set at realistic levels and linked and co-ordinated across all departments within the business. Budgets may be set at too low a level and where the budget is too easy to achieve it will be of no benefit to the business and may, in fact, lead to lower levels of output and higher costs than before the budget was established.

#### **2.3.4 Characteristics of Effective Budget Control and the Challenges in its Implementation**

There are different characteristics that are believed to show the effectiveness of the budget controlling system of an organization. But among them the following are the necessary ones in order that a budgetary control becomes effective : involvement and support of top management, the availability of clear cut information of long term corporate objectives within which the budgeting system will operate, the presence of realistic organization structure with clearly defined responsibility, genuine and full

involvement of the line managers in all aspect of the budgeting process, appropriate accounting and information system which will include: the record of expenditure and performance related to responsibility ; regular revision of budget and targets, where necessary administering the controlling system in a flexible manner ( Oyebode, 2018 ).

In outlining some of the challenges to effective budget controlling system Davis et.al (1966) maintains that the difficult nature of the budget preparation task and the extraordinary complexity of the calculations involved in this preparation process, the need to consider a huge number of items to be considered, many of which are of considerable technical difficulty, the fact that there was little or no theory in most areas of policy which would enable practitioners to predict the consequences of alternative moves and the probability of their occurring and also the presence of the imposing problem of the inter-personal comparison of utilities are the main challenges that affected budget control.

### **2.3.5 The Major Theories of Budget Utilization and Control**

#### **2.3.5.1 The Accounting theory of Budget**

Among the theories three of them are mostly used to explain issues of budget utilization and control these are: the accounting theory of budget, the budget control theory and the budgetary control and business behavior theory (which is a management accounting theory.) According to (Kaplan and Norton, 1996) cited in Kerosi (2018) the accounting theory aims at the provision of a coherent set of logical principles that form the general frame of reference for evaluation and development of sound policy development and accounting practices. The justification behind developing and using the accounting theory in budget related matters is the strong belief among its proponents that the theory helps in explaining and guiding management actions into identifying and locating vital information for use in budget preparation (Horvath and Seiter, 2009).

In this regard the accounting money measurement technique has contributed greatly in providing yardstick for quantifying, conversion and translating various inputs in relation to materials, and machines required in the preparation of budget. There are also other variables that indicate the strong relationship between accounting theory and budgeting. It's under the accounting theory that financial standards can be set to guide a firm

towards achieving its financial goals in turn budgeting provides a feedback mechanism to the management of an organization on how well financial assets are managed as determined by the match between the plans and the actual status upon implementation of budgets (Kerosi, 2018).

### **2.3.5.2 Budgetary Control Theory**

As discussed in the previous sections budget or budgeting is not only financial information that shows the organization planned to do in the future. It is one measurement that shows how healthy the financial activity of an organization is and it is also used by firms as a framework for spending and revenue.

## **2.4 Empirical Review**

Among studies conducted on the topic of budget one is by Omosidi et al (2019) which sought to find out the relationship between budget implementation strategies and organizational effectiveness. It examined the relationship between budget implementation strategies and organizational effectiveness in colleges of education in Nigeria. The researchers gathered the data through questionnaires that were distributed among 432 respondents selected through stratified random sampling. They formulated three operational hypotheses and used inferential statistics (which comprises the Pearson's Product Moment Correlation and stepwise multiple regression analysis) to test the formulated hypotheses and analyze the data. The findings of the study showed that budget implementation strategies, budget committee, the use of call circular and budgetary control mechanism were significant variables that determine organizational effectiveness.

The research by (Mwanza & Benedict 2008) is the other study conducted on the same topic in other parts of the world. It mainly attempted to find out the extent of preparation and utilization of budgets by SMEs in the manufacturing industry found in Cape Metro pole in the Republic of South Africa and specifically he challenges these entities faced in utilizing budgets. Using a descriptive research design the study collected data through questionnaires from 108 owners/managers of SMEs. The findings of the study revealed

that 25 % of the SMEs did not prepare budgets at all and amongst the 70% who prepared budgets, 67% faced challenges in utilizing budgets.

The study by (Kerosi 2018) is also among similar researches conducted in other parts of the world. By employing the data gathered from 75 respondents and by using the theoretical discussions in the literature for detailed empirical review it assessed the effect of budgetary control practices in the management of micro and small enterprises at Kangemi town in Kenya. The findings of the study showed that that the enterprise engages its stakeholders in making key budget decisions and that the management of these enterprises review the budget periodically.

The other research on the topic of budget utilization is done by Kathangu (2016). The thesis is titled "the effect of budget utilization on the performance of county governments a case study of eastern Kenya region." the study used structured questionnaires and approved audit reports as key sources of data and descriptive statistics to analyze the collected data. According to its findings in joint budget utilization including the budget county expenditure to the budgeted county revenues, actual county expenditures to actual county revenues and county resources to county poverty index had positively influenced the financial performance of the counties.

A study by Egbunike & Unamma (2017) is one of the studies conducted in other parts of the world. This study attempted to find out whether there was any significant relationship between budgeting, budgetary control and performance evaluation particularly in the hospitality firms in Nigeria. The study used descriptive research design and primary data gathered through questionnaires administered to a total of six hundred (600) employees of ten (10) selected hospitality firms in Nigeria. Descriptive and inferential statistics were used to analyze the data. The findings of this research revealed that one budget and budgetary control could serve as an avenue through which hospitality firms in Nigeria can be evaluated and two there was a significant variation in the budget, budgetary control and performance evaluation of hospitality firms in Nigeria.

Among the studies conducted in Ethiopia on the topic of budget utilization was by Hashim (2019). The main purpose of this study was to asses' factors affecting budget

utilization in East Wollega administrative Zone with special references to some selected Woredas. The study used both primary and secondary data and applied descriptive statistics methods such as central tendency, arithmetic mean, and standard deviation and standard error of mean to analyze the findings. According to the findings inflation, tax compliance, government policy and structural factors were among the major challenges that affected budget utilization.

A similar study on the topic of budget utilization was conducted by Dereje and Semeneh (2016). The study attempted to find out the intrinsic factors that affected the budget utilization in Ethiopian public universities. It used questionnaires distributed among a total number of 178 respondents' randomly selected three universities and the annual reports of the Federal General Auditor as source of data. According to the findings of the study though there was significant improvement of budget allocation to public universities lack of proper planning and allocation of budget inadequate knowledge about the concept of program budgeting system, shortage of adequate number of human resources and insufficient involvement of all concerned bodies were among the major factors that affected the budget utilization of public universities in Ethiopia.

The study by Zebider (2018) is the other research conducted in Ethiopia. It attempted to assess the budget utilization and budget control practices in the Ethiopian Postal Service Enterprise. The study used primary data collected through questionnaires which were distributed among a total number of 77 respondents selected through non probability sampling specifically purposive sampling. It employed descriptive survey method to gather the data and analyze and discuss its findings. The findings of the study revealed that there was lack of adequate and experienced budget and audit experts, poor follow up on budget utilization, no accountability in budget utilization and there is weak market oriented cost estimation practice.

A research titled "an assessment of budget preparation, utilization and budget performance in the case of Addis Ababa Mass Media Agency" by Gebeyehu (2013) is the other similar study conducted in Ethiopia. The research attempted to assess the agency's budget process the integration of medium term expenditure planning and budget allocations as well as outline the key problem areas that needed attention and

improvement. The data for the study was collected through questionnaires distributed among 20 respondents. The study found out that there were a number of problems related to the implementation of expenditure planning and budget allocation such as the absence of articulated budget utilization, unplanned procurement, budget shortage and the lack of proper and time based submission of budget planning and expenditure to the management council were among the major problems in the aforementioned institution.

Among the studies conducted in Ethiopia on the topic of budget one other research is by Saheb et.al ( 2019 ) which tried to investigate factors affecting budget utilization in case of Bahirdar City Administration Health Department and to that end the study formulated four hypotheses. By adopting a mixed research approach the study gathered the primary data through questionnaires distributed among a total number of 148 respondents. The research used Ordinal logistic regression model to test the hypotheses and descriptive and inferential statistics to analyze the data. According to the findings of the study the four independent variables (management support, organizational work culture, employee's related factor and monitoring & evaluation) all have significant effects on budget utilization. The study also revealed that management support, organizational work culture, employee's related factor and monitoring & evaluation significantly affected the budget utilization in the aforementioned institution.

## **2.5 Research Gap**

As can be seen from the content of the empirical review in the previous section when compared with similar studies conducted in other African countries, one finds that there are a number of research papers that dealt with budget utilization and control issues in business enterprises ( for example (Kerosi 2018) and (Mwanza & Benedict 2008 )) where as in Ethiopia coverage was given mostly to budget utilization and control issues in public and government institutions while giving very little attention to issues of budget utilization and practice in the private business sector for example the agricultural business sector. For example among the studies covered in the review the research papers by ( Hashim 2019, Haymanot 2016, Gebeyehu 2013 and Dereje and Semeneh 2016) studied budget utilization and practice in regional administrative bodies and other government institutions such as health department and universities.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This chapter presents the research design and methods that will be used to conduct the thesis. The chapter has five sections that discuss the research design, population and sampling techniques, data type and sources, methods of data collection and data analysis methods.

#### **Research Design**

According to Merriam (1998), descriptive research is undertaken when description of a phenomenon is needed and not a prediction based on cause and effect. Similarly Glass & Hopkins (1984) also argued that the main aim of descriptive research is to provide an accurate and valid representation of (encapsulate) the factors or variables that pertain are relevant to the research question, such research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection. As this research aims at assessing of budget utilization & control in Ethi Agri CEFT agro-processing industry descriptive research design is found to be the appropriate research design to answer the research questions it will attempt to answer.

#### **3.1 Research Approach**

Creswell and Borrego (2013) described three research approaches, such as qualitative, quantitative and mixed methods. Mixed method involves combining or integration of qualitative and quantitative research and data in a research study. On the other hand, Creswell (1994) stated that by adopting two or more different methods of research, it is possible to achieve a more textured understanding of your object of analysis. In this study, both qualitative and quantitative data should be generated to address the research questions under focus. Therefore, a mixed research approach that allows to collect and to analyze quantitative and qualitative data for the study.

### **3.2 Population of the Study**

According to the definition by Eboh (2009) population is all items in any field of enquiry or study. The target populations of the study were 75 Employees who work in the head office and the Agro processing center in Addis Ababa.

### **3.3 Sample Size and Sampling**

The study adapted Sloven's Sample size determination formula. Thus from the populations i.e. 92 employees of head office, the researcher had selected only 75 representative samples used as shown below:

$$n=N/[1+(Ne^2)]$$

Where n= sample size, N= population size, e= margin of error (0.05%) or maximum tolerable error. From the above formula only 75 respondents (employees) selected (with 5% error margin, 95% confidence level). The researcher, thus, decided to employ 75 total employees as samples from 92 populations (N).

$$N=92/1+(92*(0.05)^2)=75$$

The questionnaire was distributed to randomly selected 75 respondents while the interview was conducted with 3 finance officers: the Finance Manager and 2 Chief accountants, by using purposive sampling method.

### **3.4 Data Type and Sources**

The study employed both primary and secondary data gathered through questionnaires, interviews and from annual reports of the organization (documents) as the key type and sources of data. The questionnaire has 14 questions which were presented in multiple choices and respondents' attitude measured using Likert scale model. Regarding the other types of data, interviews that have 12 questions and documents that cover the last three fiscal years i.e. 2018, 2019 and 2020 were used as key sources. In this research both quantitative and qualitative research methods used. The quantitative method will be used while gathering presenting and analyzing the data through questionnaires and documents while the qualitative method employed in collecting data through interviews.



### **3.5 Data Analysis Methods**

The research used two sources of data. These were primary and secondary data sources. The primary data was collected from sample respondent's work in the organization, while the secondary data were collected from annual reports of the organization.

Descriptive statistics are used to describe the data collected and to accurately characterize the variables under observation within a specific sample (Marczyk et al., 2005). Data from questionnaires are coded and entered into the computer using Statistical Package for Social Science latest version 20 (SPSS) and documents analyzed using descriptive statistics which presented using tables, charts and graphs while theme based textual qualitative analysis applied for the qualitative data.

### **3.6 Validity and reliability**

#### **3.6.1 Validity**

Validity is defined as the extent to data collection method or methods accurately measure what they were intended to measure (Sounders et. al, 2003). To assure the validity of the dimensions whether they can measure the predefined dependent variables or not different theories and empirical studies are assessed to assure its validity. External validity is related to generalization (Bryman and Bell, 2003,). In this study the target population was employee of EAC Company, Head office, located in Addis Ababa and it is assumed that the samples are enough to generalized population of the company.

#### **3.6.2 Reliability**

It could be defined the term reliability as the consistency of a set of measurements or measuring instrument, often used to describe a test (Powell, 1999). There are several different reliability coefficients. One of the most commonly used is called Cronbach's Alpha. Cronbach's Alpha is based on the average correlation of items within a test if the items are standardized. Cronbach's alpha reliability analysis is conducted on the independent variables in order to determine the reliability of the instrument is used. Lack of reliability is a serious drawback of an outcome measure as it indicates errors in measurements (Powell, 1999).

### **3.6.3 Research Ethics**

All the information treated and kept secretly with high confidentiality without disclosure of the respondents' identity. No information be changed or modified, hence the information presented used as input for the study as collected and the same principles applied to documents collected for the purpose of this study. There is no any intention to use unfair means to influence the participants to obtain information. The questionnaire anonymous and high level of confidentiality is considered. The information gathered through questionnaire used only for academic purpose.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This section dealt with data presentation, analysis and interpretation. The study, based on the questionnaire and interview, respondents' attitudes measured in Likert Scale.

#### 4.1 Demographic Information of the Respondents

The following sections described the respondents' attitude toward quality service delivery in Company. The study has used 75 respondents' responses for analysis. The respondents returned back the questionnaire in time by filling thoroughly. The statistical reliability of the research is 0.858 Cronbach's Alpha. The result shows scale of measurement of Cronbach's Alpha acceptable because A value of Cronbach's alpha coefficient above 0.70 is regarded as acceptable (Saunders & Thornhill, 2009). According to George and Mallery (2003), a Cronbach's alpha coefficient greater than 0.9 implies excellent, greater than 0.8 is good, greater than 0.6 is acceptable, greater than 0.5 is poor, and less than 0.5.

**Reliability Statistics**

Cronbach's Alpha	N of Items
.858	20

#### 4.1.1 Age –Sex-Composition of Respondents

The demographic information of the respondents was described in the following tables. As shown in table 4.1 below the gender composition of respondents, the largest group (77.3%) was males while 22.7% was females.

Table 4.1: Gender and Age Composition of the Respondents

<b>Gender of the respondents</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> Male	58	77.3	77.3	77.3
Female	17	22.7	22.7	100
Total	75	100	100	
<b>Age of the respondents</b>				
	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> 25-35	4	5.3	5.3	5.3
36-45	38	50.7	50.7	56
46-55	22	29.3	29.3	85.3
above 55	11	14.7	14.7	100
Total	75	100	100	

Source: Survey Result, 2021

From similar table 4.1 above the age of the majority respondents (i.e. 50.7%) were in 36-45 years. The second largest age group (29.3%) were in the 46-55 the remaining age group where as 5.3% and 14.7% indicate their age were in the 25-35 and above 55 age groups respectively. From this it is possible to infer that the composition of the respondent are adult, so they could responded their observation responsibly.

#### **4.1.2 Educational and Work Experience of the respondents**

The study has included the educational and work experience of respondents. As indicated in table 4.2 below, the majority of the respondents are first degree holders (62.7%) where as 9.3% of the respondents are Master's degree holders, only 28% identified to have college diploma. From this it could be stated that the respondents are highly educated, so they could forward some information on budgeting practices of the company.

Table 4.2: Educational level of Respondents

Educational level of respondents					
	Description	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	diploma	21	28	28	28
	first degree	47	62.7	62.7	90.7
	Master level	7	9.3	9.3	100
	Total	75	100	100	

Source: Survey Result, 2021

Budget preparation tasks and complexity of the calculations, the need to consider a huge number of items to be considered, many of which are of considerable technical difficulty, the fact that there was little or no theory in most areas of policy are the main challenges that affected budget control Davis et.al (1966). The preparation and utilization of budgets revealed that most business firms have not prepared budgets at all and some of them faced challenges in utilizing budgets.

In budget preparation and utilization management of an organization take actions to identifying and locate vital information for use in budget preparation (Horvath & Seiter, 2009). This is why in making key budget decisions and that the management of an organization reviews the budget periodically. The following sections assess the practices of budget utilization and control processes of EAC.

## 4.2. Budget Utilization of Company

### 4.2.1 Efficiency of Budget Utilization

As shown in table 4.3 below, the respondents asked to response whether Company has utilized its budget efficiently or not. Based on this premise the majority of respondents stated that (n=36, 48% agree, n=10, 13.3% strongly agree) the company utilized its budget efficiently, while the rest 17.3% and 5.3% of the respondents disagree and strongly disagree respectively, 16% of the respondents were neutral, Standard deviation is 1.09, Variance 1.2.

From the data it has been concluded that the company has utilized its budget efficiently (i.e. the majority respondents confirmed), while some disapproved.

Table 4.3 budget utilization of the company

Efficiency of budget utilization					
	Description	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	4	5.3	5.3	5.3
	Disagree	13	17.3	17.3	22.7
	Neutral	12	16	16	38.7
	Agree	36	48	48	86.7
	strongly agree	10	13.3	13.3	100
	Total	75	100		
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.47	1.09	1.2	

Sources: Survey Result, 2021

According to Finance Department Manager the budget utilization process in Ethio Agri-CEFT company is efficient due to the company budget is prepared in time, shows summary of an income and estimated expenditure for a given period, budget is actually defined in the beginning of the year but the expenditure is not according to the plan.

The company budget allocation and utilization look like effectively plan but not utilized properly because there is no sit row is it goal. The step of budget allocation A) set goal B) identify income (revenue) C) flow post do data D) put plan into action

In the company budget is prepared by plan and program section by commutation with the head office budget section fiscal budget it approved by the main (head) office. In general budget planning of the company: budget preparation initiation from head office, target was set by from head office, detailed budget was prepared by farms, budget comprehended by HO, management evaluate and reviews, adjustment has made, the Approved and allocated budget distributed for the concerned, utilization as planned but as controlling is not implemented; the planned and the utilized have some variances.

#### 4.2.2. Budget is setting to resolve problems

As shown in table 4.4, the respondents asked to response whether company prepare its budget to resolve anticipated problems or not. Based on this premise majority of respondents stated that (n=36, 48% agree, n=16, 21.3% strongly agree) the company's budget is prepared in anticipated to resolve problems and to clarify confusion , while the rest 17.3% and 5.3%of the respondents disagree and strongly disagree respectively, 8% of the respondents neutral, Standard deviation is 1.16, Variance 1.35.

From the data it has been sated that the company's budget is prepared in anticipated to resolve problems and to clarify confusion, while few of them disapproved the premise.

Table 4.4 Budget is setting to resolve problems

<b>The company's budget is set to resolve any anticipated problems and to clarify confusion</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	4	5.3	5.3	5.3
	disagree	13	17.3	17.3	22.7
	neutral	6	8	8	30.7
	agree	36	48	48	78.7
	strongly agree	16	21.3	21.3	100
	<b>Total</b>	<b>75</b>	<b>100</b>	<b>100</b>	
	<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Variance</b>	
		3.63	1.16	1.35	

Sources: Survey Result, 2021

#### 4.2.3 Budget prepared based on specific performance

As indicated in table 4.5 below, the respondents asked to response whether the company's budget is prepared based on specific performance of department and business units or not. The study found that the company's budget is prepared based on specific performance which confirmed by majority respondents (n=30, 40% agree, n=12, 16% strongly agree), while the rest few 21.3% and 2.7% of the respondents was disagree, 20% of the respondents was neutral, Standard deviation is 1.08, Variance 1.17.

From the finding it has been stated that the company's budget is prepared based on specific performance, but some of the respondents disapproved the premise.

Table 4.5 budget is prepared based on performance

<b>the company's budget is prepared based on specific performance of department and business units</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	2	2.7	2.7	2.7
	disagree	16	21.3	21.3	24
	neutral	15	20	20	44
	agree	30	40	40	84
	strongly agree	12	16	16	100
	<b>Total</b>	<b>75</b>	<b>100</b>	<b>100</b>	
	<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Variance</b>	
		3.45	1.08	1.17	

Sources: Survey Result, 2021

#### 4.2.4 Master budgeting system of the company

As indicated in table 4.6 below, the respondents asked to response whether master budgeting is the most effective types of budgeting in the company or not. The study found that majority respondents agreed on (n=33, 44% agree, n=17, 22.7% strongly agree) master budgeting of being the most effective types of budgeting in the company, while some of the respondents was disagree i.e. 22.7% (disagree) and 1.3% (strongly disagree), the rest 9.3% of the respondents was neutral, Standard deviation is 1.11, Variance 1.23.

From the data it has been stated that master budgeting is the most effective types of budgeting in the company, while some of the respondents was disagreed.



Table 4.6 Master budgeting system of the company

<b>Master budgeting is the most effective types of budgeting in the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	1	1.3	1.3	1.3
	disagree	17	22.7	22.7	24
	neutral	7	9.3	9.3	33.3
	agree	33	44	44	77.3
	strongly agree	17	22.7	22.7	100
	Total	75	100	100	
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.64	1.11	1.23	

Sources: Survey Result, 2021

#### 4.2.5 Flexibility of the company budget

In the following table 4.7 below, the respondents asked to response whether flexible budgeting is the most effective types of budgeting in the company or not. Based on this premise the majority respondents agreed that (n=35, 46.7% agree, n=14, 18.7% strongly agree) flexible budgeting is the most effective types of budgeting in the company, while some of the respondents was disagree i.e. 17.3% (disagree) and 2.7%(strongly disagree), the rest 14.7% of the respondents was neutral, Standard deviation is 1.06, Variance 1.13.

From the finding data it has been confirmed that flexible budgeting is the most effective types of budgeting in the company, while few of the respondents was disagreed.

Table 4.7 Budget flexibility of the Company

<b>Flexible budgeting is the most effective types of budgeting in the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	2	2.7	2.7	2.7
	disagree	13	17.3	17.3	20
	neutral	11	14.7	14.7	34.7
	agree	35	46.7	46.7	81.3
	strongly agree	14	18.7	18.7	100
	Total	75	100	100	
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.61	1.06	1.13	

Sources: Survey Result, 2021

#### 4.2.6 Budget reviews of the company

In the following table 4.8 below, the respondents asked to response whether Budget review has played significant role on the performance of the company or not. Based on this premise the majority respondents stated that (n=33, 44% agree, n=21, 28% strongly agree) budget review has played significant role on the performance of the company, while some of the respondents was disagreed i.e. 16% (disagree) and 4 % (strongly disagree), the rest 8% of the respondents was neutral, Standard deviation is 1.15, Variance 1.32.

From the finding data it has been infer budget review has played significant role on the performance of the company, while few of the respondents was disagreed.

Table 4.8 budgeting review system of the company

<b>Budget review has played significant role on the performance of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	3	4	4	4
	disagree	12	16	16	20
	neutral	6	8	8	28
	agree	33	44	44	72
	strongly agree	21	28	28	100
<b>Descriptive Statistics</b>		<b>Mean</b>	<b>Std. Dev</b>	<b>Variance</b>	
		3.76	1.15	1.32	

Sources: Survey Result, 2021

#### 4.2.7 Lack of budget reviews

As indicated in table 4.9 below, the respondents asked to response whether lack of budget review has negative impact on the performance of the company or not. Based on this premise the majority respondents stated that (n=35, 46.7% agree, n=12, 16% strongly agree) lack of budget review has negative impact on the performance of the company, while some of the respondents was disagreed i.e. 18.7% (disagree) and 2.7 % (strongly disagree), the rest 16% of the respondents was neutral, Standard deviation is 1.06, Variance 1.12.

From the finding data it has been confirmed that lack of budget review has negative impact on performance of the company, while few of the respondents was disagreed.

The study found that the financial data that flow for budgeting is inaccurate: not reviewing and evaluating the budget regularly, during planning, not take exact time; there is no management willingness to change expenditure habits, sometimes the company becomes too late to review regularly. Budget controlling is not done according to planned.

Table 4.9 Lack of budget reviews

<b>the lack of budget review has negative impact on the performance of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	2	2.7	2.7	2.7
	disagree	14	18.7	18.7	21.3
	neutral	12	16	16	37.3
	agree	35	46.7	46.7	84
	strongly agree	12	16	16	100
	Total	75	100		
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.55	1.06	1.12	

Sources: Survey Result, 2021

#### 4.2.8 Budget variance utilization

As indicated in table 4.10 below, the respondents asked to response whether budget variance is one of the major budget utilization and control problems of the company or not. Based on this premise the majority respondents agreed that (n=32, 42.7% agree, n=11, 14.7% strongly agree) budget variance is one of the major budget utilization and control problems of the company, while some of the respondents was disagreed i.e. 18.7% (disagree) and 4 % (strongly disagree), the rest 20% of the respondents was neutral, Standard deviation is 1.08, Variance 1.17.

From the study result it could be stated that budget variance is one of the major budget utilization and control problems of the company, but some of the respondents was disagreed.

From the interview result the study found that the company budget variance is by itself not the problem. It is agro industry so there is difference between budgeted and actual performance. Budget variances that occur monthly/quarterly are not that much serious problem. Because it mostly occupies due to drastic market demands /supplies changes

(i.e. uncontrollable). Budget variance, yet, is occurred due to inefficient controlling system. Every farm units and department where not utilized their budget as planned; sometime there are unseen situation occurred

Table 4.10 Variance of the company

<b>budget variance is one of the major budget utilization and control problems of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	3	4	4	4
	disagree	14	18.7	18.7	22.7
	neutral	15	20	20	42.7
	agree	32	42.7	42.7	85.3
	strongly agree	11	14.7	14.7	100
	Total	75	100	100	
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.45	1.08	1.17	

Sources: Survey Result, 2021

#### 4.2.9 Budget Utilization Problem

As shown in table 4.11 below, the respondents asked to response whether budget utilization problem of the company has negative impact on the performance of your department or not. Based on this premise the majority respondents agreed that (n=35, 46.7% agree, n=18, 24% strongly agree) budget utilization problem of the company has negative impact on the performance of our department, while some of the respondents was disagreed i.e. 17.3% (disagree) and 2.7 % (strongly disagree), the rest 9.3% of the respondents was neutral, Standard deviation is 1.1, Variance 1.2.

From the data it could be stated that budget utilization problems of the company has negative impact on the performance of our department.

From the interview result the study identified the company does not effectively conduct budget monitoring and evaluation; effort has to be exerted as to apply monitoring and

evaluate system as well as budget review. The company frequently budget monitoring and evaluated decrease year to year. The gap analysis is shoes the company current states with other company states. Budget controlling system is moderate, not very strong. The company’s budget allocation and utilization is strong and insights regular budget controlling mechanism

Table 4.11: Budget utilization problem

<b>budget utilization problem of the company has negative impact on the performance of your department</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	2	2.7	2.7	2.7
	disagree	13	17.3	17.3	20
	neutral	7	9.3	9.3	29.3
	agree	35	46.7	46.7	76
	strongly agree	18	24	24	100
	<b>Total</b>	<b>75</b>	<b>100</b>	<b>100</b>	
<b>Descriptive Statistics</b>		<b>Mean</b>	<b>Std. Dev</b>	<b>Variance</b>	
		3.72	1.1	1.2	

Sources: Survey Result, 2021

#### 4.2.10 Budget adjustment system

As shown in table 4.12 below, the respondents asked to response whether the company has made the necessary budget adjustment when there is variance or not. Based on this premise the majority respondents agreed that (n=36, 48% agree, n=15, 20% strongly agree) the company has made the necessary budget adjustment when there is variance, while some of the respondents was disagreed i.e. 24% (disagree) and 4 % (strongly disagree), the rest 4% of the respondents was neutral, Standard deviation is 1.18, Variance 1.38.

From the study result it could be stated that the company has made necessary budget adjustment when there is variance, while some of the respondents disagreed this premise.

The study found that, as it stated by finance officers of the company, since there is good budget management and planning system on the company, the kinds of budget the company uses is incremental budget, which is futures just year’s actual figure and add and subtract percentage. Budget conducted as the planning is activity based; however, budget allocation of the company is not satisfactory.

Table 4.12: Budget adjustment system

<b>the company has made the necessary budget adjustment when there is variance</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	3	4	4	4
	disagree	18	24	24	28
	neutral	3	4	4	32
	agree	36	48	48	80
	strongly agree	15	20	20	100
	Total	75	100	100	
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.56	1.18	1.38	

Sources: Survey Result, 2021

#### 4.2.11 Involvement in budget preparation

As shown in table 4.13 below, the respondents asked to response whether all departments involved and consulted in the budget planning and allocation process of the company or not.

Based on this premise the majority respondents agreed that (n=33, 44% agree, n=12, 16% strongly agree) all departments involved and consulted in the budget planning and allocation process of the company, while some of the respondents was disagreed i.e. 17.3% (disagree) and 5.3 %( strongly disagree), the rest 17.3% of the respondents was neutral, Standard deviation is 1.12, Variance 1.25.

From the finding result it could be infer that all departments involved and consulted in the budget planning and allocation process of the company (confirmed by the majority respondents), while some of the respondents was disagreed the premise

Table 4.13: department involvement in budget planning

<b>All departments are involved and consulted in the budget planning and allocation process of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	4	5.3	5.3	5.3
	disagree	13	17.3	17.3	22.7
	neutral	13	17.3	17.3	40
	agree	33	44	44	84
	strongly agree	12	16	16	100
	Total	75	100		
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.48	1.12	1.25	

Sources: Survey Result, 2021

### 4.3 Budget controlling system of the company

#### 4.3.1 Budget controlling process

As indicated in table 4.14 below, the respondents asked to response whether budget control process of the company is efficient or not. Based on this premise the majority respondents agreed that (n=33, 44% agree, n=13, 17.3% strongly agree) budget control process of the company is efficient, while some of the respondents was disagreed i.e. 21.3% (disagree) and 4% (strongly disagree), the rest 13.3% of the respondents was neutral, Standard deviation is 1.13, Variance 1.28.



From the finding result it could be infer that budget control process of the company is efficient (i.e. confirmed by the majority respondents), but some of the respondents was disagreed with this premise.

Table 4.14: budget controlling process

<b>Budget control process of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	3	4	4	4
	disagree	16	21.3	21.3	25.3
	neutral	10	13.3	13.3	38.7
	agree	33	44	44	82.7
	strongly agree	13	17.3	17.3	100
	Total	75	100		
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.49	1.13	1.28	

Sources: Survey Result, 2021

### 4.3.2 Problems of budget controlling system

As indicated in table 4.15 below, the respondents asked to response whether budget controlling problems of the company has negative impact on the activities of departments and performance of the company or not. Based on this premise the majority respondents agreed that (n=37, 49.3% agree, n=15, 20% strongly agree) budget control process of the company is efficient budget controlling problems of the company has negative impact on the activities of departments and performance of the company, while some of the respondents was disagreed i.e. 20% (disagree) and 4%( strongly disagree), the rest 6.7% of the respondents was neutral, Standard deviation is 1.14, Variance 1.29.

From the finding data it could be stated that budget control process of the company is efficient budget controlling problems of the company has negative impact on the activities of departments and performance of the company (i.e. confirmed by the majority respondents), while some of the respondents were disagreed.

Table 4.15: Problem of budget controlling process

<b>budget control problems of the company has negative impact on the activities of departments and performance of the company</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	3	4	4	4
	disagree	15	20	20	24
	neutral	5	6.7	6.7	30.7
	agree	37	49.3	49.3	80
	strongly agree	15	20	20	100
	<b>Total</b>	<b>75</b>	<b>100</b>	<b>100</b>	
	<b>Descriptive Statistics</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Variance</b>	
		3.61	1.14	1.29	

Sources: Survey Result, 2021

### 4.3.3 Budget monitoring and evaluation

As indicated in table 4.16 below, the respondents asked to response whether the company conduct budget monitoring and evaluation in a regular and timely manner or not. Based on this premise the majority respondents agreed that (n=35, 46.7% agree, n=15, 20% strongly agree) the company conduct budget monitoring and evaluation in a regular and timely manner, while some of the respondents was disagreed i.e. 21.3% (disagree) and 8 % (strongly disagree), the rest 4% of the respondents was neutral; Standard deviation is 1.26, Variance 1.58.

From the finding result it could be sated that the company conducts budget monitoring and evaluation in a regular and timely manner, but some of the respondents were disagreed.

From the interview result the study identified that the problem with the company concerning budget is not the planning process, of course there are some problems, but the main problem is no budget utilization & control according to the plan, action will not be taken by the company to there is monitoring & evaluation in regular and timely manner

but it not comprehensive is it only concentrate on physical activities not the where budget.

Table 4.16: Problem of budget controlling process

<b>The company conduct budget monitoring and evaluation in a regular and timely manner</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	strongly disagree	6	8	8	8
	disagree	16	21.3	21.3	29.3
	neutral	3	4	4	33.3
	agree	35	46.7	46.7	80
	strongly agree	15	20	20	100
	Total	75	100	100	
	Descriptive Statistics	Mean	Std. Dev	Variance	
		3.49	1.26	1.58	

Sources: Survey Result, 2021

#### 4.3.4 Evaluation of budget utilization

As indicated in table 4.17 below, the respondents asked to response whether budget utilization performance of the company evaluated against controllable factors or not. Based on this premise the majority respondents agreed that (n=34, 45.3% agree, n=15, 20% strongly agree) budget utilization performance of the company evaluated against controllable factors, while some of the respondents was disagreed i.e. 18.7% (disagree) and 8 % ( strongly disagree), the rest 8% of the respondents was neutral, Standard deviation is 1.23, Variance 1.52.

From the finding data it could be concluded that budget utilization performance of the company evaluated against controllable factors, while some of the respondents was disagreed.

According to Finance Department Officers the company should conduct budget controlling monitoring and evaluation system in coordinated manner, the might be budget variance solve the problem through discussion, there are some budget adjustment measures to variances from the actual plan.

Table 4.17: Evaluation of budget utilization performance

<b>Budget utilization performance of the company evaluated against controllable factors</b>				
Description	Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b> strongly disagree	6	8	8	8
Disagree	14	18.7	18.7	26.7
Neutral	6	8	8	34.7
Agree	34	45.3	45.3	80
strongly agree	15	20	20	100
Total	75	100	100	
Descriptive Statistics	Mean	Std. Dev	Variance	
	3.51	1.23	1.52	

Sources: Survey Result, 2021

#### 4.4 Documentary Reviews on Budgeting Practice of the Company

Ethio Agri Ceft has prepared master budget by evaluating past physical and financial performance, situational analysis, forecast annual sales by evaluating the past performance and along with estimation of cost of production.

The company's main source of revenue is selling of agricultural products (for local use and export purpose) which produced at various location of the country: Gemadro, Duyina, Gumaro, Wush Wush, TPPF, Ayehu cereals, Ayehu Coffee, Bir, Holleta Flower and Bahirdar.

According to the planning and finance officers' information, even though revenue, and gross profit of the company increased for the past three budget years; it has been also identified that the average performance of company (i.e. from 2017/18 to 2019/20 budget year) to achieve its annual budget is 72%.

The main reasons that hinder the company not to meet highest record in budget planning, expenditure and operation achievements are: the lack of clear and exact information on finance data, the unpredictable costs of materials production, budget variances, wastage of resources, etc.

Table 4.18: Annual budgets of the company

<b>The Company Three Year Budget</b>			
<b>Budget Years</b>	2017/2018	2018/2019	2019/2020
<b>Revenue</b>	1,632,230,000	1,687,789,000	1,932,204,000
<b>Cost of farm produce Sold</b>	1,439,980,000	1,208,951,000	1,377,306,001
<b>Gross Profit (000')</b>	192,250	478,838	554,898
<b>Achievement in (%)</b>	71	76	83

(Sources: from the finance and planning department, 2021)

## CHAPTER FIVE

### FINDING, CONCLUSION AND RECOMMENDATION

In the following section, data that were analyzed and interpreted are summarized, concluded and then finally based on the result recommendation presented.

#### 5.1 Summary of the findings

##### 5.1.1 Budget Utilization of Company

- ✓ From the data it has been recognized that majority respondents stated that the company utilized its budget efficiently, while some respondents disagreed.
- ✓ From the data it has been recognized that the majority respondents affirmed that the company's budget is prepared in anticipated to resolve problems and to clarify confusion, while some of the respondents disagreed.
- ✓ From the data it has been identified that, majority respondents stated that the company's budget is prepared based on specific performance, while few of respondents was disagreed.
- ✓ From the data it has been learned that, the majority respondents agreed that master budgeting is the most effective types of budgeting in the company, while some of the respondents was disagreed.
- ✓ From the data it has been recognized that the majority respondents agreed that flexible budgeting is the most effective types of budgeting in the company, while some of the respondents was disagreed.
- ✓ From the data it has been identified that the majority respondents stated that budget review has played significant role on the performance of the company, while some of the respondents was disagreed.
- ✓ From the data it has been learned that the majority respondents stated that lack of budget review has negative impact on the performance of the company, while some of the respondents was disagreed.

- ✓ From the data it has been recognized that the majority respondents agreed that budget variance is one of the major budget utilization and control problems of the company, while some of the respondents was disagreed.
- ✓ From the data it has been identified that the majority respondents agreed that budget utilization problem of the company has negative impact on the performance of our department, while some of the respondents was disagreed.
- ✓ From the data it has been recognized that the majority respondents agreed that the company has made the necessary budget adjustment when there is variance, while some of the respondents was disagreed.
- ✓ From the data it has been identified that the majority respondents agreed that all departments involved and consulted in the budget planning and allocation process of the company, while some of the respondents was disagreed.

### **5.1.2 Budget controlling system of the company**

- ✓ From the data it has been learned that the majority respondents agreed that budget control process of the company is efficient, while some of the respondents was disagreed.
- ✓ From the data it has been identified that the majority respondents agreed that budget control process of the company is efficient budget controlling problems of the company has negative impact on the activities of departments and performance of the company, while some of the respondents were disagreed.
- ✓ From the data it has been learned that the majority respondents agreed that the company conduct budget monitoring and evaluation in a regular and timely manner, while some of the respondents was disagreed.
- ✓ From the data it has been identified that the majority respondents agreed that budget utilization performance of the company evaluated against controllable factors, while some of the respondents was disagreed.

Based on the above major finding of the study, the following conclusions and recommendations are made.

## **5.2 Conclusion**

The main aim of the study is to assess budget utilization and controlling process of Ethio Agri Ceft Company. Based on the study finding results, the following conclusion is based on the respondents' opinion.

The annual budget plan of the company prepared in anticipated resolving problems and to clarify confusion and it is flexible. In addition to this, the company has conducted budget review twice in a year which has significant role on production and marketing performance.

However, the study concluded that budget utilization of the company could not be stated efficient because: data (i.e. financial, physical, time) about specific performances of work units have not managed, analyzed and taken in account during budgeting, some problems have observed to implement master budgeting effectively as per guidelines, every budget year actual expenditure differed from annual budget plan (i.e. budget variance), there is constraint on budget adjustment process, and finally the study concluded that most departments do not involved and consulted in the budget planning and allocation process.

The study concluded that budget control process of the company is inefficient because budget controlling methods have negative impact on the performances departments due to planned activities demand flexible budget adjustment, budget monitoring and evaluation didn't performed on regular and timely schedules, and finally annual budget utilization performance of the company has not evaluated against controllable factors.



### **5.3 Recommendation**

Based on the conclusion of the research, the following recommendations are drawn.

- Budget monitoring and variance analysis should be made on regular bases in line with the monthly close of financial system to compare budget versus expenditure by budget holders and finance who are responsible for managing .the projects budget and activities with clear justification and action points. So that managers are able to prevent over or underspends timely and take corrective actions.
- The company should plan its master budget in accordance to its budget planning guidance by evaluating past physical and financial performance, situational analysis, defining and assessing the business mission, objectives, strategies and tactics: sales, production, transport services, manpower planning, investment plan, cost of production and operating costs.
- It has been learned that in EAC Company the actual revenue and expenditure varies from the annual budgeting plan. This is because at least the cost of production, materials cost, etc significantly shows some variance from plan. Therefore it is advisable that the company should integrate its budget controlling and monitoring methods with activities of departments to maximize utilization.
- The company should plan its annual budget by participating departments and analyzing the actual performance of the past budget years against the demand of expenditure: operational units, capital investment and running costs of the company.
- The company has some weakness in its budget utilization system and controlling mechanism. Thus the company should improve its budget planning/preparation that

enables the management of to compare the planned ones with the actual results and based on that they can take an action to modify budget variance and operation of the business.

- The company should modernize its financial management system, measurement of current and past performance, budget forecasting using information technology (ICT) to have feasible and acceptable financial data.
- In order to increase the efficiency of budget utilization of the company, it is important to involve, participate and informed departments about the available resources, capacity, detailed tasks and objectives of the company. Therefore the company should emphasize to manage clear and specific financial data during budgeting.
- The study focus on specific topic i.e. budget utilization and controlling practices of EAC Company and has identified some strength and weakness to implement effective budget utilization. Thus the study recommends further research to understand other factors that determine efficiency and effectiveness budgeting practices of the company.

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## ANNEX I

**St. Mary's University**  
**College of Business and Economic**  
**Department of MBA, Accounting and finance**  
**Questionnaire**

**Dear respondents:**

My name is Hiwot Ararsa I am a postgraduate student at St.Mary's University. I am conducting a thesis which is titled "assessment study on budget utilization and control Practice: the case of Ethio Agri –CEFT PLC" I kindly request you to read all the questions carefully and answer them as genuinely and truthfully as possible because it is very important for the validity and overall success of this research paper. I would also like to inform you that the data gathered through this questionnaire will be used for academic purposes and your responses will be kept confidential. Thank you for your cooperation.

**PART 1- GENERAL INFORMATION (Please Answer by Putting a Mark or by Circling the Item of Your Choice)**

- What is your Gender?
  - 1. Male
  - 2. Female
  
- What is your age?
  - 1. 25-35
  - 2. 35-45
  - 3. 45-55
  - 4. Above 55
  
- 1.2 What is your Educational Status?
  - 1. Diploma
  - 2. First Degree
  - 3. Second degree
  - 4. above second degree
  - 5. Other please specify

## PART 2- DETAILED QUESTION

Please indicate your view on the following statement on the budget Utilization. Where

5. Strongly Disagree 4. Disagree 3. Neutral 2. Agree 1. Strongly agree

Ser no.	Budget utilization	Measurement				
		1	2	3	4	5
1	The budget utilization process in Ethio Agri-CEFT company is efficient.					
2	When the budget of Ethio Agri- CEFT is being set, any anticipated problems are resolved and any areas of potential confusion are clarified.					
3	The budget of Ethioagriceft is prepared in a manner that sets specific performance measures for departments & business units.					
4	Master budgeting is the best and most effective type of budgeting for Ethioagri CEFT.					
5	Flexible budgeting is the best and most effective type of budgeting for Ethioagri CEFT.					
6	The presence of budget review has played a significant positive role in the activity and overall all performance of Ethio Agri-CEFT.					
7	The lack of budget review has played a significant negative role in the activity and overall all performance of Ethio Agri-CEFT					
8	Budget variance is one of the major budget utilization and control problems in Ethio Agri-CEFT.					
9	The problems in the budget utilization system of the company have had a significant negative impact on the performance of your department and the company.					
10	The company makes the necessary budget adjustment when there are variances.					
11	All the relevant departments or bodies in Ethio Agri-CEFTare involved and consulted in the budget planning and allocation process.					

Please indicate your view on the following statement on the budget control.  
 Where 5. Strongly Disagree 4. Disagree 3. Neutral 2. Agree 1. Strongly agree

Ser no.	Budget control	Measurement				
		1	2	3	4	5
1	The budget control process (system) in Ethio-agri CEFT is efficient.					
2	The problems in the budget control system of the company have had a significant negative impact on the activities of your department and overall performance of the company.					
3	The company conducts budget monitoring and evaluation in a regular and timely manner.					

## **INTERVIEW QUESTIONS**

My name is Hiwot Ararsa, I am a postgraduate student at St.Mary's University. I am conducting a thesis which is entitled “an assessment of budget utilization and control of Ethio Agri –CEFT PLC. Please listen all the questions carefully and answer them as genuinely and truthfully as possible because it is very important for the validity and overall success of this research paper. The data gathered through this interview will be used for academic purposes and your responses will be kept confidential. Thank you for your cooperation

1. What does the budget allocation and utilization practice in the company look like?  
Can you please mention the steps in the budget allocation and utilization process?
2. What kinds of budgets and budgeting methods are used in the company?
3. Which departments or parts of the company are involved in the budget utilization and control?
4. How efficient and healthy is the company's budget allocation and utilization record? Can you please mention the strengths and weaknesses of the company's budget utilization practice?
5. According to the company's quarterly reports, budget variance is one of the problems that frequently occur. What do you think are the reasons for this? Does the responsible body in the department take any measures to solve this problem?
6. Does the company review budgets? if so how often ?
7. Does the company conduct gap analysis and budget adjustment?
8. What are the major challenges in the budget utilization practice of the company?
9. What does the budget controlling practice of the company look like?
10. Among the following modern techniques of budget control (zero base budgeting, network analysis, management audit, return on investment and responsibility accounting) which one/ones does the company use?
11. What are the major challenges in the budget controlling practice of the company?
12. Has the company taken any measures to solve the problems related to budget planning, allocation, utilization and control?



