THE INCOMES AND EXPENDITURES BUDGET – THE MAIN TOOL FOR FORECASTING AND PURSUIT THE EQUILIBRATED FINANCIAL STANDING OF THE COMPANY

ANCA JARMILA GUȚĂ *

ABSTRACT: This paper aims to clarify the main issues concerning the role of incomes and expenditures budget as the main tool for achieving the forecast and pursuit the equilibrated financial standing of a company. In this context the main aims to be achieved are presented through the incomes and expenditures budget and its contents and structure as well as the main forms that they take in this budget within a company.

KEY WORDS: incomes and expenditures budgets equilibrated financial standing, forecasting, incomes and expenditures budget of general activities, financial budget type, budget cash type.

JEL CLASSIFICATION: H68

1. INTRODUCTION

All decisions adopted at the enterprise level (technical, economic, organizational etc.) affect the existing financial balance and make necessarily a new equilibrium employing for this purpose changes in the level and structure of necessity of funds and of resources to finance them. The realization of new quality of financial balance imposes the foundation on a higher plane of financial indicators for budgeting incomes and expenditures.

The incomes and expenditures budget is therefore the financial program by which to provide incomes, expenses and financial results of its activity, own funds and borrowed relationships with economic agents, with employees, payments to the budget, etc.

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Given the need to ensure the principles of universality, balance and reality which must lie on the basis of elaboration and execution of every budget, through the incomes and expenditures budget are pursued the following objectives:

- the design of all flows in national currency (lei) and foreign currency, caused by the whole activity of the economic agent to know and control the inflows and outflows of money and finally, the ability to meet payments in full and on time;
- the coverage of all incomes and expenditures, the design and optimization of the capacity of economic agents to realize the benefits (profit);
- deploying all available resources of economic agents to finance the needs of financing needs of socio-cultural and other actions;
- evaluating and sizing money relations of economic agents with their employees, with the state budget, banks, suppliers, other individuals and legal persons as debitors or creditors;
- the design of the evolution of heritage-run businesses, which are estimated by reflecting changes in its structure.

The changes of budgets and expenses don’t contain specific data of production program, which constitutes a separate section which determines the achievement of all incomes and funding resources.

As a result, the two major sections - production program and budget should be developed in a restricted corelation ensuring in this way, the following requirements aimed to realize economic management and financial autonomy:

- the economic agents to achieve profits must ensure incomes from their activities to cover all expenses;
- the incorrect determination of the profit resulting from their own activity by undervaluing incomes and "inflating" expenses is drastically sanctioned by financial legislation;
- it may not be included and approved the expenditures without establishing resources of which they would be financed;
- the eventual subsidies from the state budget are granted only in cases provided by law and within the approved limits;
- the bank loans are provided in the budget only in limits and legal conditions and only after their negotiations with the banks.

2. CONTENT AND STRUCTURE OF A BUDGET OF INCOME AND EXPENSES

The incomes and expenditures budgets aim to control the activity of economic agents by forecasting and pursuit the expenditures that may be covered by incomes or other sources highlighting the financing possibilities of patrimonial expenditures units. By the incomes and expenditures budgets are limited the required expenditures to obtain incomes. The content and structure of an incomes and expenditures budget of general activity is as follows:
Table 1. The content and structure of revenue and expenditure

<table>
<thead>
<tr>
<th>Specification</th>
<th>No. row.</th>
<th>Financial year</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Preliminary</td>
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<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>I. Total incomes, of which:</td>
<td>0</td>
<td>01</td>
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<tr>
<td>(row.02 + .08 + 09)</td>
<td></td>
<td></td>
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<tr>
<td>1. Total operating incomes, of which:</td>
<td>02</td>
<td>02</td>
</tr>
<tr>
<td>a) subsidies on products and activities</td>
<td>03</td>
<td></td>
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<tr>
<td>b) subsidies to cover price differences and tariffs</td>
<td>04</td>
<td></td>
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<tr>
<td>c) transfers</td>
<td>05</td>
<td></td>
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<tr>
<td>d) bonuses for farmers</td>
<td>06</td>
<td></td>
</tr>
<tr>
<td>e) other incomes</td>
<td>07</td>
<td></td>
</tr>
<tr>
<td>2. Financial incomes</td>
<td>08</td>
<td></td>
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<tr>
<td>3. Exceptional incomes</td>
<td>09</td>
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<tr>
<td>II. Total expenditures, of which</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>(row.11+18+19+20+21+22)</td>
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<tr>
<td>1. Operating expenditures, of which</td>
<td>11</td>
<td>11</td>
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<tr>
<td>a) material expenditures</td>
<td>12</td>
<td></td>
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<td>b) staff costs, of which:</td>
<td>13</td>
<td></td>
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<tr>
<td>- gross salaries</td>
<td>14</td>
<td></td>
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<tr>
<td>- insurance and social protection</td>
<td>15</td>
<td></td>
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<tr>
<td>c) operating expenditures on amortization and provisions</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>d) advertising, protocol and publicity expenses</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>2. Financial expenses</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>3. Exceptional expenses</td>
<td>19</td>
<td></td>
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<tr>
<td>4. Legal reserves</td>
<td>20</td>
<td></td>
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<tr>
<td>5. Cover of losses of the previous year</td>
<td>21</td>
<td></td>
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<tr>
<td>6. Tax</td>
<td>22</td>
<td></td>
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<tr>
<td>III. The net result for the year (row.01-10)</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

Manager: Head of the financial accounting department

In practice a classification of incomes and expenditures budgets can be made by multiple criteria:
1. In relation to this conception, the budgets of incomes and expenditures are classified into:

a) **the financial budget type**, in accordance with this the incomes represent inputs in led system ($S$) as the funds allocated to cover expenses that represent outputs of led system. The budget is utilized as management tool playing the role of "regulator" or "feedback" of expenditures according to the allocated budgetary resources. The mathematical equation of this type of budget is represented as follows:

$$ \pm DC = Fd. a - Ch. E $$

where:

- $\pm DC$ - saving (+) or exceeding (-) of budgeted expenditures;
- $Fd. a$ - allocated funds;
- $Ch. e$ - actual expenses.

b) **the economic budget type** is budget in accordance with this the expenditures represent inputs in led system ($S$) as consumption of resources required for the realization of incomes which represent outputs of led system. The budget is used as a management tool, playing the role of "regulator" or "feedback" to maximize economic-financial results calculated as the difference between incomes and expenditures. The mathematical equation of this type of budget is represented as follows:

$$ \pm R = V - Ch $$

in which:

- $\pm R$ - profit (+) or loss (-);
- $V$ - incomes;
- $Ch$ - expenditures

c) **cash budget type**, in accordance with this the receipts represent the inputs in led system ($S$) and payments represent the outputs of led system. The mathematical equation of this type of budget:

$$ \pm T = I - P $$

in which:

- $\pm T$ - surplus (+) or deficit (-) of cash;
- $I$ - receipts;
- $P$ - payments.

2. According to the second criterion, we have:
The existence, development and adaptation to the environment of an economic entity generates a complex network of financial flows that define it in the general assembly of financial economics at both microeconomic and macroeconomic national and international levels.
Developing a company must be based on knowledge of their capabilities, weaknesses and strengths but also external macroeconomic environment.

From these results it is absolutely necessary to elaborate a proper policy in order to ensure not only maintain the company at a certain level but also for its development in line with the economic environment in which it exists and with its trends.

To ensure to this policy to be as accurate and useful to the executive organs of economic agent it must fix precisely financial targets to be achieved and to size the needs of capital that can be used in terms of profitability as accurately as possible. Also such a policy must be geared towards the future and try to provide the best financing opportunities according to existing costs on raw materials markets, capital and finished products which the company operates.

To ensure a dynamic balance both at short and long term of the company the management is obliged to pay special attention to how they are planned and carried out all financial processes:
- Evaluation of capital needs.
- Finding funding possibilities.
- Organization of using capital raised in the most efficient manner possible.

In terms of a competitive market economy, the companies activities must be conducted profitably according to a relationship balance between income and expenses. To run a profitable business operation the management of any economic unit has to envisage the expenditures, receipts and payments for a certain period of time.

Representing a major tool of financial forecast of economic units, budgeting income and expenses elaboration became one of the objectives of management accounting. In this regard the budget of income and expenses shall be prepared on the kinds of activities and budget execution control is performed in order to know the results and delivering the data of substantiation of decisions concerning management of patrimonial units.

Planning finances of a company is done through budget of business activity. This is an operational plan, for a specific time horizon, usually a year, comprising revenue and expenditures forecasting of a firm, additional capital needs and how to finance them and main indicators characterizing hoped efficiency.

The budgeting process involves choosing concrete objectives of future activities of the firm as well as specification of policies, programs and procedures designed to ensure the necessary conditions for achieving these objectives.

The underlying goal of the budgeting process is to ensure that the financial resources available to the company are used effectively either if it is matter of resources raised by the company to finance its own activity or it is matter of surplus capital flows resulting from previous work, which are placed as the investment of unit.

On the basis of annual financial budgeting lies the company’s development strategy within the foreseeable time horizon with an acceptable probability of realization. The spearhead of this strategy is marketing studies capturing the future market size and possible slice of the market that the company could count.

The budgeting process has the following characteristics:
The incomes and expeditures budget – the main tool for forcasting ...

1. It orients the enterprise for a specific purpose, increasing production, hence the sales, profitability, solvency, risk reduction, strengthening market position, etc. Without a budget (plan) the management company has no other cues than the achievements of previous periods and/or the competition. But if we lead only after these it means only to extrapolate past conditions in the future which is not always desirable or achievable.

2. It promotes a system of control over the management of all types of resources used at the enterprise level. It is therefore necessary to form a mentality of employees and leaders on individual and collective rights and freedoms concerning the management of the company as a whole and until the last job.

3. It coordinates efforts of all organizational structures of the company in achieving the objectives set, as all are engaged and involved in the budgeting process. This requires that at each structure to use tools for sizing efforts and results that do not conflict with the general interest and that of the group. Any imbalance within the company calcult the functions and the role of entire budgeting process.

The budgeting process can lead to the emergence of limitations if budgetary provisions are considered immutable. Such a danger is all the greater as budgets are detailed and don’t provide manoeuvre space within own provisions.

The reference literature mentions some principles whose respect ensures the necessary coherence of budgetary system:

- **Totality principle** that includes all enterprise assets in a coordination to ensure balance between the different functional and operational departments. This principles must harmonize the entire system of interests existing within the company.

- **The principle of superposition of budgetary system with authority system of enterprise** – a budget is always under the authority of a responsible of activity.

- **The principle of maintaining of solidarity between the departments and of concordance with general policy of the company.** The budgeting must reduce the tendency to overestimate the importance of some departments in detriment of other and to contribute most effectively to achieving the strategic objectives of the enterprise.

- **The principle of suppleness in a social and economic framework more loaded with different types of contraints.** A budget must be flexible, allowing adaptation to environmental changes, one of them is inflation.

Inflation is a complex phenomenon caused by multiple accusations and that affected in succession the Romania economy. Inflation is essentially characterized by the continous increase of prices in a given period of time. The existence of an inflationary environment distors the decisions involved both in the development and the building of budgets.

Therefore in the stage of budgeting is necessary that the evaluation of income and expenses to be made taking into account the forecasted prices for the field in which the operating company operates.
In the absence of these indices one can operate with estimated average index of inflation for the considered period. Still it is not recommended a mechanical application of such income and expenses index because:

1. The forecast of revenue can’t be realized due to sale uncompetitive prices, both due to solvent demand and possible competing;
2. Direct costs are more sensitive to inflation than those indirect. Direct costs rise before selling prices increases to be possible, which can lead to decreased availability and implicitly expected profit.

REFERENCES: