2014

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Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.5, No.21, 2014

Cost Control and Accountability for Effective Budget Implementation

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ABSTRACT

Because of the growing complexity of business and business problems and because of the movement toward decentralization in large enterprise, increased attention is being given to better planning and control techniques. Consequently, the use of sound budgeting techniques is becoming more prevalent. Again, corporate restructuring has resulted in a treno toward placing the responsibility for budgeting at higher levels in the organization allowing for a stronger cost control and accountability measures. Consequently, the paper advocate the use of cost control method to monitor, evaluate, and ultimately enhance the efficiency of specific business areas such as departments, divisions, or product lines. This will require frequent information (accounting or otherwise) about operations in order to plan for the future, to control present activities, and to evaluate the past performance of managers, employees, and related business segments. The paper therefore recommend that cost control be exercised continuously to flag potential problem so that crisis may be prevented

CONCEPTUAL OVERVIEW

Today, when the management of money is more important than ever for public and private entities, budgeting plays an enormous role in controlling operations efficiently and effectively. Because of the growing complexity of business and business problems and because of the movement toward decentralization in large enterprises, increased attention is being given to better planning and control techniques. Consequently, the use of sound budgeting techniques is becoming more prevalent. Again, corporate restructuring has resulted in a trend toward placing the responsibility for budgeting at higher levels in the organization allowing for a stronger cost control and accountability measures. In earlier days it was customary to find the budget function buried deeply in the accounting operation, today it is not uncommon to have the budget function as one of the strategic role of top management.

Many companies use budget committees. The budget committee typically is composed of representatives from most operating areas. This composition promotes coordination. If properly administered, the budget committee can perform the very useful role of encompassing and reconciling the many diverse interests that makes up a modern business.

An effective budgeting system facilitates control. The budget system must fit the company's operational control needs. In this regard, cost control which is also known as cost management or cost containment offers the surest option in realizing the budget goals. This paper therefore will examine the exact role of cost control and accountability in ensuring budget implementation effectiveness. This search for relationship will be done by examining:

1. Budgeting and the management process.
2. The concept of cost control and its several applications.
3. The role of accounting in planning and control.
4. Accountability Reporting.
5. Cost Control and Budget Implementation.
6. Conclusion, Summary and Recommendation.

THE CONCEPT OF COST CONTROL

Cost control, also known as cost management is a broad set of cost accounting methods and management techniques with the common goal of improving business cost-efficiency by reducing costs, or at least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate, and ultimately enhance the efficiency of specific areas, such as departments, divisions, or product lines, with their operations.

During the 1990's cost control initiative received paramount attention from corporate Nigeria. Often taking the form of corporate restructuring, divestment of peripheral activities, mass layoffs, or outsourcing, Cost control strategies were seen as necessary to preserve- or boost- corporate profits and to maintain- or gain- a competitive advantage. The objective was often to be the low-cost producer in a given industry, which would typically allow the company to take a greater profit per unit of sales than its competitors at a given price level.

Obara (2003) stated that some cost control proponents believe that such strategic cost-cutting must be planned carefully, as not all cost reduction techniques yield the same benefits.

COST CONTROL APPLICATIONS

A complex business requires frequent information about operations in order to plan for the future, to control present activities, and to evaluate the past performance of managers, employees, and related business segments. To be successful, management guides the activities of its people in the operations of the business according to pre-established goals and objectives. Management's guidance takes two forms of control:

1 The management and supervision of behavior, and
2. The evaluation of performance.

Behavioural management deals with the attitudes and actions of employees. While employee behavior ultimately impacts on success, behavioural management involves certain issues and assumptions not applicable to accounting's control function. On the other hand, performance evaluation measures outcomes of employee's actions by comparing the actual results of business outcomes to predetermined standards of success. In this way management identifies the strengths it needs to maximize and the weakness it seeks to rectify. This process of evaluation and remedy is called cost control.

Cost control is a continuous process that begins with the proposed annual budget. The budget helps:

1. To organize and coordinate production, and the selling, distribution, service and administrative functions;
2. To take maximum advantage of available opportunities. As the fiscal year progresses, management compares actual results with those projected in the budget and incorporates into the new plan the lesson learned from its evaluation of current operations.

Control refers to management's effort to influence the actions of individuals who are responsible for performing tasks, incurring costs, and generating revenues. In this regard Robert et (1997) see management as a two-phased process. Planning refers to the way that management plans and wants people to perform, while control refers to the procedures employed to determine whether actual performance complies with these plans. Through the budget process and accounting control, management establishes overall company objectives, defines the centre of responsibility (accountability) center, and designs procedures and standards for reporting and evaluation.

A budget segments the business into its components or centers where the responsible party initiates and controls action. Responsibility (accountability) centres represent applicable organizational units, functions, departments, and divisions. Generally, a single individual heads the responsibility centre exercising substantial, if not complete, control over the activities of people or process within the centres and controlling the results of their activity. Cost centres are accountable only for expenses, that is, they do not generate revenue. Examples include accounting departments, human resources departments, and similar areas of the business that provide internal services. Profit centers accept responsibility for both revenue and expenses. For example, a product line or an autonomous business unit might be considered profit centres. If the profit center has its own assets, it may also be considered an investment center, for which returns on investment can be determined. The use of responsibility centres allows management to design control reports to pinpoint accountability, thus aiding in profit planning in one hand and facilitating budget implementation.

A budget also sets standards to indicate the level of activity expected from each responsible person or decision unit and the amount of resources that a responsible party should use in achieving that level of activity (Obara 2003). A budget establishes the responsibility centre, delegates the concomitant responsibility, and determines the decision points within an organization.

The planning process provides for two types of control:

1. Feed forward- Providing a basis for control at the point of action (the decision point); and
2. Feedback- Providing a basis for measuring the effectiveness of control after implementation.

Management's role is to feedforward a futuristic vision of where the company is going and how it is to get there, and to make clear decisions coordinating employee activities. Management also oversees the development procedures to collect record, and evaluate feedback. Therefore, effective management controls results from leading people by force of personality and through persuasion, providing and maintaining proper training, planning, and resources; and improving quality and result through evaluation and feedback.

THE ROLE OF ACCOUNTING IN PLANNING AND CONTROL

Drury (1992) stated that accounting plays a key role in all planning and control. It does this four key area:

1. Data collection
2. Data analysis
3. Budget control and administration, and
4. Consolidation and review.

On data collection, accurate and timely information is the foundation of any accounting system, and thus detailed cost data are essential to any cost control endeavour. Management must understand- in great detail- how funds have been spent in the past and how they are being spent currently. As a result, companies invest large sums into sophisticated and error- resistant accounting systems in order to gain a nuanced understanding of their finances.

On data analysis, it is important to note, that accounting's speciality is the control function, yet its analysis is indispensable to the planning process. Accounting adjusts and interprets the data to allow for changes in company specific, industry specific and economy-wide conditions.

In the case of budget and control administration, accountants plays a key role in designing and securing support for the procedural aspects of the planning process. In addition, they design and distribute forms for the collection and booking of details on all aspects of the business.

The consolidation and review phase simply means that accounting compiles and coordinates the elements. Accountant's subject proposed budgets to feasibility and profitability analyses to determine conformity to accepted standards and practices.

ACCOUNTABILITY REPORTING

Accountability (responsibility) reporting requires that all expenditures be traceable to some manager within the organization. In other words, some managers must be able to authorize or veto each expenditure. Accountability reporting parallels the requirement that all performance objectives be traceable to some manager in the organization. Accordingly, the expenditures incurred by a manager and the organizational unit under his or her control in pursuing a performance objective need to be recorded. The addition of responsibility accounting arose from the need for budgeting in terms that could be related to the managers responsible for the expenditures. This dimension, then, largely reflects the organizational structure of the company.

Controllability is a matter of degree. In practice, judgment is used. The question can be asked, "Does this manager have significant influence over this cost?" If the answer is no, he or she should not be charged. Instead, some at the same level or at a higher level should be charged.

Reporting transactions in two dimensions- first by the nature of the expenditure and second by the organizational unit responsible for the action-permits management to pinpoint responsibilities for the naira consequences of planning, implementation, and control. Naira budgets and actual performance against the budgets can be reflected in separate statements for each block on the organizational charts, thus permitting business people to make budgeting an integral part of management function.

COST CONTROL AND BUDGET IMPLEMENT ATION

For cost control purposes, a budget provides standard costs. As management constructs budgets, it lays out a road map to guide its efforts. It states a number of assumptions about the relationships and interaction among the economy, market dynamics, the abilities of it sales force, and its capacity to provide the proper quantity and quality of products demanded.

An examination of the details of the budget calculations and assumptions indicates that management expects the sales force to spend only so much in pursuit of the sales forecast. The details also reveal that management expects operations to produce the required amount of units within a certain cost range. Management basis its expectations and projections on the best historical and current information, as well as its best business judgment.

Management relies in such accounting data analysis to choose from several cost control alternatives, or management may direct accounting to prepare reports specially for evaluating such options. Hamilton (1998) argued that all costs may not be viable targets for cost-cutting measures. For instance, in mass layoffs, the company may lose a significant share of its human capital by releasing veteran employees who are experts in their fields, not to mention by creating a decline in morale among those who remain (Obara, 2008). This management must identify which costs have strategic significance and which do not.

To determine the strategic impact of cost-cutting, management has to weigh the net effects of the proposed change on all areas of the business. For example, reducing variable costs related directly to manufacturing a product, such as materials and transportation costs, could be the key to greater incremental profits. However, management must also consider whether saving money on production is jeopardizing other strategic interests like quality or time to market. If a cheaper material or transportation system negatively impacts other strategic variables, the nominal cost saving may not benefit the company in the bigger picture, e.g., it may lose sales. In such scenarios, managers require the discipline not to place short-term savings over long term interests.

One trend in cost control has been toward narrowing the focus of corporate accountability (responsibility) centres, and thereby shifting some of the cost control function to day-to-day managers who have the most knowledge of and influence over how their areas spend money. This practice is intended to promote bottom-up cost control measures and encourage a widespread consensus over cost management strategies. All these are clear indications of the fact that a sound cost control system will no doubt, greatly facilitate effective budget implementation in both private and public sector organizations.

SUMMARY AND RECOMMENDATION

Organizational cost control is essentially a managerial and supervisory function. Cost control consists of those actions necessary to assure that organization's resources and operations are focused on attaining established objectives, goals and plans. Cost control, exercised continuously, flags potential problems so that crisis may be prevented. It also standardizes the quality and quantity of output, and provides managers with objectives cost information about employee performance. Management compares actual performance to budget and takes actions when necessary to correct variances from budgetary expectations. This makes cost control a sure way to effective budget implementation in contemporary organizations. Against this backdrop therefore this paper strongly recommends the establishment or reinforcement of cost control unit in all organizations both in the private and public sector. This will greatly enhance the realization of corporate budget goal(s).

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