EXPLORING THE BUDGET AND BUDGETARY CONTROL SYSTEM AT LOGS AND LUMBER LIMITED (LLL) KUMASI

BY

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Accounting Option) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated, first and foremost, to the Almighty God for His unflinching support.

I also dedicate this work to my wife, HANNAH FRIMPONG for her outstanding support.

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ACKNOWLEDGEMENT

I take this opportunity to express my gratitude to Mr. K. O. Appiah who was my Lecturer/Supervisor and whose inspiring advice and encouragement helped me greatly in accomplishing this task.

Secondly, my special thanks go to Mr. Osman of Logs & Lumber Limited for his enormous co-operation in allowing me access to every vital information necessary for this work.

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ABSTRACT

The author embarked on this study, purposely to bring to the fore, how companies use the activity of budget and budgetary control in their management process to achieve their desired ends. In this particular study, Logs & Lumber Limited, a timber company was studied. This study was geared towards bringing out any difference between; budgeting and budgetary control as indicated or stipulated in the books and budget and budgetary control as practised by the company, through narration and description of budget and budgetary control from these two distinct angles. The differences identified, served as a stepping stone in the identification of the strengths and weaknesses inherent in the budget and budgetary control system of the company studied. The strengths were recommended and reinforced, with respect to the weaknesses however, the author attempted addressing them, by making valuable recommendations. The work was concluded on the note that, for a company to operate an effective and efficient budget and budgetary control system, it must deal first and foremost with the factors militating against the smooth operation of its budget and budgetary control system. It is then that, such a business entity will come to the realisation that budget and budgetary control is really an essential tool for management.

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CHAPTER ONE

RESEARCH INTRODUCTION AND CONTEXT

1.1 BACKGROUND OF THE STUDY

Budgeting is a technique which is widely used in business as a tool of management and it involves all levels of management. Budgeting aids management in its functions of planning and control. Planning is the first or basic function of the management process. Planning involves selecting missions and objectives and the actions to achieve them. It requires decision making which is choosing from among alternative courses of actions. Planning gives an establishment its objectives and sets up the best procedure for reaching them. In addition, planning permits an organization to obtain and commit the resources required to reach its objectives and procedures. In addition, it permits progress towards the objectives to be monitored and measured so that corrective action can be taken if progress is unsatisfactory.

Planning determines the course of action the establishment is going to take and provides a basis for estimating the degree of probable success in its effort to attain its objectives. It therefore involves a conscious effort to look over the hill into the future and determines the most appropriate effort to minimise risk and take advantage of opportunities.

Control is the measurement and correction of performance in order to make sure that the establishment's objectives and the plans devised to attain them are accomplished. Mockler (1972), defines it as "a systematic effort to set performance standards with planning objectives, to design information feedback systems, to compare actual performance with these predetermined standards, to determine whether there are any

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deviations and to measure their significance, and to take any action required to ensure that all corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives". The control process thus involves the following steps:

(a) Establishment of standards and methods for measuring performance;

(b) Measurement of the performance against these standards;

(c) Correcting variations from standards and plans.

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Standards are by definition, simply, criteria of performance. They are the selected points in an entire planning program at which measurement of performance is made so as to give signals as to how things are going without management having to watch every step in the execution of plans.

Good management requires effective control. Combinations of well-planned objectives, strong organisation, capability, direction and motivation have little probability for success unless there is an adequate system of control.

Budgeting is integral to the planning and control process. To ensure that plans are correctly implemented, that targets are reached and that information is available to aid in future planning, actual performance must be regularly reported and compared with expected performance. By so doing budgeting provides definite expectations that are the best framework for judging subsequent performance.

The term budgeting is a common word in business and despite its power to guide management in its forward march into success some managements do not give it the respect it deserves. Owing to their ineffective use therefore, it does not benefit them as a tool for planning and control.

1.2 STATEMENT OF THE PROBLEM

Logs & Lumber Limited is a private limited liability company which has been facing financial difficulties over the years. Some of the causes of its financial difficulties are:

(a) inability to obtain external financing for its operations;

(b) inability to replace its old equipment/assets for production;

(c) competitors activities causing low sales turnover;

(d) overstaffing;

(e) ever-increasing overheads.

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If there is ever an industrial establishment without any production bottlenecks nor marketing constraints, if such an establishment has large cash reserves and even pre-arranged large bank overdraft facility available, one of the tools which management can use to measure success is the implementation of a budgetary control system. It also implies that an establishment with abundant problems can manage its circumstance using this technique.

Financial difficulties do not arise overnight and to a large extent some of them can be predicted in advance. One of the tools or techniques which can aid in such a prediction is budgetary control system. Financial difficulties if allowed to continue for long can lead to a financial failure.

This study examines the nature and extent of implementation or use of budgetary control system in the planning and control functions in Logs & Lumber Limited in an attempt to achieve business success.

1.3 RESEARCH QUESTIONS

The study adds to the existing literature on budget and budgetary control by answering the following research questions.

1. What is the planning and the budgeting process in Logs & Lumber Limited?
2. How is the budget preparation process in Logs & Lumber Limited?
3. What types of budget are used as control system in the company?
4. How is the variance report prepared?

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1.4 OBJECTIVES OF THE STUDY

From the problem statement above the main objective of the study was to explore the budgeting and budgetary control systems of Logs & Lumber Limited.

This main objective is sub-divided into sub-objectives as follows:-

(a) To identify the types of budgets prepared by Logs & Lumber Limited. (Accomplished in pages 39-40)

(b) To identify the budget preparation process in Logs & Lumber Limited. (Accomplished in pages 40-44)

(c) To identify the budgets which are used as a control process in Logs & Lumber Limited. (Accomplished in pages 44-49)

(d) To identify the budget control reporting process of Logs & Lumber Limited. (Accomplished in pages 49-50)

(e) Make appropriate recommendations based on the findings of the objectives above to Logs & Lumber Limited in particular and Timber firms in Ghana as a whole. (Accomplished in pages 54-59)

1.5 IMPORTANCE OF THE STUDY

(i) The study in no small way may act as a guide to the management of Logs & Lumber limited in its efforts to minimize the presence of financial difficulty and to prevent a financial failure.

(ii) Secondly it would be useful to managements of other industrial establishments in Ghana particularly those in financial difficulties.

(iii) Thirdly the research recommendations would assist Budgetary control system in organisation, whether profit or non-profit.

(iv) Also would serve as a source of reference on budget and budgetary control in a developing economy.

(v) Finally it would serve as a source of further research to other researchers in the field of budget and budgetary control.

1.6 ORGANISATION OF THE STUDY

This study is presented, inclusive of the present chapter, in five chapters. The rest are as follows: Chapter two of this study was devoted to literature review of relevant prior literature on budget and budgetary control. We devoted relevant section on introduction of the chapter, budgeting defined, factors to consider in constructing the budget, budgeting and planning, conditions for successful budgets, budgeting and long-range planning, budgets and short-term planning, administration of annual budget, planning aspect of budget, control aspect of budget.

Chapter three of the study discussed the methodology adopted by the researcher as well as the profile of the case study company Logs & Lumber Limited.

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Chapter four of the study was devoted to the analysis and discussions of empirical data from logs & Lumber Limited. Relevant sections address the empirical data as per the objectives of the research.

The final chapter deals with the summary of findings, recommendations, and conclusions to facilitate further research in the field of budget and budgetary control.

1.7 SCOPE AND LIMITATION OF THE STUDY

The study is confined to the planning and control process of the budgetary control process. This became inevitable due to a lot of constraints the researcher faced during the study. Some of the constraints are: due to financial and material problems and inadequate resources could not make it possible to collect data from all workers and the branches in the country.

Again, not all vital information of the company could be revealed. However, it is believed that the sample collected from the headquarters at Kumasi is true representative of the company for the years in study.

1.8 SUMMARY OF THE CHAPTER

This introductory chapter of the study provided an overview of the background of the study, problem statement and an outline of the study. It also covered the objectives that were examined as well as the research questions that directed the study. It further provided the justification of the study, the scope and limitation that were encountered and ended with an overview of what to expect in the study. Finally, this chapter led the researcher to review literature in consideration with the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

According to Horngren (2000), "Budgeting has come of age, it is becoming increasingly important, and it is all around us. For some reason, however accountants and managers seem reluctant to give it the respect it deserves. Still, there has been a steady increase in the prominence of budgeting in both non-profit and profit-seeking organisation". In every establishment management gives some thought to what the organisation's objectives should be and the best way of reaching those objectives. Although all managements plan, there are considerable differences in the way in which they do it. While some do their planning entirely in their heads, others may make notes or rough estimates on the backs of old envelopes. Others express their plans in quantitative terms and commit these to paper in some orderly, systematic fashion. This latter process is termed "Budgeting".

Gyasi (1992), defines the term as, "that aspect of the management process which involves the expression of an organisation's future operating and financing decisions in a quantitative and or qualitative plan of action. Budgeting deals with setting objective, forecasting of future course of action which could affect the achievement of that objective, outlining the steps to achieve that objective in the light of the forecast of future events and providing a basis for performance evaluation, co-ordination and communication of management plans. The basic tools of budgeting are the Master Budget and the Capital Expenditure budget".

This comprehensive definition points out the place of budgeting in planning and control functions of management. Planning involves the development of future objectives, and budgeting quantifies these future objectives usually in monetary

terms. Management wishes to ensure that all parts of the organisation function in a manner consistent with organisational objectives set at the planning stage through control. Budgeting aids in this control function by providing a yardstick against which actual performance may be compared and deviations corrected in order to achieve the set objectives.

According to Buyers and Holmes (1973), "it is mainly the responsibility of the budgeting system to allocate resources among the different departments for various uses. Budgeting decisions incorporates review of programmes, determination of priorities and allocation of resources". Therefore, budgeting is viewed as a process of detailed decision-making on the use of resources, of managing expenditures so that it is consistent with the resources available of the short-run requirements, and of control to ensure that people and departments spend the organisation's money as management has specified. The basic tools used in the budgeting process are termed 'Budgets'.

The most widely acceptable definition of the term is the one given by the Official Terminology of the Chartered Institute of Management Accountants. The term is defined as, "a plan quantified in monetary terms, prepared and approved prior to a defined period of time, usually showing planned income to be generated and /or expenditure to be incurred during that period and the capital to be employed to attain a given objective".

Pogue (1986) defines the term simply as "a plan or target in quantities and/or money value prepared for a future period of time, attempts to "look over the hill" into the future to plan,

(i) Where the business wants to be in future of time, and

(ii) How it intends to get there".

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According to Garrison and Noreen (2000), "a budget gives a quantitative expression of an action in order to aid co-ordination and implementation. Budgets may be prepared for the organisation as a whole or for any sub-unit. The budgets of all sub-units – Sales, Production, Distribution, and Finance are summarised into what is termed 'Master Budget'". It quantifies the expectations regarding future income, cash flows, financial position and operating plans. These are the culmination of a series of decisions resulting from a careful look at the organisation's future. The Master Budget is often a good practical approximation to a formal model of the organisation - its objectives, its inputs and its outputs. The various budgets that constitute the Master Budget are together called the "Operating Budget".

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According to Cohen, Robbins and Young (1994), another set of basic tools of the budgeting process is the "Financial Budget". This focuses on the impact of cash for operations and other factors such as planned capital outlays for equipment. Thus, Financial Budget comprises the 'Cash Budget' and 'Capital Expenditure Budget'. Whilst the Cash Budget shows the anticipated resources and uses of cash, the Capital Expenditure Budget shows the planned changes in fixed assets.

CIMA terminology defines the term budgetary control as "the establishment of budgets relating the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision".

2.1.0 FACTORS TO CONSIDER WHEN CONSTRUCTING BUDGET

Clive, Otley and Merchant (1990), stated that "the way in which the budget is constructed will vary between organisations depending on,

(i) Size;

(ii) Types of product and market;

(iii) The degree of uncertainty which the firm faces;

(iv) Technology;

(v) Management choices;

(vi) Many other factors".

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All firms are unique and each will produce budgets in an individual manner. However, certain procedures will apply in almost all budgeting situations.

The most important aspects of the budget construction process include the following steps:

(1) Review of the environment

(2) Review of the firm

(3) Sales budget

(4) Capital expenditure budget

(5) Cost budgets

(6) Working capital and finance budgets.

The six detailed steps lead to the construction of the Master Budget for Profit/ Loss, Financial position, funds and cash flow.

2.1.1 REVIEW OF THE ENVIRONMENT

According to Chenhall (2003), a review of the economic environment and the conditions under which the firm will operate during the budget period is the first

stage in the budget process. Questions such as the following should be asked concerning the environment:

(1) Are markets likely to expand, decline or remain static?

(2) Will new markets open or old ones close?

(3) Are customers likely to have more or less spending power?

(4) Will economic conditions in other countries affect the firm's operations (eg. general recession; protectionist policies; import threats).

(5) What government policies are likely to affect the firm (eg. interest rates; public sector spending, credit restrictions)?

(6) What will be the rate of inflation in the short and medium term?

(7) How will price level change affect costs, revenues and demand?

(8) What developments among competitors are likely to affect the firm?

(9) Are any other features of the economy likely to have an impact on the firm during the budget period?

Usually answers to such questions may be difficult to establish. However, if the detailed budget is to have meaning then answers must be sought, because on these answers will rest the expectations and challenges for the business in the period ahead.

2.1.2 REVIEW OF THE FIRM

According to Bruns and Waterhouse (1975), a review of the firm identifies key problems and opportunities within the business. Essentially this will be an assessment of strengths and weaknesses which largely determine what the firm must

or may tackle in the near future. The review of the firm may fall into related parts: recent performance and key issues.

Recent performance determines possible achievements in the approaching budget period. The following issues are important:

(i) Is the firm strong in financial shape?

(ii) Are there any liquidity difficulties?

(iii)Are borrowings excessively high?

(iv)Have recent profit levels been acceptable?

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Such questions determine the firm's financial strengths and weaknesses. Strong recent performance may provide the basis for ambitious future plans, while recent problems (low profit, weak cash flows, etc.) may mean that plans have to be restricted to recovery and consolidation.

'Key issues' requires that management must identify the important opportunities and problems facing the firm. On the positive side these may include:

(i) New market or opportunities;

(ii) Acquisition of other firms;

(iii)Use of improved technology;

On the negative side, these may include:

(i) Depressed markets;

(ii) Over manning;

(iii)Inefficient production facilities

(iv)Customer dissatisfaction

(v) Poor labour relations;

(vi)Shortage of key labour skills

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From the two-part review (environment and firm) should emerge the main features of the budget. The planned shape of the firm and its key challenges for the budget period should now be clear from the review.

From the review process should emerge the major constraint which will operate on the firm during the period. This is called the 'Principal, or key budget factor'. For many organisations, the Principal budget factor is the demand for products or services. The second most common Principal budget factor is finance or cash flow. A firm may have high demand levels but be constrained by limited finance for expansion.

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2.1.3 SALES BUDGET

According to Hands (1985), said for most businesses where customer demand is the principal budget factor, the sales budget will be the first budget to be constructed in detail. The budget provides an analysis of the sales revenue for the budget period, broken down in a way which is appropriate for the type of business. The sales budget will normally give details of volumes, selling prices, and total revenues for all main product lines.

Two extreme approaches exist for preparing a Sales Budget and these are sometimes called "top-down" and "bottom-up".

With the "top- down" approach, a sales budget may be prepared by considering:

(1) Forecasts of industry-wide demand levels

(2) Existing levels of sales for the firm

(3) Potential for changes to market share

(4) The financial and physical capacity of the firm to increase sales.

Another view may be by marketing managers of the likely level of sales for the budget period. With the "bottom-up" approach, a Sales Budget may be constructed by combining the individual local predictions of sales staff. Under this approach the managers who are closest to the customers produce sales expectations based on their specific knowledge of likely customer demands.

The purpose of whichever approach is adopted is to establish a sales budget and to encourage the firm towards improved sales performance and so for the same reason the two approaches may be combined and used by a firm.

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2.1.4 CAPITAL EXPENDITURE BUDGET

According to Lucey (1996), along with the Sales Budget, the budget of Capital Expenditure is the most critical budget statement. Plans for expenditure on such items as:

(i) Buildings;

(ii) Machinery

(iii)Vehicles

(iv)Computers

(v) Acquisition of other firms, commit the firm to large outlays of cash and are not easily changed.

The capital expenditure budget will essentially consist of list of capital projects which are likely to incur expenditure during the budget period. The timing of the expenditure should also be estimated, as the amounts are likely to be large and will have dramatic effect on the cash flows of the firm.

2.1.5 COST BUDGETS

According to Lucey (1996), detailed cost budgets have to be prepared for each of the firm's departments – Production, Sales, administration, Finance and the rest - once the Sales and Capital expenditure budgets have been agreed. It is a good approach that each manager must produce a cost budget for his own department, based upon levels of activity predicted in the sales budget, and capital expenditure commitments. If the steps outlined above are carried out, then it becomes possible to complete the Master Budget as the final stage in budget preparation.

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2.2.1 CONDITIONS FOR SUCCESSFUL BUDGETS

According to Claret (1988), even though the steps outlined previously may be followed in the construction of budgets, the budget process may or may not prove successful in assisting the firm to achieve its goals.

The use of budgets is not a "cure-all" for organisational problems. Indeed if budgets are poorly administered, they may actually create problems. Three essential conditions exist if a firm is to benefit from the budget process.

These are:

(1) Organisational fit

(2) Management commitment

(3) Budget education

Organisational fit implies that the manager should ensure that the budget system serves the needs of the firm. The budget system should thus be designed around the peculiar needs of the business. In other words, standardized approaches may not be suitable for a firm's use.

Management commitment requires that levels of management, but particularly top level manager, must be committed to the use of the budgets. Achievable targets must be set, and actions taken over areas not performing according to budget. In a case where managers regard the process as merely a form-filling exercise with no real meaning or effectiveness, then the system will lack credibility and may fall into disuse.

Budget education implies that for the budget system to be correctly used as a positive managerial technique, it is essential that all people involved are aware of its implications. Quite often, the budget is seen merely as an accounting technique.

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2.3.1 BUDGETING AND PLANNING

Ackoff (1970), states that, "planning is the design of a desired future and of effective ways of bringing it about". A recent development has been the emergence of long – range planning alternatively known as strategic Planning.

Sizer (1979), distinguished long term planning from short range planning, "Long-range planning may be defined as a systematic and formalized process for purposely directing and controlling future operations towards desired objectives for period extending beyond one year. Short-term planning, also called budgeting, on the other hand, must accept the environment of today, and the physical, human and financial resources at present available to the firm".

According to Coulter (1998),"Long-range or strategic planning has certain characteristics.

It provides answer to such questions as:

1. What business are we in?
2. What business ought we to be in?"

It provides a framework for more detailed planning and for day-to-day decisions. Faced with such decisions a manager can ask, - which of the available courses of action will be most consistent with our strategy?

According to Churchill (1984), "it also involves a long-time frame than other types of planning. Strategic Planning again helps focus organisation's energies and resources on high-priority activities. Lastly, it is a top-level activity in the sense that top management must be actively involved". This is obvious because only top management has vision necessary to consider all aspects of the organisation and because commitment from the top management is necessary to generate and support commitment at lower levels.

Montgomery (2002) stated that, Long-range planning requires the specification of objectives towards which future operations should be directed. For planning purposes it is necessary that an organisation's objectives should specifically indicate the direction in which the resources of the organisation should be directed. After identifying objectives, the next stage in the planning process requires a systematic and creative search for a range of possible courses of action (or strategies) which might enable the organisation's objectives to be achieved. It is essential at this stage that management should identify potential opportunities and threats in its current environment, and take specific steps immediately to ensure that the organisation is not taken by surprise by any developments which occur gradually in the future. The third stage in the planning process after potential areas of activity have been identified is that management should choose those areas of activity which have the greatest potential for achieving the organization's objectives.

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The budgeting process cannot therefore be viewed as being purely concerned with the Long-range Planning process. It is therefore heavily influenced by decisions which have been taken in the past and it has implications for programmes which will continue in the future periods.

According to Becker and Green (1962), the major planning decisions will already have been made as part of the Long-range Planning process. However, the annual budget leads to the refinements of those plans as managers must produce detailed plans for the implementation of the long-range plan. The budget ensures that mangers do plan for future operation and that they consider how conditions in the coming year might change and what steps they need to take to respond to these changed conditions. By so doing, managers are encouraged to anticipate problems before they arise, and hasty decisions that are made on the spur of the moment based on expediency rather than reasoned judgement may be minimized.

According to Pogue (1986), a budget is prepared for a time period of one year, and it is usual for the budget to be broken down into several control periods say a month, a quarter, and so on depending on the organisation's needs. The annual budget should relate to a budget centre which is an area under the responsibility of a manager, so that the manager will be aware of the budget performance that is expected from his centre, is aware of the actual performance as and when it occurs and by how much his centre has over-performed, or under-performed, to enable him/her to take remedial managerial action for adverse controllable variances.

2.4.0 ADMINISTRATION OF ANNUAL BUDGETS COVERING SHORT-TERM PLANS

Horngren et al, (2000), although budgets may be used for planning without being integrated with the accounting system of an organisation, they may rarely be used for comprehensive control without being so integrated. For this reason, the accounting system and the budgetary system should be synchronized with the organisational structure.

According to Lynn and Madison (2004), Budgeting improvement technique is proposed for companies that very young or is in industries experiencing rapid growth, where actual results often vary significantly from the original budgeted amounts. It is also suggested that the focus of rolling forecasts should only be the important figures of variables like orders, sales, costs, profit, and cash flows, since these are the most important ones for companies' future and should be continuously observed and updated. Progressive firms link a budget with an accounting system which accumulates homogenous information from the lowest levels of responsibility to the highest, hence careful attention should be given to the overall design of the budget system and its operation should always be strongly supported by top management.

For the budget process to work effectively, it is essential that suitable administrative procedures be introduced. These procedures may vary from one organisation to another and so should be made to suit the requirements of the particular organisation. However, as a general rule a procedure should be established for approving the budgets and the appropriate staff support should be available for assisting managers in preparing their budgets. This administrative procedure includes:

i. The formation of a budget committee;

ii. The establishment of a budget manual.

2.4.1 BUDGET COMMITTEE

According to Harper (1995), it is usual to find a budget committee in a budgetary system. The budget committee generally plays an advisory role. Initially, the committee assembles, reviews and transmit underlying economic conditions and assumptions relation to the ensuing budget period. It reviews departmental budgets and makes recommendations. It also scrutinizes periodic reports comparing actual performance with the budget. As a result, it submits variety of recommendations for top-management decision-making. The committee also serves as a consulting body to a budget officer, who co-ordinates the individual budgets into an overall plan or master budget. Preferably, the budget officer should be an accountant. The membership generally consists of functional managers with the chief executive as the chairman.

2.4.2 BUDGET MANUAL

Harper (1995), the various functional managers require instructions and procedures regarding the preparation of their budgets. Hence, there should be a budget manual. The budget manual is a written set of instructions pertinent information that serves as a rule book and reference for the implementation of a budget program. It tells what to do, how to do it, when to do it, and which form to do it on. The effort and time needed for the manual's preparation are justified by its long-run usefulness, its tendency to crystallize all aspects of a budget program, and its documentation of procedures.

2.5.0 CONSTRUCTING THE BUDGET

2.5.1 SALES BUDGET

According to Welsch, Hilton, Gordon (1988), for most businesses the sales budget is usually the first budget to be prepared and is generally considered as the 'cornerstone' for many of the other budgets. The sales budget can be influenced by a wide variety of factors some of which are;

(a) The general economic environment in which the business is operating, eg. recession

(b) Competing from other supplier, eg. price cutting,

(c) The opening or closing down of a market area.

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The Sales budget may be prepared to meet the organisation's needs and can be classified into a number of headings, for example,

(i) Product

(ii) Type of customer

(iii)Sales territories

(iv)Month

(v) Credit and cash.

The objectives of the sales budget are, firstly, to provide a sales target which can be achieved by the different functional areas which directly support sales, eg. Sales, Production and Purchasing, and secondly, to provide a revenue budget which can be incorporated into the Master budget so that the business can determine the budgeted Gross Profit/Loss and budgeted Net Profit/Loss.

2.5.2 PRODUCTION BUDGET

According to Welsch, Hilton and Gordon (1988), this budget shows the quantity of products to be manufactured. It is expressed in quantities only and it is usually the responsibility of the Production Manager. The objectives are,

(i) To ensure that production is sufficient to meet sales demand and,

(ii) That economic stock level is maintained.

2.5.3 DIRECT MATERIALS USAGE BUDGET

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According to Welsch, Hilton and Gordon (1988) stated that this represents an estimate of the materials which are required to meet the production budget. The objective of its preparation is to check excess material usage.

2.5.4 DIRECT MATERIALS PURCHASE BUDGET

According to Welsch, Hilton and Gordon (1988) again stated that this budget is the responsibility of the purchasing manger since he is responsible for obtaining the planned quantities of raw materials to meet the production requirements. The objective is to purchase these materials at the time at the planned purchasing price, and also for the maintenance of the planned raw material stock levels.

2.5.5 DIRECT LABOUR BUDGET

According to (Welsch, Hilton and Gordon, 1988), this budget is the responsibility of the managers for departments engaged in the production of the planned production quantity. These mangers will prepare estimates of the departments' labour hours which will be required to meet the planned production. The budget rate per hour is

determined by Industrial relations department for the various grades of labour that may exist.

2.5.6 OVERHEAD COST BUDGET

According to Welsch, Hilton and Gordon (1988), this shows all those major items of expense which are necessary to the running of the business but do not warrant a separate budget in their own right. The objectives of an overhead cost budget are, to identify those overhead items which make up the total overhead cost of the business, and secondly, to provide a basis for overhead recovery where this is relevant to the needs of the business.

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2.5.7 THE MASTER BUDGET

According to Welsch, Hilton, Gordon (1988) stated this to be simply a summary of the various functional budgets. It is indeed the Budgeted Income statement and Balance Sheet. The Master Budget shows the budgeted profit or loss for a future period based on those budgets which make up or influence the profit or loss of the business, these being the Sales budget, Material Usage budget, Labour cost budget, overhead cost budget, Selling and Distribution cost budget, and the Capital Expenditure budget. It also shows a projected balance sheet indicating the assets, liabilities and equity at the end of the budget period.

The objectives of the Master budget are;

(i) To show a budgeted profit and loss statement for a future period based on an agreed fixed level of sales and the expenses relative to sales;

(ii) To show budgeted profit or loss for the various levels of sales, and

(iii)To permit the calculation of the major cost percentages relative to sales. Thus, management can see the budgeted net profit and be able to determine the adequacy of profit relative to sales and/or capital invested in the business.

2.5.8 THE CASH BUDGET

According to Hope and Fraser (2003), this shows:

1. The opening budgeted cash balance
2. The budgeted cash inflows usually month by month
3. The budgeted cash outflows, month by month
4. The closing budgeted cash balance.

To avoid financial difficulties, the cash budget should be carefully watched. The objectives of the cash budget are;

1. To unsure there is sufficient cash available when required
2. To spotlight any shortage of cash, so that remedial management action can be taken, eg. arrangement for loan
3. To spotlight any surplus of cash so that management is alerted and can look around for investment opportunities.

2.5.9 CAPITAL EXPENDITURE BUDGET

According to Hope and Fraser (2003), Capital budgeting involves the entire process of planning expenditure whose returns are expected to extend beyond one year. This is mainly for planning specific projects or investment decisions. Investment decisions occur when a decision maker has an opportunity to incur current costs in expectation of deriving benefits in the future.

Kaplan and Norton (2001), categorises investment decisions expected to yield future returns into five areas:

1. New Products or expansion of existing products
2. Replacement of equipment or buildings
3. Research and development
4. Exploration
5. Others – for example, acquisition of pollution control devices.

The benefits expected to be derived from these investments are uncertain. Uncertainty is the condition of not knowing the exact outcomes of alternate courses of action at the time decisions are made. Planning therefore minimises the risk of uncertainty.

Capital budgeting is important for the future well-being of the firm. It has long –term effects as management has to wait a long period before the outcomes of their action can be known, and also management commits funds for this period and thus becomes a hostage of events. Capital budgeting helps management to phase properly the availability of capital assets in order to have them come "on stream" at the correct time. Capital budgeting also helps management to arrange it's financing several years in advance to be sure of having the required funds since asset expansion typically involves substantial expenditures.

According to Kaplan and Norton (2001), successful administration of capital investments by a firm involves:

1. Generation of investment proposals
2. Estimation of cash flows for the proposals
3. Evaluation of cash flows
4. Selection of projects based upon an acceptance criteria

5. Continual revaluation of investment projects after their acceptance.

2.6.1 CONTROL ASPECT OF BUDGET

According to Horngren, Foster and Datar (2000), the control process follows the planning process, that is, once plans have been agreed, decisions are implemented and reports are prepared to determine whether events are going according to plans or not. The control process therefore involves three sequential, but inter-related stages;

1. The recording of actual performance,
2. The comparison of actual performance with expected performance,
3. The provision of regular feedback to allow continual monitoring of events.

Budgets then perform three basic functions. They indicate the future financial requirements/allocation, guide the corrective action when budgeted figures do not match the actual figures and serve as a basis for performance evaluation. The use of budgets to control a firm's activities in this way is called "Budgetary Control".

2.6.2 CONTROL THROUGH RESPONSIBILITY ACCOUNTING

According to Lucey (1996), responsibility accounting is a system of accounting that recognizes various responsibility centres throughout the organisation and reflects the plans and actions of each of these centres by assigning particular revenues and costs to the one having the pertinent responsibility. Responsibility accounting is implemented by issuing performance reports at frequent intervals which inform responsibility centre managers of the deviations from the budget for various items of expense. Performance Report is a general term that usually means a comparison of actual results with some budget. This budget may either be fixed or flexible. A Fixed budget can also be referred to as static or inflexible budget. This is a budget based

on one level of activity to which the various costs are related. Control of costs is difficult with a fixed budget because if actual is different from budgeted activity then the budgeted costs or yardstick costs, by which actual costs are measured and variance calculated for management information and action become meaningless.

A Flexible budget is a budget which shows several levels of activity – it is similar to a series of fixed budgets. Flexible budgets recognise the different behavioural pattern of costs in relation to the various output levels. This type of budget may be particularly useful for control purposes as budgeted costs would be available for comparison and control purpose for the actual output achieved.

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According to Marginson and Ogden (2005), the use of budgets as an antidote to role ambiguity has a powerful influence on managers' budgeting behaviour since it affects their commitment to the budget and in that way their level of self-reported performance.

2.6.3 BUDGETARY CONTROL AND STANDARD COSTING

According to Carr (1997), stated that budgetary control is facilitated where standard costing is in operation. Budgetary control relates expenditure to the person who incurs the expenditure so that actual expenses can be compared with budgeted expenses to afford a convenient method of control. Standard Cost however relates expenditure to a product or service.

Standard costs are the building blocks of a budgeting and feedback system. A Standard Cost is the unit concept whilst a budget is a total concept. Standard Costing enables deviations from budget to be analysed in detail. In other words, the

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variances of each responsibility centre can be identified by each element of cost and this is referred to as ``Variance Analysis``.

2.7.1 VARIANCE ANALYSIS DEFINED

CIMA noted that, "the analysis of variance arising in a Standard Costing system into their constituent parts".

Variances may be classified as:

1. Cost
2. Sales Margin

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Total Cost Variance Comprises:

a) Direct Materials Total Variance

b) Direct Wages Total Variance

c) Variable Overhead Variance

d) Fixed Overhead Variance

Total Sales Margin Variance Comprises:

a) Sales Margin Price Variance

b) Sales Quantity Variance

According to Lucey (1996), variances may be favourable, that is, where actual cost is less than standard. On the other hand, it may be unfavourable or adverse, that is, where actual cost is greater than standard, and it represents a loss.

The purpose of variance analysis is to provide practical pointers to the causes of off-standard performance so that management can improve operations, increase efficiency, utilise resources more effectively and reduce costs. It follows that overly elaborate variance analysis which is not understood, variances which are not acted

upon and variances which are calculated too long after the event do not fulfil the central purpose of the control system.

Ideally, variances should be detailed enough so that responsibility can be assigned to a particular individual for a specific variance. Cost control is made much more difficult if responsibility for a variance is spread over several managers: In such circumstances, it is all too easy to pass the buck. The overall objective of variance analysis is to subdivide the total difference between budgeted profit and actual profit for the period into the detailed differences (relating to material, labour, overheads and sales) which go to make up the total difference. The particular variances which are computed in any given organization are those which are relevant to its operations and will aid control.

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2.8.0 CHAPTER SUMMARY

This chapter defined some concepts relevant to the study. It reviewed some prior literature related to the study. The literature focused on the debates generated by the various authors on issues connected to the study. The study methodology as outlined in the next chapter sought to explore budget and budgetary control system in the achievement of the set objectives at Logs & Lumber Limited in Kumasi.

CHAPTER THREE

THE RESAERCH METHODOLOGY AND PROFILE OF LOGS & LUMBER LIMITED

3.0 INTRODUCTION

This Chapter is devoted to the means used to gather the required data as well as how such data gathered were analysed so that weaknesses in the budget and budget control system of Logs and Lumber Limited are revealed and corrected and strengths in the budget and budgetary control system reinforced. The gathering and analysing of data is also to help bring out consistency between budgets as prescribed in the literature and budget as practised in Logs and Lumber Limited.

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3.1 POPULATION

The study involved only one company in the timber industry, Logs & Lumber Limited. Administration, Finance and Production were used as the main data collection sources, though some other staffs of the company were interviewed. The questionnaire for responses was designed for heads of three departments namely Finance, Administration and Production since they play a key role in budget preparation. Head of the sales and marketing department and heads of some thirteen (13) staff members took the form of interview. The management was selected because they are involved in all the levels of budgeting.

3.2 SAMPLE

Timber industries in the country have the same aims and objectives in spite of their locations. Their mode of operations is similar if not the same. It is therefore prudent to choose one such industry for the purpose of the study.

For reliability and validity of the data it is reasonable to choose the Logs & Lumber Limited in Kumasi for the purpose of the research since what pertains in one timber industry may be the same or similar to the other industry elsewhere so far budget and budgetary control is concerned.

Purposive sampling was preferred since it deals with the main purpose of the study that is budget and budgetary control in Logs & Lumber Limited.

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3.3.0 METHODS OF SELECTION

For any research to be conducted there is the need to select an appropriate research method to suit the research that was being carried out. Since this research concerns people, some of whom are literates and illiterates, the best method used included a combination of the following:

(1) Interview

(2) Case study

(3) Questionnaire

(4) Observation

(5) Documentary source

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3.3.1 INTERVIEW

Interviews are characteristics of educational research. The conversation tries to extract information from the respondents who will help in gathering information for the research work. The people interviewed included heads of the sales and marketing department and heads of some thirteen (13) staff members. The management was selected because they are involved in all the levels of budgeting. Interview schedule was well tailored and systematically designed to get rid of irrelevant issues.

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3.3.2 QUESTIONNAIRE

The finance, administration and production staff of the company helped a lot in answering the questionnaire set to them by the researcher. All questionnaires administered were positively answered due to clear nature of the questionnaires and the simple and systematic manner it was prepared which facilitated the collection of the data needed for the project.

3.3.3 OBSERVATION

This technique was also employed which assisted the researcher to cross-check information gathered through the interview and questionnaire. The people mostly observed were staff of the production and account department.

3.3.4 CASE STUDY

Logs & Lumber Limited was specifically chosen for the research work. This is because there is inability to replace its old equipment/assets for production due to competitors' activities causing low sales turnover, overstaffing, ever-increasing overheads and inability to obtain external financing for its operations.

3.4.1 INSTRUMENT

Interviews, questionnaires, observations, case study and documentary source were instruments used to collect the needed information for the preparation of this work. To ensure effective research work, the intention with regards to the purposes of the work was made clear to the respondents and assured them of the confidentiality and anonymity of all the information given by respondents.

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3.5.1 DATA COLLECTION PROCEDURE

Relevant information was derived from primary and secondary sources.

(a) Primary sources: - Questionnaire was distributed to the Administration, Production and Finance on 20th February, 2009. I made a series of visits to the company and conducted interview with the financial controller, the general production manager, the human resource manager, the marketing manager responded to their questionnaire and returned them on 17th April, 2009. While that of the finance was taken delivery of on 11th May, 2009 and the use of budgeting in Planning (Long term and short-term) and as control devise.

These were supplemented with telephone calls to some manager to further explain or provide me with some technical data. Some information was released to me based on the assurance given them that the research was for academic purpose.

(b) Secondary sources: - Also information on performance or variance Reporting were obtained from the establishment's files and records, permission for which was given by the top management for the purpose of the study.

3.6.1 DATA ANALYSIS METHOD

The data collected was analysed by using qualitative data method to assess the extent to which the budget and budgetary control system in Timber Industry conforms to standards established by literary authorities as being necessary for an effective budgetary system.

Again, quantitative approached of data analysis was used; data collected was presented in tabular, graphical and narrative forms to ensure quick visual actual achievements of the company.

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3.7.1 VALIDITY AND RELIABILITY OF DATA COLLECTED

The data collected so far has a firm base and could be depended upon. This is because a number of research methods were adopted before arriving at the information written down. In most cases, interviews, questionnaires, observations and documentary approaches were employed. Under the interview, personal interaction with the real workers of the company took place, which eventually gave similar responses, which is a pre-requisite of a reliable data. In addition, management disclosed all necessary information and gave time for the researcher to meet the staff of the company as well to clarify issues. Moreso, the accountant made available relevant documents on budgets and variance reports for the past five years. Budget for the past five years which had been filed were brought to confirm the drawing of the various budgets. The researcher therefore, deems the data collected to be valid and reliable in accordance with his own observations and records obtained from the company's premises.

3.8.0 PROFILE OF LOGS & LUMBER LIMITED

LOGS & LUMBER LTD was incorporated as a private limited liability company on June 17, 1967 and commenced business on July 10, 1967. It was a sawmill purchased from Messrs Anglo African Timbers, the directors initiated the installation of veneer and plywood mills, which were completed in 1972. The expansion programme continued until 1999 when the company became the leading producer and exporter of wood products in Ghana.

The company produces the following products;

a) Lumber

b) Rotary and sliced veneer

c) Plywood

d) Finger jointing and moulding

e) Lamination

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3.8.1 LOCATION

The headquarters of the company is in Kumasi on the Lake Road Industrial Area in the Ashanti Region of Ghana. It also has shipping offices in Takoradi in the Western Region of Ghana. The headquarters, which also houses the production units, is sited on a land of about ten (10) hectares.

3.8.2 DIRECTORS

A three member Board of Directors runs the company, they are responsible for the long term planning and management of the company. The Board is made up of:

a) William John Bitar (Owner and Shareholder/Director)

b) Avedis Jeghalian (Managing Director/Director)

c) Frank Addo (Director)

The company shares formally stood as:

William John Bitar is presently holding 100% shares. The company has an employee population of 1,227. The Managing Director, Mr. Avedis Jeghalia is responsible for the day to day running of the Company. The Board meets quarterly to review and discuss policy, administration and managerial issues pertaining to the running of the company.

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3.8.3 ORGANISATIONAL STRUCTURE

The apex of the management structure is occupied by the Managing Director, the following line managers' work under him;

a) General Manager

b) Forest Co-ordinator

c) General Production Manager

d) Chief Engineer

The specific job schedules of the divisional heads are detailed below;

General Manager

a) In charge of General administration, personnel and financial management of the company

b) Managing budgets and ensuring effective budgetary control system

c) Preparation of monthly, quarterly and annual financial reports for the Board of Directors

d) Provides advice on all financial and administrative matters.

Forest co-ordinator

a) Provides assistance to the Managing Director in the procurement of raw materials (logs) for the company in collaboration with the production manager

b) Day to day management and administration of permits and purchases of raw materials (logs)

c) Co-ordinate managerial and administrative matters relating to staff engaged in raw material (Logs) procurement as well as transport and logistics

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General Production Manager

a) Responsible for production planning

b) Schedule and execution of all sales contracts

c) Co-ordinates activities at all levels of production

Chief Engineer

a) Co-ordinates the activities of the Mechanical, Electrical and civil/Construction sections

b) Responsible for the design and fabrication of machinery and equipment according to the company's requirements and specification.

3.8.4 THE COMPANY'S MISSION

The mission of the company as stated in 1967 and which continues to guide the company's management is as follows:

To harness forest resources and process them into semi-furnished and furnished products for both external and internal markets.

3.8.5 MARKETING

The company operate in a very competitive environment, competing with firms such as Mim Timbers, Bomplex company Ltd, Bibiani Logs and Lumber Ltd and Timbers. The company does not only market its product in the local market but exports some of its products to foreign countries such as the United Kingdom, the United States of America and Lebanon. Its Takoradi branch is the Warehouse for export of product to other countries.

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3.9.1 SUMMARY OF CHAPTER

This chapter explained the procedures that were employed to collect the field data for the analysis component of the study. The adoption of both qualitative and quantitative techniques in the data collection was to ensure cross checking and confirmation or otherwise. Due to resource constraints the sample size was limited to fifty (50) respondents and all were selected from Logs & Lumber Limited and also to only three departments which were Administration, Finance and Production which were most concerned with budget preparation. A combination of observation and structured questionnaires were employed to collect the field data for the study. The analysis of the field data is presented in the next chapter.

CHAPTER IV

DISCUSSION AND ANALYSIS

4.0 INTRODUCTION

This chapter deals with the findings and discussions of the study based on the information collected through questionnaires, interviews and documentary sources. Every effort is made to answer the research questions as succinctly as possible in accordance with the responses given by the respondents.

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4.1 ANALYSIS AND DISCUSSIONS ON THE PLANNING AND THE BUDGETING PROCESS IN LOGS & LUMBER LIMITED

The study revealed that various planning activities take place at the various levels of management in the company and all these centre on the Accounting Department. Central to these efforts is the use of budgeting.

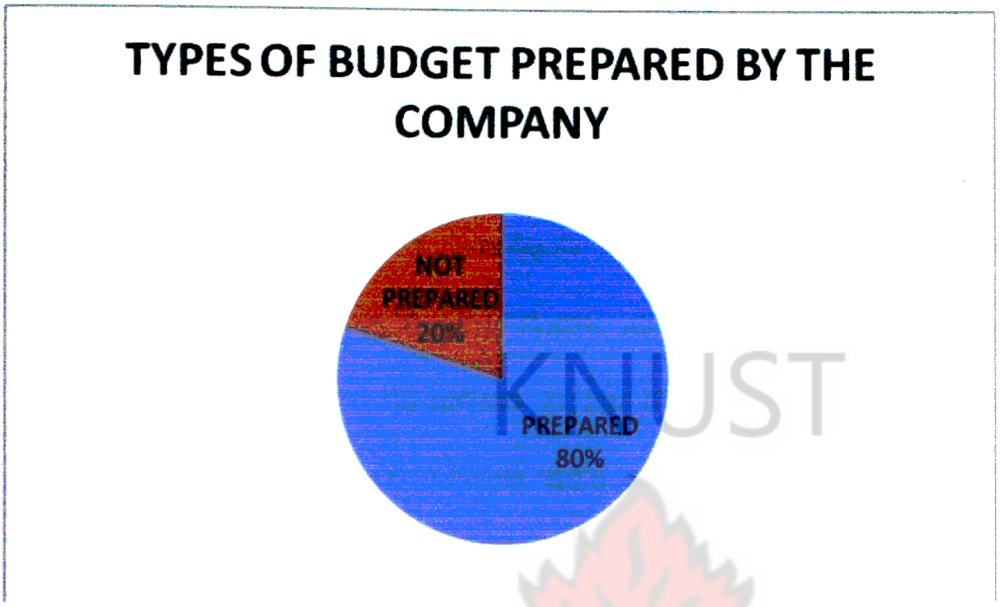
The main budgets prepared in the company are as follows:

1. Sales budget
2. Production Budget
3. Material Usage Budget
4. Purchases Budget
5. Direct Labour Budget
6. Production Overhead Budget
7. Selling and Distribution Expense Budget
8. General and Administration Expense Budget
9. Cash budget
10. Capital expenditure budget

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All the 50 respondents agree that the company prepared the above budget with the exception of the cash and capital expenditure budget.

Figure 4.1



From figure 4.1, it shows that the company prepares 80% of the budgets stated by the researcher as shown in appendix 1 at page 64.

4.2.0 ANALYSIS AND DISCUSSIONS ON BUDGET PREPARATION PROCESS IN LOGS AND LUMBER LIMITED

The company uses a system of standard costing in its budget preparation.

At the beginning of the year, the Accountant is required to set cost standards for the year. He thus writes a memorandum requesting for input data from the following departments:

1. Technical
2. Industrial Engineering
3. Procurement

The Technical Manager submits updated or current specifications on materials and products. The industrial Engineer submits current or updated standard production hours for the various stages in production based on time and motion studies. The Procurement Manager submits a current or updated list of purchase prices of materials based on pro-forma invoices received from suppliers.

The industrial Engineer, apart from furnishing standard production hours submits an annual production budget in units drawn on the basis of the efficiency of the machinery and available manpower at the time. The production budget shows production quantities of the various sizes of lumber, plywood and others to be produced, and expected operating days per month for the year.

The Accountant uses these pieces of information from the departments outlined above to prepare standard costs for Material and Labour. For production overheads cost standards, the Accountant compiles the previous year's actual overhead expenditure and upon the instruction or advice of the General Manager this historical overheads expenditure is upgraded by a factor to cater for inflation or changes in market trends.

The standards set for material, labour and overhead are used to compute the standards cost of product – Lumber, Plywood, Sliced Veneer, Rotary Veneer, Moulding and F/J and Lamination. The Standard Cost of products forms the basis for fixing selling prices, and this the Accountant does by adding an estimate for selling and distribution expenses, general and administration expenses and a margin

to the standard cost of each size of Lumber, Plywood, Sliced Veneer, Rotary Veneer, Moulding and F/J and Lamination.

4.2.1 SALES BUDGET

This budget is prepared on monthly basis at the beginning of the month. Although this is the responsibility of the Sales Manager, the planning and decision on the quantities involve a committee. This committee comprises the Sales team, Technical Manager, Factory Manager, Production Manager and Production scheduling Manager. This meeting is referred to as "Sales Ticket Meeting" and it considers many factors including the current operating conditions of the production facilities in drawing the budget or 'ticket' for the month. 'Ticket' is a terminology used in the establishment to mean 'budget' in quantities.

4.2.2 PRODUCTION BUDGET

Once the Sales 'ticket' or budget has been set, another committee comprising the Factory Manager, Production manager, Technical Manager, Production Scheduling Manager and Chief Engineer derive the production budget. This is also a monthly affair and it follows the Sales Ticket Meeting. This Committee meeting is also referred to as "Production Ticket Meeting".

4.2.3 MATERIAL USAGE BUDGET

This is primarily for accounting department use. It is set by applying the standard cost for material established for the standards period to the standard material specification for the quantities in the production budget.

4.2.4 PURCHASES BUDGET

At the beginning of the month, a meeting called "Critical Material Meeting" is held. This meeting comprises the Procurement Manager, Stores Manager, Technical Manager, Factory Manager and/or Production Manager. The main purpose of this meeting is to review the inventory position as is necessary to support the Production budget or 'ticket'.

The report from this committee meeting (Critical Materials Meeting) shows the stock level of every raw material item in inventory, number of days supply, whether or not any new purchase is required to replenish stock to sustain production. This report is the Procurement Manager's authority to initiate fresh orders for materials.

4.2.5 DIRECT LABOUR BUDGET

This budget is primarily for accounting department use. It is established by applying the wage rates obtained from payroll and /or Industrial Relations to the Standard production hours submitted by the Industrial Engineer through operation standard Sheets.

4.2.6 PRODUCTION OVERHEAD BUDGET

This budget is also established for accounting department use only. It is established at the beginning of the year, and it is set by increasing the historical overhead cost for the previous year by some factor. It is the responsibility of the accountant.

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4.2.7 SELLING AND DISTRIBUTION EXPENSE BUDGET

This budget is prepared to enable the accountant fix the selling prices for the firm's products. It is set by upgrading the historical selling and distribution expenses for the previous year by some factor determined by the Accountant. It is the responsibility of the Accountant.

4.2.8 GENERAL AND ADMINISTRATION EXPENSE BUDGET

This follows the same procedure as for Selling and Distribution Expense Budget. It is also set by the Accountant, and it is the historical cost upgraded by some factor.

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4.2.9 CAPITAL EXPENDITURE BUDGET

The establishment does not prepare any Capital Expenditure budget for plant/asset expansion, and the like. However, during the year when it is found to be necessary to purchase any asset, the Production Manager initiates a request on a prescribed form called 'Mechanical Order Request' (M.O.R), or Mould and Equipment Appropriation Request (MEAR). This request must be approved by the Production Manager, Accountant and the Managing Director. Once approval has been given, a purchase order is initiated for its purchase by the Procurement Manager. The approval of the MOR or MEAR is not done at a meeting but separately and sequentially from Production Manager, Accountant to the Managing Director.

4.3.0 ANALYSIS AND DISCUSSIONS ON HOW BUDGETS ARE USED AS CONTROL SYSTEM IN LOGS AND LUMBER LIMITED

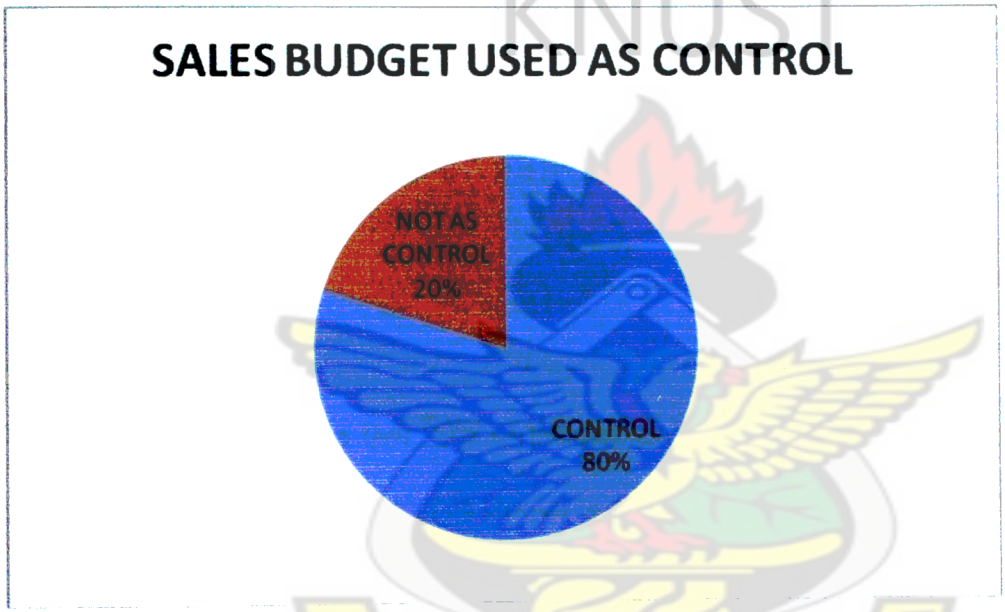
The research work revealed that the following budgets are used as control systems in the company:

4.3.1 SALES BUDGET

This budget is primarily used to rather identify shortfalls in production targets month by month. Actual sales volume is compared, not with the monthly sales 'ticket' or budget but rather with the monthly production 'ticket'' or budget.

Out of 50 respondents to the questionnaire, 40 of them agreed that the sales budget is used to compare actual with budgeted sales.

Figure 4.2



From figure 4.2, it shows that 80% of the respondents agreed that the company uses the sales budget as control as shown in appendix 1 at page 64.

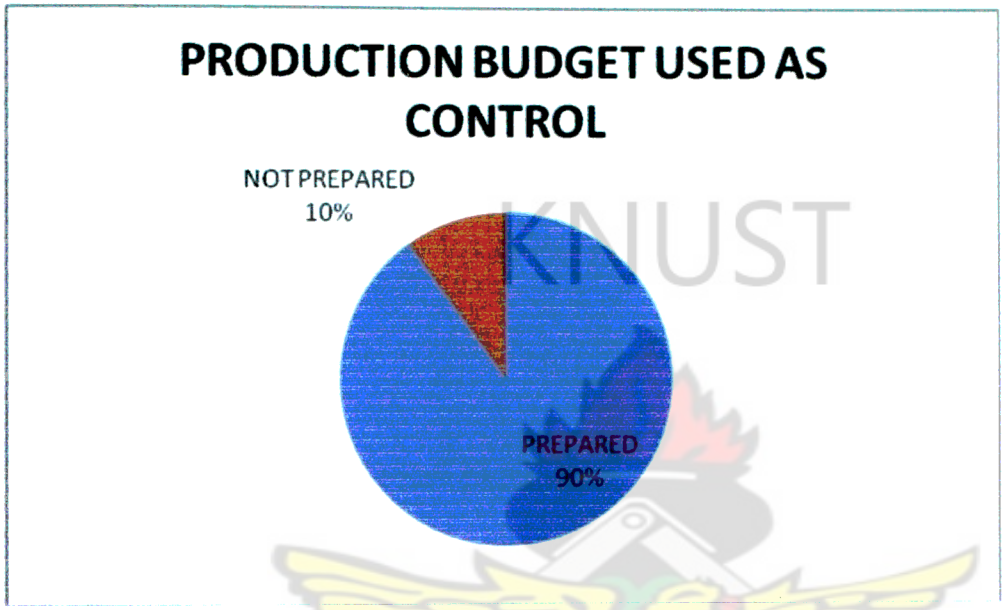
4.3.2 PRODUCTION BUDGET

The 'Production Ticket' set out at the beginning of the month is to guide what is to be produced during the month. This production budget/ticket is revised at the close of the month to coincide with the actual production achieved. It is presumed that the production achieved is the maximum achievable in the face of production bottlenecks

which are generally accepted to include poor state of machines, shortage of material owing to illiquidity position of the firm.

Out of 50 respondents to the questionnaire, 45 of them agreed that the production budget is used to compare actual with budgeted production.

Figure 4.3



From figure 4.3, it shows that 90% of the respondents agreed that the company uses the production budget as control as shown in appendix 1 at page 64.

4.3.3 DIRECT LABOUR AND PRODUCTION OVERHEAD BUDGETS

It has already been mentioned that these budgets are set by the Accountant based on information from the Production Manager and historical information obtained from the accounting records. At the end of each month, the accounting department issues a Control Report referred to as 'Factory Departmental Operating Report'.

This report is designed primarily for use as a cost control/cost reduction tool and performance yardstick for the Factory Manager/Production Manager. It compares actual expense against budgeted/targeted cost. The variable target represents the minimum cost for the actual production attained.

The report covers targeted and actual results for the following:

a) Enrolment Statistics

b) Current Month Targets

c) Current Month Actual Expenditures

d) Current Month Gains or Loss

e) Average Month Actual year – to – date

f) Total year – to – date

g) Departmental Statistics for current month

The report shows performance by way of

a) Direct Labour

b) Indirect labour

c) Supervision and Clerical duties

d) Allowances

e) Premium Overtime

f) All other Expense items

This report is sent to every department manager through the production Manager who is expected to demand explanations or comments on deviations from targets.

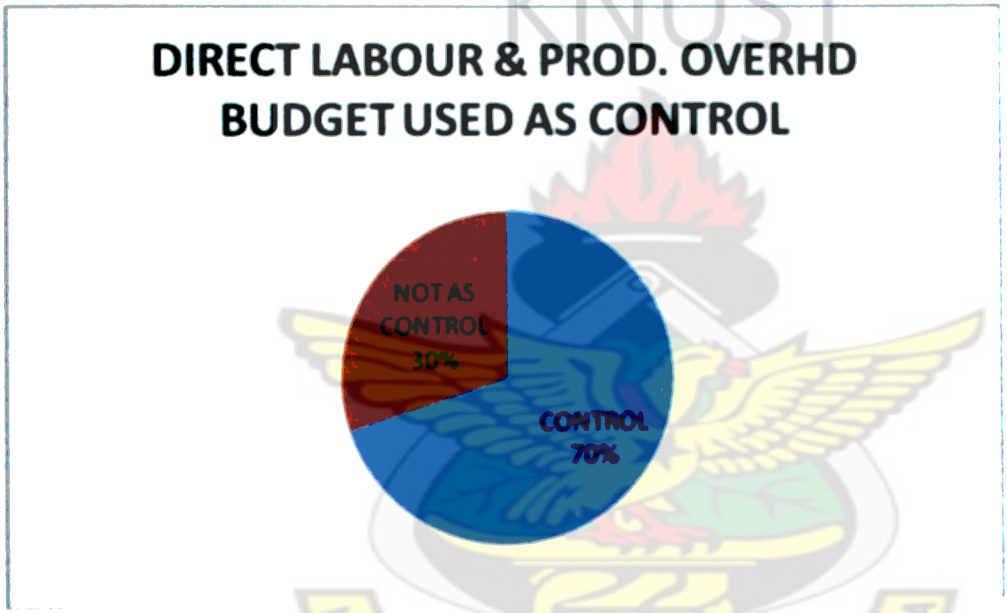
The Factory Departmental Operating Report relates to individual departments. However, there is another control report called 'Factory Operations Reports' which is a summarized statement of all the details contained in the individual Factory Department operating reports. The report is designed for use as a cost control and cost reduction tool for the various levels of management.

It provides the Factory Manger with a before – the – fact preview of what the costs will be if the target production level is achieved. It also provides a facility for tightening production department targets where warranted. It is prepared on monthly

basis by the Accountant, and it compares actual expenditure of direct labour and overhead line items against targets/budgets. For this, the Accountant has the responsibility of writing an explanation or comments letter on deviations from the standard or budget.

Out of 50 respondents to the questionnaire, 35 of them agreed that the direct labour and production overheads budget is used to compare actual with budgeted overheads cost.

Figure 4.4



From figure 4.4, it shows that 70% of the respondents agreed that the company uses the direct labour and production overhead budget as control shown in appendix 1 at page 65.

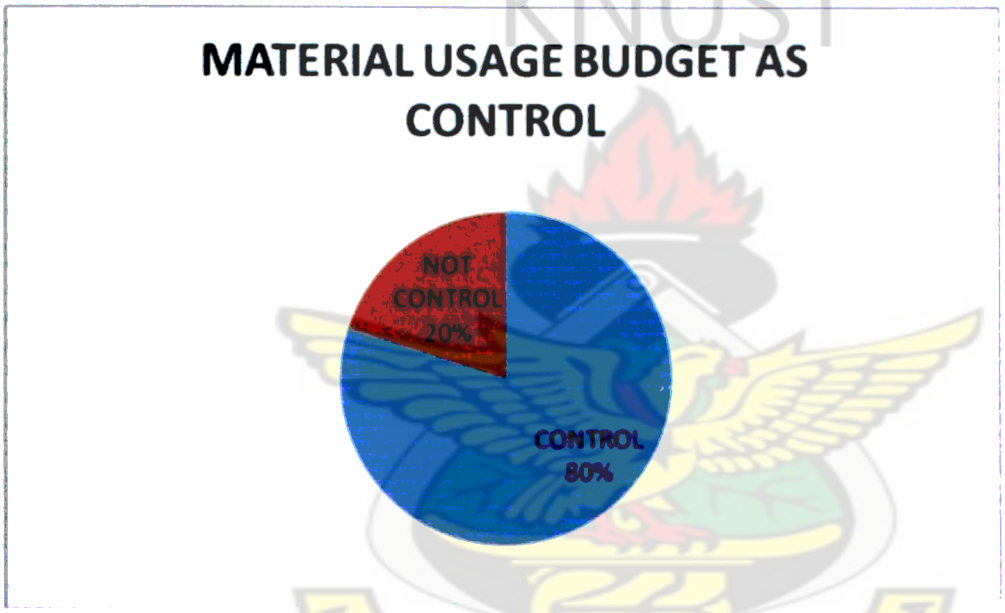
4.3.4 MATERIAL USAGE

This is another control report and it is prepared by the accountant every month. The report is directed to the General Manager. It is primarily designed as a cost control/cost reduction tool. The Material Usage Report matches actual material used with standard material provisions. The difference between these is explained by

excess wastes/scraps generated in the production process on various components. The actual waste/scrap generated is compared with standard provisions and any deviations are highlighted by the report. Any difference shown by this comparison is termed "Unaccounted for Material" and may represent an unfavourable variance or material lost in production.

Out of 50 respondents to the questionnaire, 40 of them agreed that the direct material usage budget is used to compare actual materials lost with budgeted.

Figure 4.5



From figure 4.5, it shows that 80% of the respondents agreed that the company uses the material usage budget as control shown in appendix 1 at page 65.

4.4.0 ANALYSIS AND DISCUSSIONS ON HOW BUDGETS ARE USED IN VARIANCE REPORT

The research work revealed that budgets are used in the preparation of the variance report:

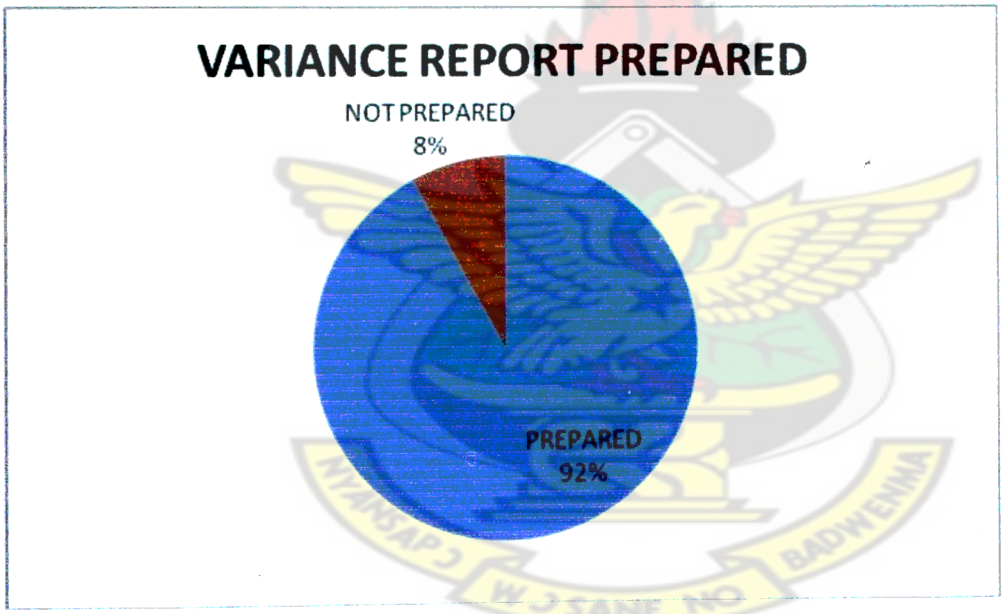
4.4.1VARIANCE REPORTING

Apart from the individual control reports on Material Usage, Direct Labour and Overhead as already described, the Accountant prepares a summary report on all variances. This is called "Variance Report".

This report is an all-inclusive report as it highlights all variances incurred for the month. It also shows cumulative or year–to–date figures on the variances on all elements of cost material usage, direct labour and overhead.

Out of 50 respondents to the questionnaire, 46 of them agreed that the company prepares the variance report to guide management in decision making.

Figure 4.6



From figure 4.6, it shows that 92% of the respondents of the company agreed that the company prepares the variance report as shown in appendix 1 at page 65.

4.5.0 SUMMARY OF THE CHAPTER

This Chapter analysed the data collected from the administration, finance and production staff of Logs & Lumber Limited to evaluate the use of budget and budgetary control system in the company. The parameter set for the purpose of this

study is to evaluation the budget and budgetary control system in Logs & Lumber Limited was analysed bases on the data collected. This has set the scene for the next chapter which is dedicated to the research summary, recommendations and conclusions.

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CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS, AND CONCLUSIONS.

5.0 INTRODUCTION

The first section summarizes the findings of the study. Recommendations are presented in the second section. The third section provides suggestions for further research, whilst the forth section concludes the chapter.

5.1. SUMMARY OF THE MAIN FINDINGS OF THE STUDY

The study revealed that the company does not prepare cash budget let alone using it in its budgetary control system.

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The company does not operate the Capital Budgeting system. This attitude may not constitute a proper financial management. The firm's cash position is disrupted when it decides to finance any project from funds not previously planned for and therefore allocated to such a project. The accountants' reason for not preparing and using this type of budget is that before any capital item is procured, it must be approved first by the authorities who may consider fund availability, among others. Though this seems quite ideal, it should be noted that the fact that expenditure has been approved to be incurred may not necessarily mean that it is ideal to incur it this month or the next. Again, an asset may not necessarily need to be acquired simply by reason that cash balance currently is positive.

The budgets which are prepared are hardly harmonized or consolidated into a Master Budget.

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A review of the Variance Reports over the period typically showed unfavourable variances on Material Usage, Direct Labour and Overhead. Reasons underlying this general unfavourable situation have been explained to include poor state of machines and shortages of materials and these reasons make the Report become a routine one since the causes of the deviations or variances are known in advance. However a further inquiry into their causes could suggest that standard or budget provisions should be revised to reflect present state of production facilities if these are to be considered normal. This would enable the use of the standard or budget as a tool of control.

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It again came out that many committees are involved in the formulation of various budgets such as the Sales budget and the Production Budget. It appears however that the work of these committees end with the preparation of their budgets.

The study revealed that the company has no budget manual. Even though various budgets, as already discussed, are prepared, these depend very much on the experience and ingenuity of managers involved.

It also came out that the company's budgets, apart from those for Sales and Production which are set in units, are kept under lock and key or with the accounting department. This procedure usually does not effectively involve managers whose departments these budgets ultimately affect (especially with expense/overheads budget). Where managers are not actively involved in the setting of their own expense budgets, they are least motivated to appreciate the impact of any budgetary information on them.

It was quite clear throughout the study that several of the managers who otherwise are required to use budgeting in planning and control lack a general appreciation of the technique. The feeling generally among managers is that budget preparation and use are accounting routine functions.

It was revealed that the company emphasizes short–term planning and budgeting without long-range plan. Although this is essential, it may not be sufficient.

The setting up of the minimum level of achievement does not imply that the departmental managers will achieve what has been set. Achievement of the desired budgetary result may be due to increased demand for the firm's product and other environmental factors, which the departmental managers may not be able to influence. With this, it is recommended that the minimum rate of achievement should not be encouraged but rather, managers must be made to achieve targets, which are commensurate with the resources allocated to them. This is a way to check the building of slack into budgets especially the departmental ones and for that matter the overall master budget.

It was revealed that some of the performance figures inaccurate. These inaccurate figures underestimate the real performance of the firm (LLL).

It was revealed that the budget structure was not flexible. The budgetary control system is so rigid on the grounds that it does not allow departmental managers to give in their best.

5.2 RECOMMENDATIONS

Owing to the importance of cash budget, it is recommended that the management should embrace the idea of its preparation each time budgets are to be prepared. The objective of the Cash budget is to ensure that sufficient cash is available at all times to meet the level of operations which are outlined in the various budgets. Without a

cash budget, it may be difficult to manage a firm's cash. For instance, surplus balances indicate to management an investment opportunity. Alternatively, cash deficiencies can be identified in advance and steps can be taken to ensure that loans/advances will be available to meet any emergencies.

It is recommended that capital assets must be planned for properly in order to have them on stream at the correct time. Also, because Capital Budgeting is not carried out, it may be difficult for the company to reappraise or review any project once it has been approved despite the fact that prevailing conditions would have changed.

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The Master Budget is significant to management as it gives information involving attention, directing and problem solving. It assists management to determine whether or not the profit figure that comes out in the end is satisfactory. If not, it gives management the opportunity to revise its estimates towards achieving overall company objectives. Another importance of the Master Budget is that it enables various management ratios to be established so that Management could assess the liquidity, solvency or profitability position of the firm. The budgeted financial statements can also be a yardstick for measuring actual financial statements which may be prepared month by month or at the year end. Deviations shown by this comparison will point to Management areas where attention needs to be directed to improve profit. It is therefore recommended that the Master budget should be prepared by the company.

It is recommended that top management needs to show high interest in the Variance Control Report and others which are generated by the budgetary control system by

ensuring that variances or deviations are adequately followed-up for explanations or comments from responsible managers as an attempt to avoid or minimize the recurrence of the deviations in future. Unless this is done, such reports will be thrown into disrepute and management has no signals when danger is imminent and this may be suicidal. Consequently the budgetary control system may not yield much benefit to management as a user.

It is recommended that a permanent committee made up of the functional heads be formed and called a Budget Committee with an Accountant as the Budget Officer. The Chairman of this committee, it is suggested should be the Managing Director. The budget committee will review all budgets and make recommendations to top management for their revision or acceptance. Also, the committee will review periodic reports which tend to compare actual performance with budgeted results and thus make diverse recommendations to guide top-management decision-making.

It is recommended that a budget manual be written by the Accountants to guide future practices. The budget manual will contain all the instructions and procedures required for the proper preparation of budgets and will serve as a rule book and a source of reference for the implementation of a budget program.

It is recommended that budget implementation consciousness must be increased among staff of the organisation. This is one way that budget implementation can be effective.

It is proposed that the accountants should draw up a programme which will tend to educate non-financial managers on budgeting. It is believed that when this is

carefully done, non-financial managers will be motivated to use the technique as a tool for planning and control.

It is recommended that individual heads of departments be made to set their own budget targets so that they will become committed to their achievement. In such a case, variances arising from the comparison of actual and budgets results may require their explanations or comments.

Again, the lower management must be involved in the preparation of the budget. They are the people who actually implement the budget. They know the important areas to concentrate and therefore when they are involved, their impact will help the implementation process. Again, the lower management will be more committed to the implementation since they are part of the preparation. They must be made to understand that other factors like competitors' action, changes in technology and others may cause a deviation between targeted and actual sales. This does not mean that the sales manager is inefficient but it may be due to the factors mentioned above which all staff must help find solutions to and prevent recurrences.

It is recommended that the company embraces the idea of Long–range planning. Long–range plans involve predicting the future. It may be asked, why attempt to predict the future –contending that it is not useful to spend time and money in trying to formulate plans which are likely to be wrecked by events beyond the planner's control. Why waste effort splashing in uncharted waters? Yet, it is just the very uncertainty of the future that emphasizes the need to formulate plans for all reasonably foreseeable contingencies so as to take maximum advantage of opportunities as they arise. To attempt to manage without a plan is to operate in a vacuum. Planning, it has been said, involves the development of future objectives and the preparation of various budgets to achieve these objectives. Hence there can

be no budget if there is no plan. Since no long–range plans are laid down in advance, it means there are no clearly–stated long–term goals and objectives which the organisation wants to pursue and to which controls could be directed. Without long-range plans and therefore long-term budgeting, it may become difficult to manage expenditure so that it becomes consistent with the available resources. Without planning, future financial requirements/allocations are not indicated; there is therefore no guide to taking corrective action as it may not be possible to match actual figures against budgeted figures and there may not be a basis for performance evaluation, hence losing the essence of control. Again, as the organisation does not prepare long-range plans, it may be difficult for management to identify the organisation's strengths and weaknesses; it becomes difficult too to initiate improvements. There is also a difficulty in the delegation of responsibilities as management does not know for sure "where it is going" and "how to get there". The absence of long-range plans also poses a difficulty in recognizing cost variances which would reveal the state of progress and direct attention for the minimization of losses. Further, long-range plans help focus the establishment's energies and resources on high-priority activities. Without it, the objectives towards which future operations should be directed are not known, but for planning, it is necessary that all objectives should specifically indicate the direction in which the resources of the organisation should be directed. When Long-range plans have been formulated or laid down they must be implemented. The budget thus, translates the long-range plan into an annual operating plan. The budget for LRP therefore forms the basis for the decisions taken in the preparation of the annual budgets.

Inaccurate figures imposing limitations. These inaccurate figures underestimate the real performance of the firm (LLL). LLL such underestimation is encouraged due to

the minimum rate of performance that managers must attain. As a recommendation, it is recommended that any increase above the allocation of budgeted resources demanded by any departmental manager must be justified. Also from the past budgeting revisions must be used to set very realistic budgetary targets which challenge departmental manages to put in their best.

Inflexible structures and budgets may cause problems. With inflexible structures I mean the budgetary control system in LLL is quite rigid on the grounds that it does not allow departmental managers to give in their best due to the minimum level of achievement that must be attained in every budget year.

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5.3 SUGGESTIONS FOR FURTHER RESEARCH

In view of the following observations made in this study, namely:

The company does not prepare a cash budget and the capital expenditure budget.

There was lack of sufficient participation in the setting of budgets by managers.

There is lack of sufficient follow-up by senior management in the form of supervision to ensure that targets are achieved.

There was lack of sufficient knowledge on the part of department managers with regard to budget targets set, further research is recommended to find out this problem and how to rectify the situation.

Also, the sample size of the study should be widened to cover a larger number of respondents. The same study could be carried out in other companies so as to get a broader picture of the budgeting process in other industries.

5.4 CONCLUSION

After having conducted the study on Logs & Lumber Limited and evaluating the findings the following conclusions could be made:

Budget and budgetary control is practiced in the Logs & Lumber Limited as a tool for management decision making. Generally, the firm has a good budget and budgetary control system in place. However, the system could be improved if the company were to prepare long term plan, the cash and capital expenditure budgets. Also, the company should educated non-financial managers and involve departmental managers in the budget preparation.

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Ghanaian managers ought to pay particular attention to their budget and budgetary control systems to increase productivity and efficiency and to ensure goal attainment.

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APPENDIX 1

ANALYSIS OF QUESTIONNAIRE

QUESTION/ALTERNATIVE RESPONSES	RESPONSE BY SAMPLE SIZE
1.What types of budgets are prepared by your company?	8
2.How are the following budgets prepared?	
3. Who is responsible for the preparation of the sales budget?	45
4. Who is responsible for the preparation of the production budget?	45
5. Who is responsible for the preparation of the material usage budget?	42
6. Who is responsible for the preparation of the purchases budget?	42
7. Who is responsible for the preparation of the direct labour budget?	40
8. Who is responsible for the preparation of the production overheads budget?	40
9. Who is responsible for the preparation of the selling and distribution expense budget?	36
10. Who is responsible for the preparation of the general and administration expense budget?	40
11. Who is responsible for the preparation of the cash budget?	-
12. Who is responsible for the preparation of the capital expenditure budget?	-
13. When are the following budgets prepared?	40
14. Does the company have the budget committee in place?	-
15. Does the company have the budget manual?	-

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16. Does the company have a strategic plan in place?	-
17. Are targets set by departmental managers?	42
18. Are workers educated on the budget targets to be achieved?	-
19. What types of budget are used as control system in the company?	40
20.How is the sales budget used as control of performance?	40
21.How is the production budget used as control of performance?	45
22.How is the direct labour budget used as control of performance?	35
23.How is the production overheads budget used as control of performance?	35
24.How is the material usage budget used as control of performance?	40
25.How is the selling and distribution expense used as control of performance?	35
26.How is the general and administration budget used as control of performance?	40
27.How is the capital expenditure budget used as control of performance?	-
28.How is the cash budget used as control of performance?	-
29. Does the company prepare the variance report?	46
30.Who is responsible for the preparation of the variance report?	46

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31.How often is the variance report prepared?	40
32.Who is the variance report prepared for?	50
33.Is the variance report shared with employees?	-

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APPENIDIX 2

QUESTIONNAIRE

(Designed for the Production Manager, Administration and Finance)

The following questionnaires related to a research project on the topic Budget and budgetary Control in the Timber Industry. With all emphasis this is purely an academic exercise and any information given would be treated as confidential.

Please attach to the questionnaire the budget estimates, actual output and the variances of your company cost of production (Raw materials, labour, overheads and general expenses) for the last five years of the firm's operations.

Planning and the budgeting process in Logs & Lumber Limited.

1. What types of budgets are prepared by your company?

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.....

Budget preparation process in Logs & Lumber Limited?

2. How are the following budgets prepared?

Sales budget
Production Budget
Material usage budget
Purchases Budget
Direct Labour Budget
Selling and Distribution Budget
General and Administration Budget
Production Overheads Budget
Cash Budget
Capital expenditure budget

OTHERS

3. Who is responsible for the preparation of the sales budget?

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4. Who is responsible for the preparation of the production budget?

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5. Who is responsible for the preparation of the material usage budget?

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6. Who is responsible for the preparation of the purchases budget?

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7. Who is responsible for the preparation of the direct labour budget?

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8. Who is responsible for the preparation of the production overheads budget?

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9. Who is responsible for the preparation of the selling and distribution expense budget?

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10.Who is responsible for the preparation of the general and administration expense budget?

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11. Who is responsible for the preparation of the cash budget?

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12. Who is responsible for the preparation of the capital expenditure budget?

.....

.....

13. When are the following budgets prepared?

.....

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14. Does the company have the budget committee in place?

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15. Does the company have the budget manual?

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16. Does the company have a strategic plan in place?

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.....

17. Are targets set by departmental managers?

.....

.....

18. Are workers educated on the budget targets to be achieved?

.....

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Budgets used as control system in the company?

19.What types of budget are used as control system in the company?

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20.How is the sales budget used as control of performance?

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21.How is the production budget used as control of performance?

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22.How is the direct labour budget used as control of performance?

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23.How is the production overheads budget used as control of performance?

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24.How is the material usage budget used as control of performance?

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25.How is the selling and distribution expense used as control of performance?

.....

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26.How is the general and administration budget used as control of performance?

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27.How is the capital expenditure budget used as control of performance?

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28.How is the cash budget used as control of performance?

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How is the variance report prepared?

29.Who is responsible for the preparation of the variance report?

.....

30. Does the company prepare the variance report?

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.....

.....

.31.How often is the variance report prepared?

.....

.....

32.Who is the variance report prepared for?

.....

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33.Is the variance report shared with employees?

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