

## PURPOSE FOR BUDGETING – LITERATURE REVIEW

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### **Abstract**

*This paper studies the literature regarding budgets and their importance within a company. In the current economic climate, companies are starting to pay more attention to efficient management of resources and, for this purpose, use budgets as tools for financial management at company's level and at the level of the main types of company's activities. So, the budget is the most important tool in conducting any activity successfully. A budget is the tool by which a company's management translates into action the corporate strategies and quantitative mission statements.*

**Keywords:** *budgets, budgeting, performance.*

**J.E.L. classification:** G31, G39

### **1. INTRODUCTION**

The existence, development and environmental adaptation of an economic entity generate a complex network of financial flows that define the general assembly of financial economics at both microeconomic and macroeconomic level, nationally and internationally. Developing a company must be based on knowledge of its capabilities, weaknesses and strengths as well as external macroeconomic environment. From these results it is absolutely necessary to develop an appropriate policy to ensure not only the maintenance of the business to a certain level but also for development in accordance with the changing economic environment in which it exists and operates.

For this policy to be as accurate and useful to executive bodies of the economic entity it must set clear financial goals to be achieved and to accurately scale capital needs that can be used cost-effectively. Also, such a policy must be geared towards the future and try to predict optimal financing possibilities depending on existing costs on raw materials, capital and finished goods markets in which the company operates.

To ensure a dynamic balance on both short and long term, the company's management is obliged to pay attention to how they are planned and carried out all financial processes within the company:

- capital needs assessment;
- finding funding opportunities;
- organization of raised capital using in the most efficient manner possible.

In the context of a competitive market economy, business activity should be conducted profitably according to a balanced relationship between revenues and expenditures.

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To conduct a profitable business the management of any economic entity has to predict expenses, receipts and payments for a certain period of time. This is why budgets have grown to be a primary tool for financial forecasting within economic entities.

In the current economic climate, companies are starting to pay more attention to efficient management of resources and use, for this purpose, budgets as tools for financial management at company's level and at the level of the main types of company's activities. So, the budget is the most important tool in conducting any activity successfully.

## 2. DEFINING BUDGETS

“Rigorous planning ...of any economic activity is an essential element for the success of those activities. Without planning the activity of any economic entity would detach from surrounding reality ...the capacity for provision and planning of any activities in a market economy conditions assures the survival and development of these activities”(Achim, 2009, p.33).

In general the term budget is seen as representing a list (a document) in which are placed face to face predictable revenues and expenditures of a particular economic entity, for a specified period. This approach corresponds to reality, but at a more detailed analysis, this expression reflects a methodological category specific to finance, seen as a scientific discipline. Under this, budget can be interpreted as a general finance specific methodological process through which, it highlights how formation and sizing of financial resources it is done in particular economic entities, on the one hand, and the distribution to various destinations of resources for the fulfillment of predetermined targets, on the other hand.

The budget is a planning document which contains a number of financial and / or nonfinancial information that refers to the activities that will take place in the future. Budgeting is the activity of recording financial and / or non-financial elements into the budget (Achim, 2009a). Blumentritt defines budgeting as “the process of allocating an organization's financial resources to its units, activities and investments” (Blumentritt, 2006), while Horngren et al. sees budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan (Horngren et al., 2004).

The income budget represents the financial estimation for sales of company's products and services and the expenditure budget is the financial estimation of resource consumption necessary to achieve company's objectives. So, the budget is a financial or quantitative statement, containing the plans and policies to be pursued during a specific time period (typically a year).

All decisions made at the company's level (technical, economic, organizational and others) result in affecting the existing financial balance and determine the need for a new balance, employing for this purpose changes in the level and structure of funds and resources needed to finance them. The new financial balance requires reliance on a higher level of financial indicators by budgeting. The income and expenditure budget is therefore the company's financial program with which it predicts revenues, expenditures and financial results of its activities, own funds and the loan, businesses relationships, payments to the budget and others.

Planning finances of a company is achieved through the process of budgeting the business activity. This is an operational plan on a given time horizon, usually one year, which includes forecasting revenues and expenditures of a company, additional capital needs and how to finance them and the main indicators characterizing the hoped efficiency. Even if the budget is a financial plan regarding future revenues and costs of a business, it is about much more than just financial numbers. Budgeting process involves choosing specific











