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BUDGETING OF BUSINESS PROCESSES – THE BASIS OF FINANCIAL ENGINEERING AND OPERATING ACTIVITIES OF AN ENTERPRISE

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- ▣ *Considering the fact, that financial engineering is a new instrument for modern Ukrainian companies. This article discusses the methodological aspects of budget implementation, a main element. The need of integration between budgeting and management is proven.*
- ▣ *Financial engineering, budgeting, "responsibility centers", management accounting.*

БЮДЖЕТУВАННЯ БІЗНЕС-ПРОЦЕСІВ – ОСНОВА ФІНАНСОВОГО ІНЖИНІРИНГУ ТА ОПЕРАЦІЙНОЇ ДІЯЛЬНОСТІ ПІДПРИЄМСТВА

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- ▣ *Враховуючи, що фінансовий інжиніринг для України є новим інструментом у системі управління сучасним підприємством, розкрито методичні засади організації впровадження його головної складової – бюджетування. Обґрунтовано необхідність виділення нових об'єктів обліку шляхом інтеграції бюджетування, «центрів відповідальності» та методів управлінського обліку.*
- ▣ *Фінансовий інжиніринг, бюджетування, «центри відповідальності», управлінський облік.*

БЮДЖЕТИРОВАНИЕ БИЗНЕС-ПРОЦЕССОВ – ОСНОВА ФИНАНСОВОГО ИНЖИНИРИНГА И ОПЕРАЦИОННОЙ ДЕЯТЕЛЬНОСТИ ПРЕДПРИЯТИЯ

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- ▣ *Учитывая, что финансовый инжиниринг является для Украины новым инструментом в системе управления современным предприятием, раскрыты методические основы организации внедрения его главного элемента – бюджетирования. Обосновано необходимость выделения новых объектов учёта путём интеграции бюджетирования, «центров ответственности» и методов управленческого учёта.*
- ▣ *Финансовый инжиниринг, бюджетирование, «центры ответственности», управленческий учёт.*

Statement of the problem

Fierce competition in constantly changing market environment requires a search for new instruments and methods of management of the enterprise. Financial engineering, which is based on budgeting and management accounting, is the newest among them. These facts determined the relevance of this research.

Analysis of recent researches and publications

Scientific, theoretical and methodological rudiments of engineering were elucidated in works of such foreign and domestic economists, as Abdikieiev N.M. [1], Blank I.A. [2], Vernikova H.V. [3], Medinskyi V.H. [4], Hammer M. [5], Harrington D. [6], Antoni R.J. [7].

However, considering Ukrainian conditions, which considerably differ from foreign practice, the need for investigation of possibilities of implementation of engineering in domestic enterprises appears.

Unsolved aspects of the problem, which are the subject matter of the article. There is no clarity in organizational principles of implementation of financial engineering in Ukrainian enterprises.

The goal of this article is to form organizational principles of the system of financial and managerial accounting, which will be the basis for informational support of financial engineering.

Presentation of the basic material

There is a fierce competition in modern market conditions. That is why enterprises must search for

or develop new and effective systems of management, which can provide both stability of existence, prevent crisis phenomena and the development of the enterprise. Financial engineering is the newest one.

I.A. Blank gives the following definition of this concept “Financial engineering – is a process of purposive development of new financial instruments or new schemes of financial transactions” [2].

The set of operations, which is constantly performed at both large and small enterprises can be defined as business processes that are controlled and managed by the system of instruments of financial engineering. The connecting link of business-processes is differentiation of the enterprise by the “responsibility centers”. Their managers totally control, make independent managerial decisions and bear full responsibility for their actions. This concept has been proposed in the 70th years of the last century by Hammer M. [5], Harrington D. [6] and is basic for domestic enterprises.

It is possible to manage business processes only under condition of planning of prospective operations by the business processes and drawing up relevant budgets.

The process of budgeting of the enterprise in the capacity of the budget process at the macro level has different interpretation in works of such economists as N.M. Abdikieiev [1], I.A. Blank [2], H.V. Vernykova [3], M. Hammer [5], R.J. Entoni [7]. Nevertheless, these interpretations coincide in the main thing - that this is the process of planning of future operations.

The system of budgeting at the enterprise is based on the concept of accounting by the “responsibility centers”.

In the context of management accounting one can define budget as a plan that shows the allocation of resources.

Budgets are divided into next three types depending on their period:

- 1) operative, which detail tactical budgets and are made for the period of work of one shift;
- 2) tactical, which detail strategic budgets and are made for a period of one month;
- 3) strategic, which are made for the long period and combine in themselves the most important types of the activity of the enterprise.

Basing on technological and organizational features, one can define main and general objectives of the budgeting.

General objectives include:

- development of business concepts;
- planning for a fixed period;

- coordination of the activity of various structural units;
- motivation of managers to achieve objectives;
- optimization of costs;
- control and assessment of the work of managers of units by comparing actual costs with standards.

Main objectives of the budgeting are:

1. Planning and control. The budget can be defined as detalization of the plan for the current period. Control finds its expression in comparing planned and actual figures with a detailed examination of reasons for their deviation.

2. Allocation of responsibility can be defined as delegation of responsibility for the committed costs and the resulting revenue and profit.

3. Optimization. It can be defined as the fact, that budget by itself provides limited use of resources.

4. Motivation of personnel can be defined as material incentives for the achievement of goals.

The system of budgeting performs next functions at the enterprise:

1) Function of planning. This is short-term forecasting of different versions of usage of resources for the achievement of certain goals, and also the process of formulation of specific tasks for the achievement of the set goals.

2) Function of accounting. There is a need to introduce management accounting, as its methodology provides obtaining of information on the structural units, types of products, responsible persons, and correlates planned figures with actual ones.

3) Function of control. Comparison of indicators of the budget planning with actual level makes it possible to detect deviations for implementation of regulation on the level of the use of resources.

Creation and functioning of the system of accounting by “responsibility centers” provides for:

- definition of “responsibility center”;
- budget preparation for each “responsibility center”;
- regular reporting on implementation of the budget;
- analysis of causes of deviations and evaluation of each “responsibility center”.

Budgets must give the opportunity to managers of the enterprise (firm, company) to conduct comparative analysis of work of different structural units, to determine among them the most effective ones for further development of business activity of the enterprise (coagulation of one and development of other types of business).

Budgets are the basis for making decisions about the level of funding of different businesses from internal (due to reinvestment of profits) and external (loans, investments) sources. Budgets should ensure constant monitoring of financial condition of

enterprise (company), provide its managers with all the necessary information, that helps to judge the correctness of decisions made by heads of departments, to develop measures for operational, tactical and strategic adjustment of their activity.

In economic literature and in practice of the activity of enterprises, intended budgets are classified in the following way: consolidated, functional, operational, financial, investment, short-term, long-term, flexible, continuous, annual.

All budgets of the enterprise are subordinated to consolidated budget.

Budgets can be made for the:

- 1) whole enterprise;
- 2) structural units;
- 3) individual projects, business - directions.

The system of budgets should cover all base of financial accounts of the enterprise. In the standard form this system includes:

- a set of principles and rules for the financing of the company;
- plan of investments;
- planning of financial results;
- liquidity planning (operational financial budget)
- drafting of the planned balance;
- planning of the report on the cash-flow.

The budget that covers general activities of the company is a general budget. The goal of the general budget is the result of estimates and plans of various structural units of the enterprise.

General budget consists of the following parts:

- financial (main) budgets – the budget of gains and losses; the budget of revenues and expenditures; the budget of cash flow; the forecasting (calculated) balance sheet;
- operating budgets - the budget of sales, the budget of direct material costs, the budget of administrative costs and others;
- auxiliary budgets - budgets of taxes, the plan of capital expenditures, the credit plan and other;
- additional (special) budgets – the budget of allocation of profit, the budget of individual projects and programs.

General budgets are intended to manage finance of the enterprise, to assess financial situation of the business for the fulfilment of administrative tasks that were discussed above. General budgets allow managers to have all necessary information for the assessment of financial opportunity of the business and investment attractiveness of the project. That is why it is mandatory to make all four general budgets for the sterling budgeting.

Operating and auxiliary budgets are needed primarily for linking of natural planning indicators (kg.,

pcs.) with valuable ones for more accurate budgeting, identifying the most important proportions of constraints and assumptions that should be considered when making the general budgets. If the set of general budgets is obligatory (for the serious organization of both financial planning and the whole financial management of the enterprise), then the structure of operating and auxiliary budgets may be determined by the managers of the enterprise (company).

Special budgets (additional and auxiliary) are required for better definition of targets and standards for financial planning, more accurate accounting of peculiarities of local (regional) taxation. The set of special and operational budgets can be determined independently by the managers of the enterprise (company) depending on the specificity of business activity.

Types of budgets are the instrument of budgeting.

Considering mentioned above, it can be concluded that implementation of budgeting is an innovative engineering project in the system of management of the enterprise.

Hence, budgetary management serves as operational system of management of “responsibility centers” through the budgets of structural units that provides the achievement of the set goals by means of the most effective usage of resources.

Budget management of the company includes the following engineering procedures:

- 1) forecasting of interrelated indicators of operational and financial budgets;
- 2) development of budget “regulations”
- 3) budgeting;
- 4) accounting methods that allow to compare actual results with the planned (forecasting or normative) indicators;
- 5) analysis of deviations between budget and actual indicators;
- 6) drafting of internal management reporting on budget execution results;
- 7) operative adjustment of detected deviations;
- 8) organizational procedures for coordination and adjustment of plans in case of necessity.

Enterprises create budget committees in order to manage budgeting.

Budget committee - a permanent team of managers, which is intended to develop internal standards of budgeting, monitoring its implementation and functioning, improvement and coordination of works of all services and units of the enterprise on organization and methodology of budgeting. As a rule, CFO manages the work of the budget committee.

One of the most important stages of the process of implementation of budgeting is the development of

documents circulation and the order of exchange of information, which connects all procedures and regulations of the budgeting in a single circuit of budgetary management. Regulations on budgeting is a set of instructions and regulations that represents technology, organizational structure of the enterprise, distribution of rights, obligations and responsibilities of executors on issues of budget management.

Regulations on budgeting includes:

1) appointed “responsibility centers” and responsible persons in all structural units of the enterprise;

2) norms of consumption of raw materials;

3) ratios of labor costs;

4) overhead ratios and the order of their distribution by types of products, works and services;

5) the schedule of circulation of documents and the procedure of exchange of information of structural units;

6) the composition of the budget committee;

7) definition of information database based on the registers of financial and management accounting;

8) internal reporting on processes of budgeting.

Thus, the construction of the system of budgeting at the enterprise includes following organizational stages:

1. Determination of the structure of the enterprise.

2. Determination of technology of budgeting with access to the “responsibility centers”.

3. Determination of formats of budgets - a set of items of incomes and expenses according to the “responsibility centers”.

4. The Development of accounting registers for the monitoring of implementation of budget indicators that were given to “responsibility centers”.

Thus, “responsibility centers” - is the field of activity in the scope of which there is a personal responsibility of the manager for indicators that are under his control.

The concept of centers and their accounting was formed in late 30th in the US, and was spread to other countries at the beginning of 50th.

The goal of accounting by “responsibility centers” was to strengthen the cost control by means of establishment of personal responsibility of managers at various levels for the use of resources. That is why the main requirement for the construction of such accounting is the process of decentralization of internal control.

Requirements for this control came up from the competitive and dynamic market environment, which can be characterized by the permanent change in supply of sources of raw materials, technologies

and means of labor, types of product etc. These facts sharply increase the number of management decisions, the number of operational information, reboots central body of management, and reduces the effectiveness of its activity. As a result, there is an objective need for decentralization and redistribution of power to make management decisions. The central body of management deals with strategic problems, and units - with operational management of production activity within their powers in the capacity of “centers of responsibility”.

The head of the central body must control the work of managers of “responsibility centers”. In turn managers, must conduct self-control and inform senior management about their activity.

Thus, informational support of both levels of management needs relative organization and construction of accounting. This problem can be solved by means of accounting by “responsibility centers”. Collecting of data on costs and revenues by these centers helps to detect deviations from the estimate (budget) and to allocate them to the responsible person.

Main requirements for the organization and construction of account by “responsibility centers” are next:

- clear definition of “responsibility centers” and accountability of their managers for each item of the estimate (budget);
- creation of signal system of accounting documents concerning deviations from norms and changes in norms of estimates (budgets);
- development of operational internal reporting for daily accounting of costs in terms of norms, deviations within norms, abnormalities and changes in regulations;
- development of schedules of document circulation that is supposed to provide prompt internal reporting on accounting indicators. This gives the possibility of assessing and monitoring, prediction and planning of activities of structural units (“responsibility centers”) of the enterprise and its individual managers.

Considering management objectives, internal reporting, that was mentioned above, can be classified according to the following three areas:

- responsibility centers;
- groups of products;
- customers (buyers).

Thus, the system of accounting of implementation of budgets by “centres of responsibility” is the new integrated object that combines indicators of budgeting (estimate) and accounting data on the actual level of the expenses and revenues.

It provides:

- definition of “responsibility centers”;
- budgeting for each center;
- organization and methodology of construction of operating accounting by “responsibility centers”;
- regular reporting on budget execution;
- analysis of reasons of deviations and evaluation of the center activity.

Hence, one can make a conclusion, that budgeting without allocation of “responsibility centers” is not real and loses any meaning.

Conclusions

The engineering is the new financial instrument of management for optimization of business-processes of operating activities of Ukrainian enterprises.

The goal of the engineering of operating activities is to provide breakeven. This can be achieved only through the introduction of budgeting of business processes by “responsibility centers” of costs and revenues.

The system of organizational support, which has been formulated in this research, is a prerequisite for the implementation of the engineering into the practice of management of modern Ukrainian enterprises.

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