

**THE ROLE OF BUDGET AS A TOOL FOR MANAGERIAL DECISION  
MAKING IN SMALL AND MEDIUM SCALE ENTERPRISES IN  
KUMASI.**

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## DECLARATION

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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### Supervisor's Declaration

We hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision laid down by Christian Service University College.

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## **ABSTRACT**

Budget and budgeting are the basic requirements for the proper functioning of organisations and institutions.

The objectives of the study is to find if management prepares a budget, the impact or relevance of budgeting in managerial decision making, what it costs management in preparing the budget, who are responsible for the preparation of the budget, how difficult it is to preparing the budget and how long it takes in preparing the budget in small and medium scale enterprises in the Kumasi metropolis.

The nature of the study calls for both primary and secondary data collections. The instruments used to collect data were based on sampling interviews and questionnaires. The analyses were presented with percentages and pie charts.

The study shown among other things that, the use of budgeting had improved planning and decision making processes in small and medium scale enterprises.

## **ACKNOWLEDGEMENT**

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## **CHAPTER ONE**

### **1.0 BACKGROUND**

The popular saying, failing to plan is planning to fail, is one which has great implication for the growth of any organization. This directly goes to say that, if an organization wants to make a good decision in order to increase production and achieving its goals, it has to draw up a plan in the form of a budget. Budget, according to Jean Wilson Murray, “is a financial document used to project future incomes and expenses”.

([biztaxlaw.about.com/od/glossary/g/budget.html](http://biztaxlaw.about.com/od/glossary/g/budget.html)).

Every organization survives by receiving some money from members, donors, fund-raising or selling of services - this is called income. Organizations also spend money to run its programmes and these are called expenses. The budget is a table which shows the actual amounts that the organization expects its expenses and income to be for a fixed period of time, such as one year. The budget tells how much the organization thinks it will need to do its work, where it hopes it will come from and how much money it still needs to find.

The budget is an essential tool to help management run a more effective organization. In the same way, the government needs to draw up an annual budget, to make sure that all plans and programmes are properly funded; an organization needs to prepare a budget in careful detail. Budgeting is part of planning, you start with setting your objectives, and then you draw up action plans and budgets.

Unless management know how much money it will need to carry out its plans, and where management expect to get that money from, management may end up halfway through the year with no money to go any further. Preparing a budget forces organizations to plan its



spending and fund-raising and to be realistic about what it can afford to do. Without a budget there can be no effective implementation.

### **1.1 PROBLEM STATEMENT**

Most organizations are likely to break-down midway due to failure to prepare a budget. The need to budget becomes very important for any organization before it begins production. The study is to be conducted to unearth the relevance of budget in managerial decision making.

### **1.2 RESEARCH OBJECTIVES OF THE STUDY**

- To know if management does prepare a budget
- To find out the relevance of budgeting in management decision making.
- To know what it costs management in preparing a budget.
- To know those who are responsible for drawing up the budget.
- To find out if it is difficult and how long it takes to prepare a budget?

### **1.3 RESEARCH QUESTIONS OF THE STUDY**

- Does management prepare a budget?
- How relevant is budget in management decision making?
- What does it cost the organisation to prepare a budget?
- Who draws the budget in the organisation?
- Is it difficult to prepare a budget and how long does it take to prepare a budget?

### **1.4 JUSTIFICATION OF THE RESEARCH**

The reason for the research is that, budget plays a bigger role in the success of every organization. Without budgeting, organizations will run at a loss, and even in a competitive

market, organizations that budget will always come out with better management decision which helps them get the greater market share. Budgeting helps management in taking decisions as to the raw materials the organization needs to produce the goods and services, where to acquire or purchase the raw materials, the quantity and quality of the raw materials to purchase and also the supplier to purchase from. Budget assists management to take decisions as to how to produce, where to produce, the quantity or units of the products that should be produced in a day, a week, or in a month. More also, budget helps in taking decisions on who is to do what. This is in the direction of the skill to employ to help in the production of goods and services in the organization.

Furthermore, budget also helps management in taking marketing decisions. The number of units that should be sold within a day, a week, and month are set in the budget. Research objective serves as a reference point for management to go back and say we have not done well, hence, make corrections.

However, budget assists the management to know how cash flows within the organisation and also, it helps them to adjust their expenses judiciously, in terms of going in for long or short term loan, budget helps start-up businesses to make such decisions in order not to run at a lose.

## **1.5 SCOPE OF THE STUDY**

The study involves an in-depth study in the role and importance of budget in decision making at management level in Small and Medium Scale Industries (SMEs) in the Kumasi metropolis from October 2012 to June, 2013.

## **1.6 SIGNIFICANCE OF THE STUDY**

The will highlight the role budget plays in Small and Medium Scale Enterprises in the Kumasi Metropolis.

## **1.7 LIMITATION OF THE STUDY**

- The time frame for conducting the study was limited; hence, some of the potential companies could not be contacted.
- Financial constraint in terms of transportation to some of the companies was a problem.
- Another limiting factor is conduction the study alongside other academic work.
- Some of the respondents did not answer some of the questions on the questionnaires.

## **1.8 ORGANISATION OF THE STUDY**

The study is organized in five chapters. Chapter one covers a general background of the study. These include the general introduction, definitions, statement of the problems, objectives of the study, research questions, and relevance of the study and the limitations of the study.

Chapter two consists of the literature review of the study; what writers and authority say about budget in relation to the study.

Chapter three comprises of the methodology that is the methods by which data is collected through primary data such as questionnaires, interview based on sample size. Also, is the use of secondary data, such as the internet.

Results from analysis of data collected from various sources and discussions constitute chapter four.

The final and concluding part which is chapter five is the summary and conclusion or recommendation of the research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Just as a ship that needs to be navigated properly to reach its destination safely, a Company needs a well-planned budget to help achieve its goals. The ship's log is like the previous budgets of the Company. Just as the Captain refers to the log to learn valuable lessons and avoid repeating mistakes, managers also use previous budgets to help set benchmark in light of current business conditions. Planning the ship's course in advance helps the Captain to expect and identify deviations from course and carry out salvage operations as early as possible. In the same way, preparing a budget helps the Company to meaningfully identify variances during the year.

(Axzo Press on Budgeting).

“Budgeting in a Company is like navigation in a ship. On the ship, the crew keeps a log of the happenings on and the position of the ship from hour to hour. The captain learns valuable lessons by studying the factors that caused misadventures in the past. But, to pilot his ship safely, he requires his navigation officer to plan the course ahead and to constantly check the position of the ship against the plan. If the ship is off-course, the navigation officer must report it immediately, so that the captain can take prompt corrective action. In addition, the navigation officer should be in a position to foresee possible obstacles and deviations and to minimize losses by taking early corrective action in case the ship is off-course.”

([www.docstoc.com](http://www.docstoc.com))

## 2.2 DEFINITIONS OF BUDGET

According to Chartered Institute of Management Accountants (CIMA) Official Terminology, a budget is defined as “a quantitative statement for a defined period of time, which may include planned revenues, assets, liabilities and cash flows. A budget provides a focus for the organization; aids the co-ordination of activities and facilitates control.” (www.docstoc.com)

To enhance understanding of the concept of budgets, the Australian National Institute of Accountant (NIA) provides two different yet quite extensive definitions of budget, offering different views on the purpose and form of a budget. The first definition has a big approach, emphasizing on the budget as a management tool, forming an integral and a necessary part of organizational stewardship. The second definition has a more immediate, functional approach within the overall plan.

**DEFINITION 1:** A budget is a comprehensive plan in writing, stated in monetary terms that outline the expected financial consequences of management’s plans and strategies for accomplishing the organization’s mission for the coming period.

**DEFINITION 2:** A budget is a master financial document or a “**blueprint for action**” that set out the expected contribution from the operation or control of an organization in terms of anticipated cash flows or revenues and expected expenditures over a certain period of time.

Blumentritt (2006), further explained that budgeting processes include a review and study of the prior period’s financial results, projections for sales, operating expenses (fixed, variable, and semi-variable) and financing expenses, examination of proposals for capital expenditures,

and means of rolling up and rationalizing figures from different functional departments to ensure they meet company-wide profit expectations.

On the other hand Wildavsky (1986.) explained budgeting as the process of preparation, implementation and operation of budgets decisions into specific projected financial plans for relatively short periods of time. In other words, budgeting is the process of “translating financial resources into human purposes” .Budgeting is also viewed as a process of identifying, gathering, summarizing and communicating financial information of an organization’s future activities.

### **2.3 CHARACTERISTICS OF BUDGET**

Various bodies authored by different people state agree on the following among others as being the characteristics of budgets.

**A budget is quantitatively stated:** The figures in the budget are expressed in monetary terms. However, the monetary figures are supported by non-monetary information such as units to be sold, units to be purchased and others.

**A budget is prepared in advance:** A budget must be drawn up before the period to which it refers. Figures produced during or after the period may be important, but they are not part of a budget.

**A budget relates to a particular period:** Generally, the budget is prepared for one year. However, in the case of a seasonal business, there may be two budgets for each year – a slack season budget and a peak season budget.

**A budget is a plan of action:** A budget is a plan because it concerns actions to be taken rather than a passive acceptance of future trends. Planning is the establishment of objectives and the formulation, evaluation and selection of the policies, strategies, tactics and action

required to achieve the objectives. Like all plans, budgets seldom turn out to be totally correct predictions of the future. Conditions may change during the budget period, which renders the budget to be inaccurate. Even so, budget is useful in guiding the actions of managers.

**A budget is an estimation or prediction of profit potential:** The budget set forth the expenses and revenues planned during the budget period and thereby reveals its profit potential. ([www.docstoc.com](http://www.docstoc.com)).

## **2.4 TYPE OF BUDGETS**

The end product of a budgeting process is a master budget. The master budget summarizes the objectives of all subunits of an organization. It quantifies the expectation regarding the future income, the financial position, cash flows and supporting plans. Cohen, Robbins and Young (1994) divided the master budgets into two primary components; operating budget and financial budget which they further described below.

**Operating Budget:** Operating budget consists of plans for all those income generating activities that make up the normal operations of the organization. The main components of an organization's operating budgets are sales, production, inventory, materials, and labor, overhead and research and development budgets.

**Financial budget:** Financial budget is used to control the financial aspects of the business. In effect, it reveals the influence of the operating budgets on the financial position of the organization and its earnings potential at end of the budget period. They include a cash budget, capital expenditure budget and pro-forma balance sheet and income statement.

According to CIMA Official Terminology 2005, there are several types of budget, depending on their purpose and they fit together in a cascade. CIMA Official Terminology describe those types as the following



**Master budget:** At the top of the cascade is the master budget, a suite of statements with strong similarity to the published financial accounts. This budget consolidates all subsidiary budgets and usually comprises the budgeted profit and loss account, balance sheet and cash flow statement. Senior management performance is often considered in relation to its effect on the balance sheet, profit and loss (P&L) or other financial information which is reported externally to investors and analysts.

**Cash budget:** This is a detailed budget of estimated cash inflows and outflows incorporating both revenue and capital items.

**Capital budgeting:** This is a process concerned with decision making in respect of specific investment project choices and the total amount of capital expenditure to commit.

**Operating budget:** This is the budget of the revenue and expenses expected in a forthcoming period. Budgets can include financial indicators such as cash, profit/loss, working capital and non-financial items such as staff numbers, orders and volumes of output. Progress is monitored regularly (typically monthly) by comparing actual performance against budget. Here budget holders explain significant favourable or unfavorable variances. Budget variance is described as: The difference, for each cost or revenue element in a budget, between the budgeted amount and the actual cost or revenue. Where flexible budgeting is employed, it is the difference between the flexed budget and the actual value.'

In addition to what has been mentioned above, there are also other types of budget which has been explained below.

**A survival budget:** This is the minimum required in order for the organization or project to survive and do useful work.

**A guaranteed budget:** This is based on the income guaranteed at the time the budget is planned. Usually the “guarantees” are in the form of promises from donors. However

unexpected situations, such as a donor grant coming through very late, may make necessary to switch to your survival budget.

**An optimal budget:** This covers what you would like to do if you can raise additional money. Once extra money comes in or is promised, it becomes part of your working budget.

**Activity based budgeting:** This method of budgeting is based on an activity framework. It uses cost driver data in the budget setting and variance feedback processes.

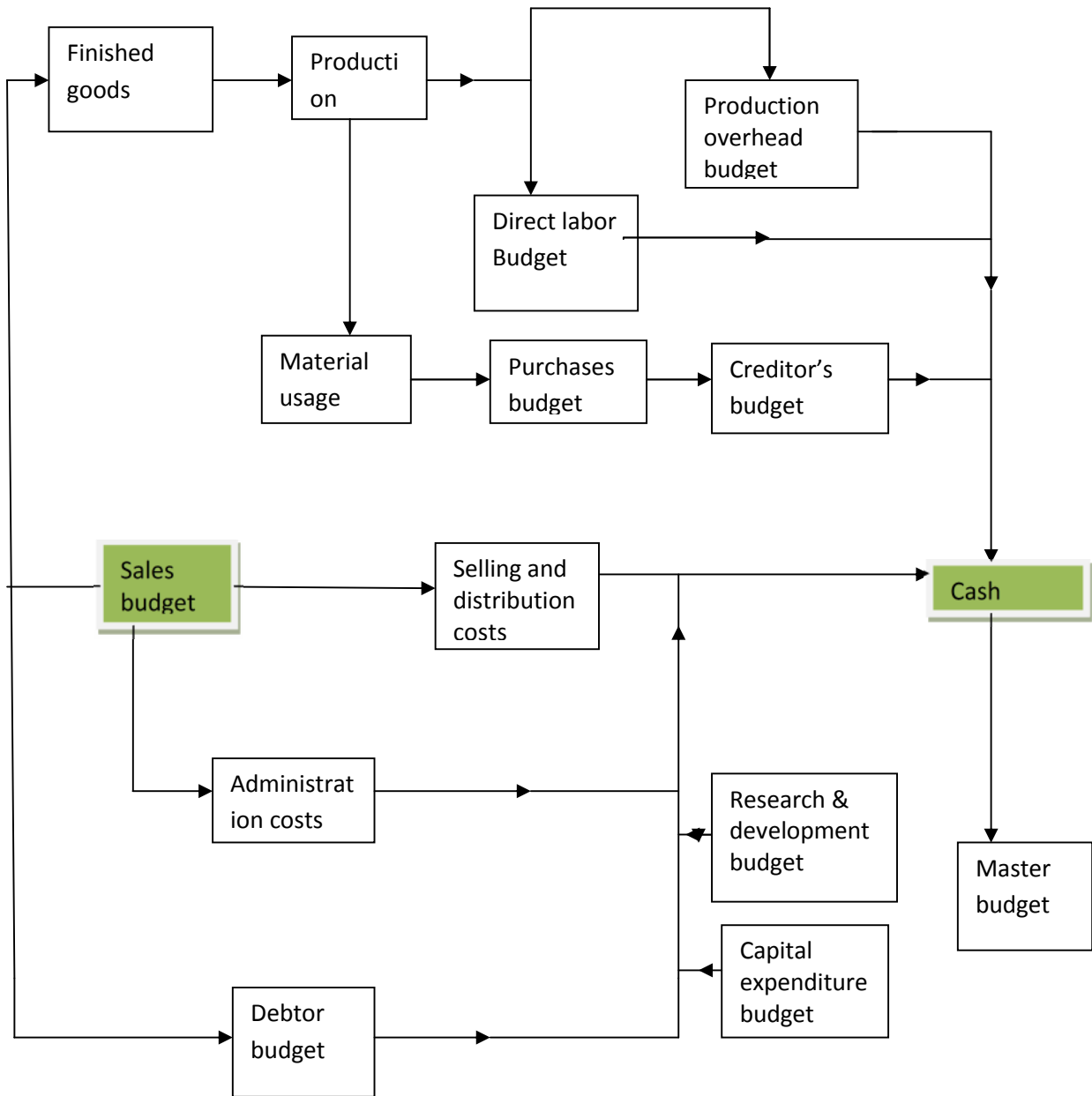
**Zero based budgeting:** This method of budgeting requires all costs to be specifically justified by the benefits expected. It is an alternative to incremental budgeting, where the budget is based on the previous period's budget or on actual results, and contains uplift for inflation or other known changes.

**Rolling (or continuous) budget:** Here the budget is continuously updated by adding a further accounting period (month or quarter) when the earliest accounting period has expired. Its use is particularly beneficial where future costs and/or activities cannot be forecast accurately. The purist position is occupied by beyond budgeting; a movement which believes organisations can manage without budgets. In practice, only one company (the Nordic banking group Handelsbanken) seems to have achieved this extreme.

The Balanced Scorecard, an approach which combines non-financial and financial control measures is widely used and has been postulated as an alternative to budgets.

The following figure shows how the different types of budgets as described above are connected within the larger system of the master budget. This illustration confirmed that each individual budget is dependent on one another, whereby during the preparation of budget, one cannot proceed further if the pre-requisite budget is not prepared. Thus, budgeting process is a systematic process, which shall be conducted in sequential and hierarchical manner.

Fig. 2.1 Major budgets and their relationship



Source: Banovic, 2005.

**2.5 THE BUDGET AS A TOOL FOR MANAGERIAL DECISION MAKING**

According to Modernizing Financial Management for Hungarian Local Governments Training Manual, budget serves as a statement of the decisions and responsibilities that translate into specific programs and activities. As a management tool, a properly designed

budget can help you achieve administrative efficiency, economy, and honest through business like behavior. The budget increases management responsibility and accountability.

A budget, if created and used properly, can provide valuable information about the direction, resources and expectations of the organization. Budget is described as an integral part of management control systems that aims at promoting coordination and communication among subunits within the company, provides a framework for judging performance and finally motivating irresponsible managers and other employees (Horngren et al, 2005).

The idea of multiple uses of budgets in organizations is not new. To serve as an effective tool, budget pursues different tasks such as planning, forecasting, controlling, coordinating, communicating, instructing, authorizing, motivating, delegating, educating, evaluating performance, facilitating decision making and managing subordinates. Hansen and Van der Stede (2004) describe how the qualities for an organisation determine the purposes of budgeting. Hansen and Van der Stede (2004) has explored many sources, either from the perspective of management accounting and control textbooks, academic research and practice, to generate a list of why organizations adopted budgets, particularly on its purpose and roles. They contended that each source creates a slightly different list, and it is difficult to determine the best list.

In firms the budget has historically had a control function (Libby & Lindsay, part 1, 2003), but today there are several objectives and purposes of the budget and the purposes vary among organizations. The reasons to why organizations have a budget are discussed by several authors such as: Arwidi (1991), Smith (2007), Ax et al (2009) and Bergstrand and Olve (1996).

Emmanuel, Otley and Merchant (1999) in their book on “Accounting for Management Control” explained that budget can act in different roles in organizations. Some possible roles involve budgets being used as a:

**Means of Forecasting and Planning:** One of the functions served by most budgets is that of forecasting and planning. Forecasting refers to the prediction of events over which the organisation has little or no control of while planning is the attempt to shape the future by altering those uncontrollable factors in the light of available forecasts. Given a set of forecast, the budget model is able to operate in an optimizing role, attempting to ascertain which plan of action will result in the greatest benefit of the organisation. Almost all managerial decisions are based on forecasts. Forecasting is defined as the prediction of what will occur in the future, but it is an uncertain process. The selection and implementation of the proper forecast methodology has always been an important planning and control issue for most firm and agencies. Often times, the financial well being of the entire organisation operation rely on the accuracy of the forecast since such information will likely be used to make interrelated budgetary and operative decisions in areas of personnel management; purchase marketing and advertising, and capital financing. There are basically two main approaches to forecasting the explanatory method and the extrapolation method – with mainly two categories forecasting being quantitative and qualitative. Forecasting models are needed throughout an organisation. They are aimed at assisting the decision – makers in their decision – making processes which are never ending. This means that forecasting activity is a cyclical process; starting with effective and efficient planning and ending in compensation of other forecast in their performance.

Since planning is at the heart of a budgeting process, by employing the budgeting process diligently, companies can plan extensively on the best course of action to achieve the organization's goals. As a planning aid, budgets allow for the refinement and quantification of the long-term business plan into short-term action plans whereby alternative planning scenarios may be examined and a "what-if" analysis applied. Without the annual budgeting process, the pressures of day-to-day operating problems may tempt managers not to plan for future operations (Drury, 2001). The budgeting process encourages managers to anticipate problems before they arise, and hasty decisions that are made on the spur of the moment, based on expediency rather than reasoned judgment will be minimized (Drury, 2001).

Individuals and organizations have operated for hundreds of years by planning and forecasting in an intuitive manner. It was not until the 1950s that formal approaches became popular. Since then, such approaches have been used by business, government, and non-profit organizations. Advocates of formal approaches (for example, Steiner, 1979) claim that an organization can improve its effectiveness, it can forecast its environment, anticipate problems, and develop plans to respond to those problems. However, informal planning and forecasting are expensive activities; this raises questions about their superiority over informal planning and forecasting. Furthermore, critics of the formal approach claim that it introduces rigidity and hampers creativity. These critics include many observers with practical experience (for example, Wrapp, 1967).

Meyer and Dewits (1998) write, 'plans require forecast'. A Danish physicist, Niels Bohr also once joked "Prediction is very difficult, especially about the future. Even enthusiastic planners acknowledge that forecast will be inaccurate". And Makridakis, the most prolific writer on the topic forecasting, writes (1990:66), "the future can be predicted only by

extrapolating from the past, yet it is fairly certain that the future will be different from the past.

**System for Authorization:** The responsibility of each manager is made amply clear as the budget would usually describe the amount of resources and degree of authority managers need and have to achieve the organization's goals. Thus, budgets serve as a formal authorization for a manager to spend a given amount of money on specific activities. In this respect, budgets is used to ensure that organizational resources is utilized in the most productive and profitable way, to achieve efficiency required for the business operations thereby reducing costs and raising profitability (Australian Society of CPA, 1999). Such a system of authorization must be supported by a suitable responsibility structure adopted by the organization

**Channel for Communication and Coordination:** Evidently, budgets are an important channel of communicating certain type of information that will enable managers in different parts of the organization to be fully informed of the plan and policies, and constraints, to which the organization is expected to conform. Through the budgeting process, top management communicates its expectations to the lower level management, so that members of the organization may understand these expectations and can coordinate their activities to attain them (Drury, 2001). In essence, preparation of the budgets facilitates the transfer of vital information among all levels in the organization and thus, levels of interaction are more enhanced during the budgeting process. The co-ordination of business activities will be aided through the budgeting process. Considering that all actions of the different parts of the organization are brought together and reconciled into a common plan, the budgeting process assist to bind an organization together towards the achievement of the organization's goal. Without any guidance, managers may each make their own decisions, believing that they are working in the best interest of the organization. (Ibid).

Budgeting compels managers to examine the interrelationships and dependency among different parts of the organization, and in the process, to identify and resolve conflicts.

**Motivational Device:** The budget can be a useful device for influencing managerial behavior and motivating managers to perform in line with the organizational objectives (Drury, 2001). The main purpose stated above are complemented with two purposes by Ax et al (2009): firstly, the budget creates awareness about the organizations goals and to make workers understand the “big picture” and commonly, organizations use the budget as an incitement for the employees. The budget becomes a benchmark for what is a sufficient level to reach. Nevertheless, motivation would be enhanced through the feeling of involvement which participation in the budgeting process can promote. If individuals have actively participated in preparing the budget, and it is used as a tool to assist managers in managing their units, budget can act as a strong motivational device by providing a challenge (Op cit).

### **Budget as a control device**

At the beginning of the period, the budget is a plan. At the end of the period, the budget is a control device to measure performance against expectation so that future performance may be improved. Control is achieved through continuous reporting of actual progress and expenditures relative to plans, which is a budget (Shim, Siegel, 1994, p. 15). Hansen and Van der Stede conclude that performance evaluation often is used in large organisation and in organisation with clear and traceable resources.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 INTRODUCTION**

The case study was based on Small and Medium Scale Enterprises SMEs in Kumasi. This chapter outlines the methodology used in gathering relevant data for the research. The chapter involves a detailed discussion design of the study, data sources, population, sample size, sampling methods, research instrument and data analysis.

#### **3.2 POPULATION**

The population of the study is 88 Small and Medium Scale Enterprises in Kumasi which are registered in National Board for Small Scale Industries.

#### **3.3 RESEARCH DESIGN**

An exploratory study was adopted to explore the role of budget for SMEs in Kumasi. In furtherance of the achievement of this objective, the probability sampling method was used in the research. This was chosen after a careful analysis was made as to how best the objectives set can be achieved. Data was obtained by using a questionnaire administered to a sample; these data are standardized allowing easy comparison. As such, facts were collected from many sources as represented in the research area selected to make a more representative conclusion.

#### **3.4 SAMPLE SIZE**

However, a sample size of thirty (30) businesses was selected based on their availability, willingness and time constraints. The questionnaires were distributed to all thirty (30) SMEs in Kumasi.

### **3.5 SAMPLING TECHNIQUE**

The researchers made use of probability sampling. Probability sampling in the form of random sampling was used.

### **3.6 SAMPLE FRAME**

The questionnaires were distributed to thirty (30) Small and Medium Scale Enterprises (SMEs) in Kumasi. These are; Philmartel Com. Ltd-Ohwim Amanfrom, Bright Juice Ventures-Kromoase New Site, Land Fruit Enterprise-Pankrono, Angel Herbal Products, Latex Foam Rubber Production, Hakama Com. Ltd-Adiebeba Kumasi, Pentecost Fire Financial/Trading-Magazine New Road, Syskla Venture-Kenyase Kumasi, Chasna Quality Enterprise-Agric Nzema, Waschil Venture-Atonsu New site, Ashanti Foam Ltd, Esisel Enterprise-Fumesua(Food Processing), Big Brother Ventures Product-C – Line Patasi Estate, Ceabab Enterprise- Amakom, Promise Natural Ventures-Abrepo, Kenvas Enterprise-Santasi – Anyinam, Rhokida Financial Service, Den-Peal Enterprise-Abuakwa Maakro, Paramount Distilleries, Afua Crystal Production – Bantama, Logs and Lumber Ltd, Congospel Enterprise-Abuakwa, Falbent Enterprise-Bantama, Samstella Designs-Boadi, Nakolen Ventures-Asawasi Police Station, DBS industries, Manan Akanware Enterprise-Kwadaso – Agric, Tegola Aqua Enterprise-Atonsu, Citadel Enterprise-Kromoase, Paa Johnny Enterprise-Suame.

### **3.7 SOURCES OF DATA**

Primary and secondary data were used for the study.

### **3.7.1 Primary Data**

Primary data is information that has been collected for a specific purpose and is often qualitative data (Eriksson & Wiedersheim-Paul, 2006). The primary data was collected from thirty (30) SMEs in Kumasi. The methods used to collect the data were interviews and questionnaires. The primary data provided reliable and current information relevant to the study. The analysis of the primary data has been broadly discussed in chapter four.

### **3.7.2 Interviews**

Both structured and unstructured interviews were employed. The interviews were done face-to-face with the view of helping the respondents provide the right answers to enhance the research. The data received from the interviews were recorded to ensure that all information is taken into consideration.

### **3.7.3 Questionnaire**

Both open ended and close ended questionnaires were employed to allow the respondents to answer in their own words without limiting them. The close ended questionnaires were used to facilitate fast responses for the researcher. Both were prepared and distributed to some managerial staff of the thirty (30) SMEs in Kumasi who could not be available for interview due to busy work schedule.

## **3.8 SECONDARY DATA**

Secondary data in the form of articles and journals from the internet as well as literature from the existing research in the area under study, reports, articles and books (Colin Drury, Saunders, etc) published by experts of the field were all considered.

### **3.9 DATA COLLECTION METHOD**

Questionnaires were designed and administered to thirty (30) SMEs in Kumasi. The instruments used to collect the data were based on interviews and questionnaires.

### **3.10 DATA ANALYSIS**

Descriptive statistics were used. For the study to be comprehensive, the data was analyzed with Statistical Package for Social Scientists (SPSS) in order to come out with tables, frequencies, percentages, pie charts, and bar charts to give the data a pictorial meaning.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1 INTRODUCTION

The purpose of this study was to examine whether management in Small and Medium Scale Industries (SMEs) in Kumasi does prepare budget, and the role the budget plays in their managerial decision making.

The chapter concentrates on data analysis and the interpretation of data collected from our respondents. The analysis presented in pie charts and tables where appropriate.

#### 4.2 RESPONDENTS' RESPONSE TO WHETHER MANAGEMENT PREPARES A BUDGET.

The preparation of budget is very important in an organisation. Therefore there is a need to know if managements in Small and Medium Scale Industries do prepare budget. The table and pie chart below shows, if management see it as a need to prepare a budget.

Table 4.2: Table showing if management does prepare budget.

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	80.0	80.0	80.0
No	6	20.0	20.0	100.0
Total	30	100.0	100.0	

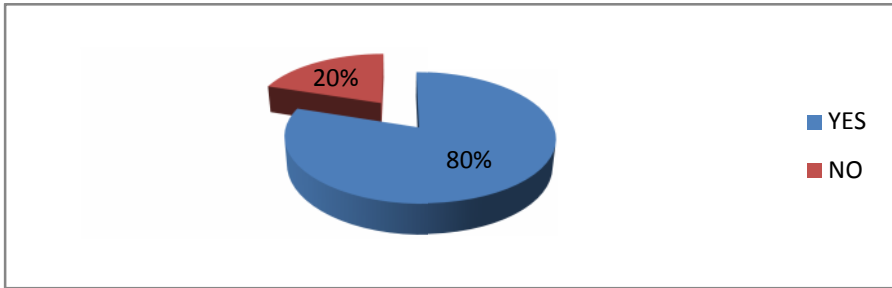
Source: researchers' fieldwork

From the table above, twenty-four (24) respondents representing 80.0% answered Yes, this shows that majority of management in SMEs see it as a need to prepare budget to help in the

running of the organisation .Whiles six (6) respondents representing 20% also answered No which means that less than a quarter in SMEs do not prepare budget.

The above information is illustrated in the pie chart below.

Figure 4.2: pie chart showing if management does prepare budget



Source: research data 2012/13

### 4.3 THE RELEVANCE OF BUDGETING IN MANAGEMENT DECISION MAKING ON THE INSTITUTION.

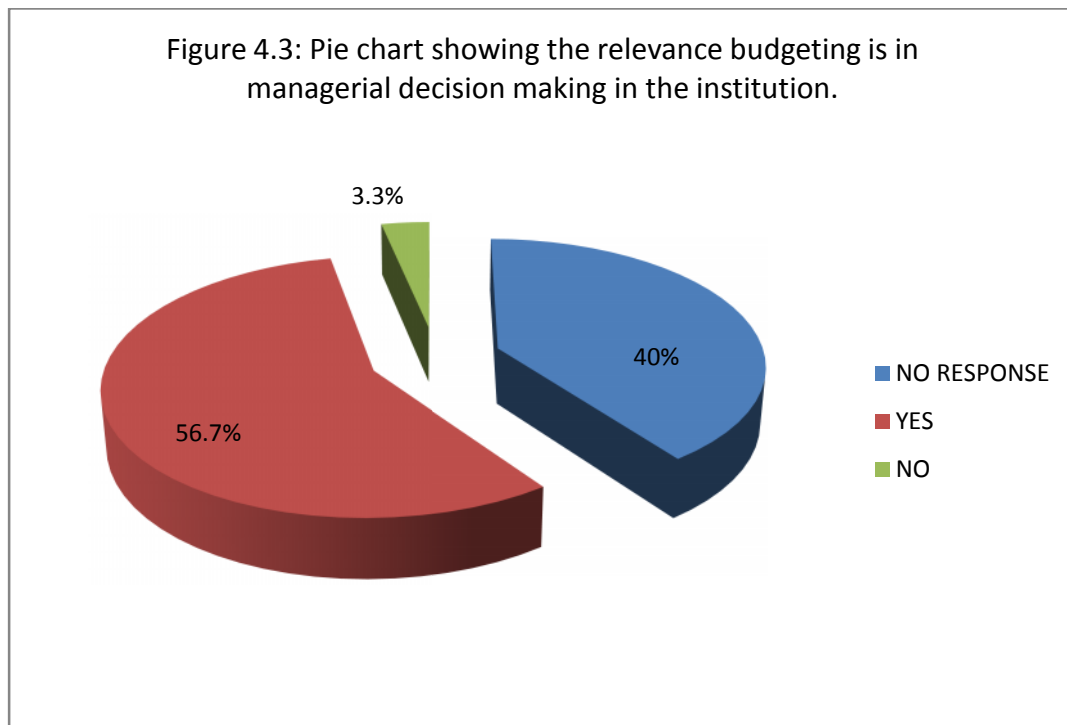
Budget has its relevance in an organisation Therefore this table and pie chart shows the impact budget has on an organisation.

Table 4.3: Table showing the impact or relevance of budgeting in management decision making in the institution.

	Frequency	Percent	Valid Percent	Cumulative Percent
No Response	12	40.0	40.0	40.0
Yes	17	56.7	56.7	96.7
No	1	3.3	3.3	100.0
Total	30	100.0	100.0	

In response to the relevance of budgeting in management decision making in the institution by our respondents, twelve (12) respondents representing 40.0% did not answer the question, because they did not know how and whether budget impact on their business. While seventeen (17) representing 56.7% which is more than half of the respondent answered Yes which implies that budgeting does have relevance to the institution and one (1) respondent representing 3.3% answered no also implying that budgeting does not have any relevance on the institution.

The above information is illustrated in the pie chart below.



#### **4.4 RESPONDENTS' RESPONDS THE WAYS IN WHICH BUDGET IS RELEVANT TO THE ORGANIZATION.**

A follow up question was posed to our respondent on the ways in which budget is relevant to the organization. The various responds by our respondents have been shown in the table and figure below

Table 4.4: A table showing the ways in which budget is relevant to the institution.

	Frequency	Percent	Valid Percent	Cumulative Percent
No Response	7	23.3	23.3	23.3
Helps in planning	1	3.3	3.3	26.7
Serve as a guide	2	6.7	6.7	33.3
Serves as instrument for decision making	7	23.3	23.3	56.7
Help in planning, serves as a guide, helps in controlling and an instrument for decision making	7	23.3	23.3	80.0
Helps in Planning and Controlling	1	3.3	3.3	83.3
Serve as a guide and decision making instrument	1	3.3	3.3	86.7
Help in planning, serve as a guide & instrument for decision making	3	10.0	10.0	96.7
Help in planning, serve as a guide & Helps in Controlling	1	3.3	3.3	100.0
Total	30	100.0	100.0	

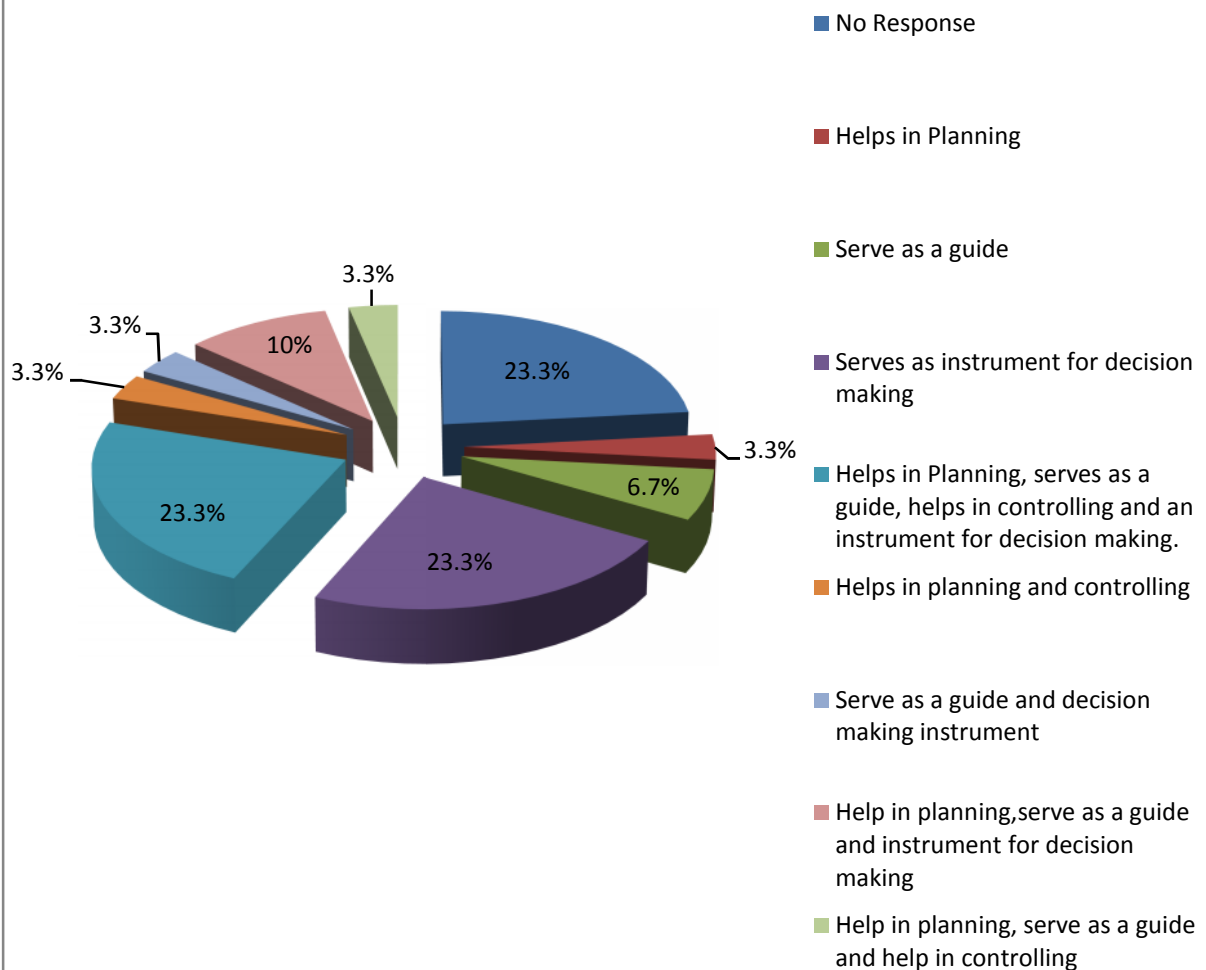
In responds to ways how budget is relevant to the organization, seven (7) representing 23.3% did not answer, one (1) respondent representing 3.3% answered that it helps in planning, two (2) respondents representing 6.7% answered that it serves as a guide, seven (7) representing 23.3% answered that it serves as an instrument for decision making, another seven (7) also representing 23.3% answered that it helps in planning, serves as a guide, helps in controlling and an instrument for decision making, one (1) respondent representing 3.3% answered that it helps in planning and controlling, another one (1) respondent also representing 3.3% answered that it serves as a guide and decision making instrument, three (3) respondents



representing 10.0% answered that it helps in planning , serves as a guide and an instrument for decision making, one (1) respondent representing 3.3% also answered that it helps in planning, serves as a guide and helps in controlling. This analysis shows that most of the SMEs management use budget as a tool that assist them performing their fundamental role which is planning, organising, directing and controlling and also in their managerial decision making.

This is illustrated in the pie chart below.

Figure 4.4: pie chart showing the relevance of budgeting to the institution.



#### 4.5 THE COST (MAN HOURS) THAT MANAGEMENT BEARS IN PREPARING A BUDGET.

Budgeting entails a lot of variables in respect to the organization. Therefore there was a need for as to know how it cost the respondents in terms of time in the preparation of budget.

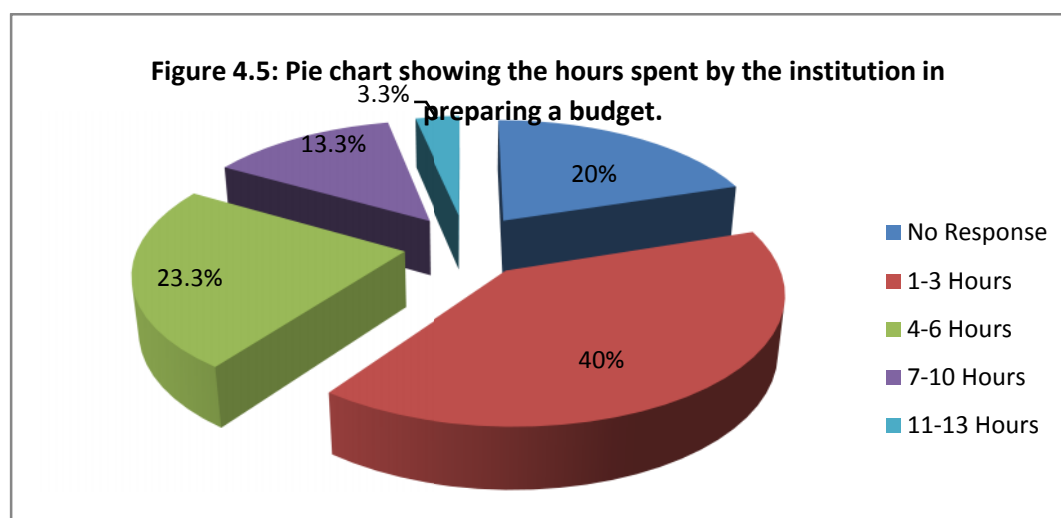
Table 4.5: This table shows hours the institution spends in preparing a budget

	Frequency	Percent	Valid Percent	Cumulative Percent
No Response	6	20.0	20.0	20.0
1 - 3 Hours	12	40.0	40.0	60.0
4 - 6 Hours	7	23.3	23.3	83.3
7 - 10 Hours	4	13.3	13.3	96.7
11 - 13 Hours	1	3.3	3.3	100.0
Total	30	100.0	100.0	

When the respondents were asked as to what it cost management in terms of man hours to prepare a budget, six (6) respondents representing 20.0% did not answer, twelve (12) respondents representing 40.0% answered 1–3 hours, Seven (7) respondents representing 23.3% answered 4–6 hours, four (4) respondents representing 13.3% answered 7–10 hours, one (1) respondent representing 3.3% answered 11 – 13 hours.

This shows that majority of the respondents spend 1-3 hours within a day to prepare the budget and some few spend more hours to prepare a budget. Therefore most of the organisations see the preparation of budget not as a high cost in terms of time.

This information is illustrated in the pie chart below.



#### 4.6 THOSE RESPONSIBLE FOR THE PREPARATION OF THE ORGANISATIONAL BUDGET.

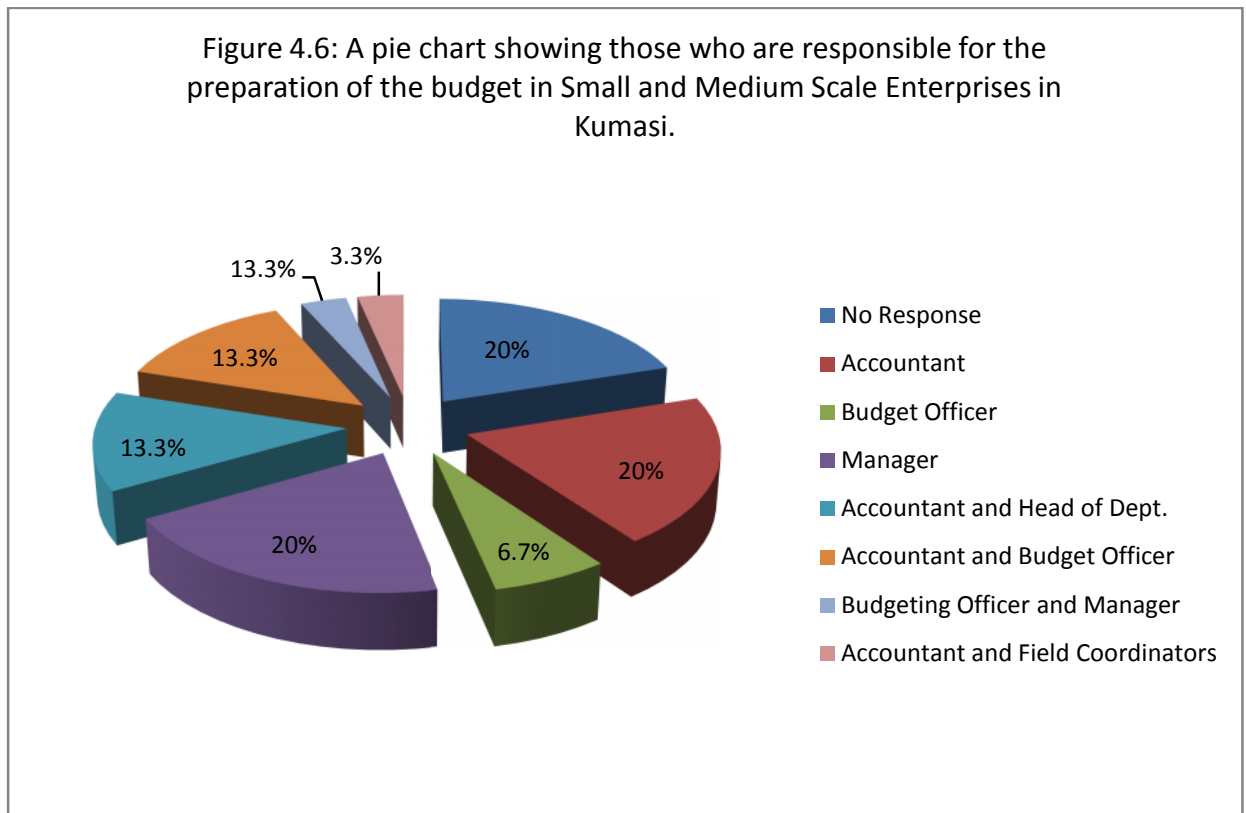
Every organisation has its own structures and policies. Therefore those responsible for the preparation of budget differ from one organisation to the other. This analysis shows those responsible for the preparation of budget in the various organisations of our respondents

Table 4.6: This table shows those who are responsible for preparing the budget in the institution.

	Frequency	Percent	Valid Percent	Cumulative Percent
No Response	6	20.0	20.0	20.0
Accountant	6	20.0	20.0	40.0
Budget Officer	2	6.7	6.7	46.7
Manager	6	20.0	20.0	66.7
Accountant and Head of Dept	4	13.3	13.3	80.0
Accountant and Budget Officer	4	13.3	13.3	93.3
Budgeting Officer and Manager	1	3.3	3.3	96.7
Accountant and Field Coordinators	1	3.3	3.3	100.0
Total	30	100.0	100.0	

The findings above shows that, six (6) respondents representing 20% did not answer the question, six(6) respondents representing 20% said the Accountant is the one in charge of preparing the budget , two (2) respondents representing 6.7% said it is the Budget Officer that prepares the budget, (6) respondents representing 20% said Managers prepare the budget, four (4) respondents representing 13.3% said it is Accountant and the Head of departments that prepare the budget, four (4) respondents 13.3% also said it is the Accountant and the Budget Officer that prepare budget, one (1) respondent representing 3.3% said it is the Budget Officer and the Manager that prepare budget and (1) respondent said it the Accountant and the Field Coordinators and it also constitute 3.3%. From the analysis above most of the organisations budgets is prepared by managers and the accountants since most of them do not have budget officers.

This has been shown in the pie chart below



#### 4.7 RESPONDENTS' RESPONDS TO HOW TEDIOUS IT IS TO PREPARE A BUDGET

In preparing a budget it takes management through many processes depending on the variables involved therefore respondents were asked whether it is tedious to prepare a budget and their responds have been shown below.

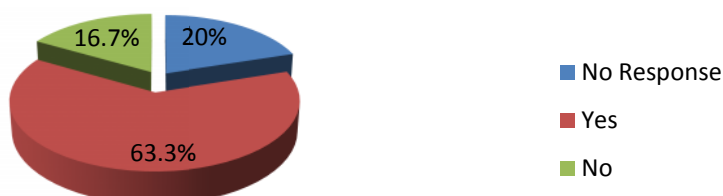
Table 4.7: This table shows the tedious in preparing a budget in the institution.

	Frequency	Percent	Valid Percent	Cumulative Percent
No	6	20.0	20.0	20.0
Response				
Yes	19	63.3	63.3	83.3
No	5	16.7	16.7	100.0
Total	30	100.0	100.0	

From the table above, six (6) respondents representing 20% did not answer the questionnaire, nineteen (19) respondents representing 63.3% answered Yes, this shows that majority of management in SMEs see it as a tedious work to prepare budget. Whiles five (5) respondents representing 16.7% also answered No which means that less than a quarter in SMEs do not see it as a tedious work to prepare budget.

This is shown in the Pie Chart below:

**Figure 4.7: A Pie Chart showing whether it is tedious to prepare a budget or not.**



#### **4.8 HOW LONG DOES IT TAKE YOUR ORGANISATION TO PREPARE A BUDGET?**

Although it is very important to prepare a budget, it is also tedious to do it and therefore sometimes takes a longer period to prepare. The table below shows how long it takes our respondents to prepare a budget.

Table 4.8: Showing how long it takes the organisation to prepare a budget.

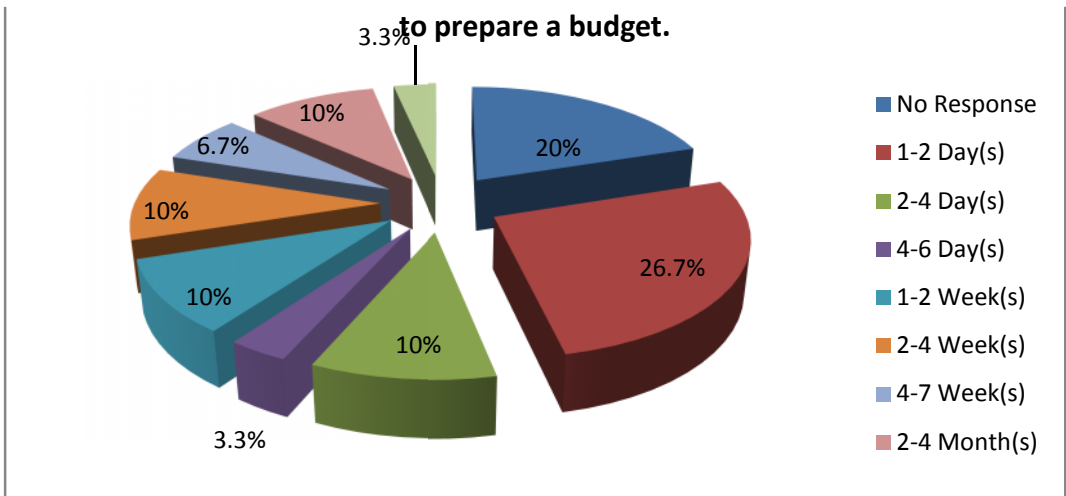
	Frequency	Percent	Valid Percent	Cumulative Percent
No Response	6	20.0	20.0	20.0
1 - 2 Day(s)	8	26.7	26.7	46.7
2 - 4 Day(s)	3	10.0	10.0	56.7
4 - 6 Day(s)	1	3.3	3.3	60.0
1 - 2 Week(s)	3	10.0	10.0	70.0
2 - 4 week(s)	3	10.0	10.0	80.0
4 - 6 week(s)	2	6.7	6.7	86.7
2 - 4 Months(s)	3	10.0	10.0	96.7
1 Year	1	3.3	3.3	100.0
Total	30	100.0	100.0	

When a question was asked on how long does it take your organization to prepare a budget, six(6) respondent representing 20% did not answer the question, eight (8) respondent representing 26.7% said it takes them 1-2 days to prepare a budget, three(3) respondent representing 10% said it takes them 2-4 days to prepare a budget, one (1) respondent representing 3.3% said it takes 4-6 days to prepare a budget, three(3) respondent representing 10% said it takes them 1-2 weeks to

prepare a budget, three (3) respondent representing 10% said it takes them 2-4 weeks to prepare a budget, two (2) respondent representing 6.7% said it takes them 4-6 weeks to prepare a budget, three (3) respondent representing 10% said it takes them 2-4 months to prepare a budget, one (1) respondent representing 3.3% said it takes one (1) year to prepare a budget.

This analysis shows that it takes majority of our respondents from 1- 2 weeks, 2-4 weeks and 2-4 months depending on the variables involved. This shows how relevant budget is to management in the running of the organization.

This is illustrated in the pie chart below.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 SUMMARY OF DISCUSSIONS:**

The main goal of this chapter was to show the summary of the study and what conclusions and recommendations may be drawn from the data gathered and analysed.

The study revealed that:

- Most organizations prepare budget to guide, direct, and help them plan for the future. Those respondents who responded NO to the question of whether they do prepare budget agreed with the research team during an interview, that it will be very helpful should they prepare budget but due to the fact that they are one-man businesses, time becomes a constraint in the attempt to sit down and prepare budget.
- Organizations used two -to- four hours a day for about a week to prepare budget. This duration they said could be used to engage in active production of goods and services.
- The budgets of the organizations are prepared by the accountants, budget officers, and heads of departments. Managers who are also the entrepreneurs of their respective organizations also prepare their organizations budgets.
- It is tedious in terms of the time taken to prepare budget.
- Preparing budgets helps the organizations as tool in managerial decision making.

#### **5.2 CONCLUSION**

This study was conducted to ascertain the role budget plays as a tool in managerial decision making in Small and Medium Scale Industries (SMEs) in the Kumasi metropolis.



From our findings, it was realized that the greater percentage of SMEs in Kumasi did operate with budget or although fewer of the SMEs did not apply budget in their business they attested to fact that, the preparation of budget indeed will help in the running of business and it's a tool that could be used to make managerial decisions.

Also, budget is of relevance to the Small and Medium Scale Industries (SMEs) in taking managerial decisions.

More also, it cost, in relation to man hours, Small and Medium Scale Enterprises (SMEs) to prepare a budget.

Furthermore, it was realised that the budget is prepared by Accountants and Managers of the Small and Medium Scale Enterprises.

Last but not the least, the preparation of budget was realised to be difficult and it takes 1-3 hours for the budget to be prepared.

However, there are some few hitches that need to be addressed.

### **5.3 RECOMMENDATIONS:**

- The organizations should always prepare their budget according to legal requirements (companies Act 179 (1963) or the organizations' policies to achieve effective running of the organizations.
- The organizations should get abreast with current budgeting requirements in order to prepare budgets that are up-to-date.

Concerned institutions like the Association of Ghana Industries (AGI) and National Board for Small and Medium Scale Industries (NBSSI) should organize seminars for the Small and Medium Scale Industries (SMEs) to equip them with the knowledge on the need to prepare budget and how to go about it.

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## APPENDIX

### QUESTIONNAIRES

The questionnaire is part of a study conducted by Christian Service University College. We will be glad if you can answer the questions below. All information given will be kept confidential and your response will be used.

Please answer by ticking the appropriate one.

1. Gender        F (   )        M (   ).
2. Please, what role do you play in the organization?        Worker(   ), Shareholder(   ), Manager(   ), Accountant(   ), Dept Head(   ), Any other, specify.....  
.....  
.....
3. Does your organization prepare its budget? Yes (   ), No (   ).
4. What legal system guides you in the preparation of the budget?
  - i.        Companies Act 179(1963)(   ),
  - ii.       Any other please  
specify,.....  
.....  
.....
5. What budgeting system do you operate?
  - i.        Incremental (   ),
  - ii.       Roll over System (   )
6. Who is responsible for the preparation of the organizations budget?
  - i.        Accountant (   ), Budget Officer(   ), Head of Department(   )
  - ii.       Any other, specify  
.....  
.....  
.....
7. How often does the organization prepare its budget?  
Weekly (   ), Monthly (   ), Quarterly (   ), Yearly (   ).

8. Does your budgeting system have any impact on the institution? Yes (    ), No (    ).  
If yes, in which of the following ways?  
Help in planning (    ), Serve as a guide (    ), Helps in controlling (    ), Serves as  
instrument for decision making (    ).
9. What is your opinion about budgeting as part of the institutions management  
process?.....  
.....  
i. Is it a waste of time (    )  
ii. Is it a very important tool if administered properly (    ),  
iii. I am indifferent to the system(    ),  
  
Any other, please  
specify.....  
.....  
.....
10. Do you personally support the use of budget as a decision making tool by  
management?  
Yes (    ), No. (    ).
11. If yes, in what  
way?.....  
.....
12. Do you experience variance in your budgeting system? Yes (    ), No (    ).
13. If yes how are they  
controlled?.....  
.....
14. How long does it take your organization to prepare a budget? Please specify the  
number of:  
i. .... Day(s), ii ..... Week(s), iii ..... Month(s), iv ..... Year(s)

15 How many hour(s) is (are) spent in a day in the budget preparation?

- i) 1 – 3 hours ( )
- ii) 4 – 6 hours ( )
- iii) 7 – 10 hours ( )
- iv) 11 – 13 hours ( )

16. Any other comments

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