

## CHARACTERISTICS OF BUDGETING THE AGRICULTURAL ENTITIES' ACTIVITY

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**Abstract:** *In order to establish correct budgeting of the activity of an entity, it is essential to create a vision of the business as well as to ensure one's cooperation to maintain a functional balance among all the departments within the entity.*

**Key words:** *patrimonial analysis, financial diagnosis, maximizing enterprise value*

### INTRODUCTION

Budget is the document of financial prevision in which the predictable incomes and expenses of an entity are compared during a certain time interval. In fact, budget is the financial document drawn up till the moment of predictable actions performance.

### MATERIALS AND METHODS

Budget represents the monetary expression of activity and development plans of the entity which coordinates and materialize in figures the administrators' projects. It is drawn up for a maximum one year future period, with lagging on shorter periods represented by semesters or months. As opposed to standard forms of financial reports, budget has not a standard form which has to be respected rigorously. This can have a different form and structure depending on budgeting object, the entity's size or the qualification level etc. Budget can be prepared entirely not only in monetary expression but there can be used also natural units: hours, product units, quantity, etc. It can be drawn up completely not only for the entity but also for its subdivisions so that it represents an accessible and clear information, which can be understood by users.

Budgeting represents the determination process of actions which have to be achieved in the future and their presentation under the form of budgets system. The necessity of budgeting imposition is justified as follows:

- plans the operations which assure the achievement of strategic objectives of the enterprise;
- coordinates various types of activities of different subdivisions;
- stimulates leaders from all levels in view of accomplishment of responsibility centers purposes;
- controls the current activity through the discipline assurance provided by the plan;
- evaluates the plans fulfilment by responsibility centers and their leaders;
- instructs the managers and other employees from economic-financial services of the enterprise.

However, budgeting<sup>1</sup> generates also some constraints as for example the flexibility diminution when new elements appear or the dissipation occurrence through the overestimation of resources necessities realized by certain functional divisions.

Budgeting process supposes the determination of responsibilities for each entity subdivision so that there can be identified the domains where malfunctions appear and to establish rectification measures of causes which generated them.

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<sup>1</sup> <http://www.oeconomica.uab.ro/upload/lucrari/820062/4.pdf>

**The budgetary system of an entity** is presented as follows:

- **General budget** represents a coordinated work plan (on all subdivisions and types of activities) of the enterprise entirely or the totality of budgets which generate future operations of all company's functional subdivisions;

- **Static budget** represents the budget calculated for a concrete level of the company's economic activity that is, in the static budget, the incomes and expenses are planned starting from a single sales level (production level).

**General budget** presents two parts: *operational budget and financial budget*.

*Operational budget* represents the totality of operational particular budgets which assure the elaboration of profit/loss budget or of financial results prediction from the operational activity. In its turn, it comprises: sales budget; production budget; budget of provision with raw materials; budget of direct consumptions regarding the work remuneration; contributions budgets regarding the social insurances and mandatory medical care ; indirect production consumptions budget; cost budget of manufactured products; budget of other operational incomes; marketing expenses budget; general and administrative expenses budget; budget of other operational expenses; profit/loss budget.

*Financial budget* represents the totality of budgets which reflects the planified monetary flows and the company's financial situation. It comprises: capital investments budget; financial means budget.

Accounting Law Regulations don't stipulate explicitly among the objectives of management accounting the elaboration, observation and control of budgets, but these are absolutely necessary in view of results knowing and supply of useful information to managers when making decisions which will allow the fulfilment of the economic entity purposes. Drawing up a buget appeals to several concepts specific to management accounting, as for example accounting information about the company's sales in a choosen period and their prediction.

Sales budget<sup>2</sup> represents the cypher prediction of the company's sales on types of products and services. Sales predictions constitutes one of the most important phases of the budgetary process because all the other budgets are based on sales prediction.

In case of agricultural entities, it is extremely important the organization and administration way of the management accounting. Agricultural units<sup>3</sup> which have the activity organized by production farms, set up their management accounting upon cost centers or profit centers. These can be: farms, production sectors of combined fodders, manufacturing factories. The calculation method on cost centers comprises the collection of all production expenses and their observation in relation to the cost centers identified in the developed activity. Thus, the calculation is not made to the cost bearers but to the cost places.

Another characteristic in case of agricultural entities is met to the companies with irregular production (seasonal companies). These realize their turnover irregularly during a year. Seasonal fluctuations during a financial year don't have incidence upon the

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<sup>2</sup> *Management and Control Accounting*, Second Edition, Chirata Caraiani, Mihaela Dumitrana (coordinators), University Publishing House, Bucuresti, 2008, pag. 262

<sup>3</sup> *Application Guide for National Accounting Regulations in Agricultural Domain*, CECCAR Publishing House, Bucuresti, 2012, pag. 35

company's exploitation conditions but modify the date when the profitability threshold is attained.

### RESEARCH RESULTS

We will present further a case study to S.C. Alfa S.A. where it will be determined the date when the profitability threshold is attained.

*We know the following information about S.C. Alfa S.A.:*

- grows melons;
- annual turnover is of 2 000 000 lei;
- profitability threshold is of 1 500 000 lei;
- seasonal activity in relation to annual turnover is the following:

JANUARY 1%	APRIL 5%	JULY 20%	OCTOBER 2 %
FEBRUARY 1%	MAY 15%	AUGUST 23%	NOVEMBER 1 %
MARCH 1%	JUNE 20%	SEPTEMBER 10%	DECEMBER 1%

- The exploitation conditions are supposed to remain unchanged.  
It will be determined the date when the profitability threshold is attained.

1. The annual turnover will be calculated:

JANUARY 20 000lei	APRIL 100 000lei	JULY 400 000lei	OCTOBER 40 000lei
FEBRUARY 20 000lei	MAY 300 000lei	AUGUST 460 000lei	NOVEMBER 20 000lei
MARCH 20 000lei	JUNE 400 000lei	SEPTEMBER 200 000lei	DECEMBER 20 000lei

2. The cumulative turnover will be calculated:

JANUARY 20 000lei	APRIL 160 000lei	JULY 1 260 000lei	OCTOBER 1 960 000lei
FEBRUARY 40 000lei	MAY 460 000lei	AUGUST 1 720 000lei	NOVEMBER 1 980 000 lei
MARCH 60 000lei	JUNE 860 000lei	SEPTEMBER 1 920 000lei	DECEMBER 2 000 000lei

*From the above data, it results that the profitability threshold is attained in August, when the turnover at the beginning of the month is of 1 260 000 and at the end of the month of 1 720 000.*

3. It will be calculated the turnover which has to be achieved in August in order to attain the profitability threshold:  
1 500 000 - 1 260 000 = 240 000 lei.

4. *It will be determined the number of necessary days to attain the turnover of 240 000 lei: 31 days x240 000 lei/460 000 lei =16,17 days, that is 16 days. It results that the profitability threshold will be attained 16 days earlier than the situation of a company with regular production, that is 23 August<sup>4</sup> – 16 days =7 August.*

### CONCLUSIONS

In the situation of agricultural entities, it is noticeable the organization way of the management accounting. This is very important for managers because it deals seriously with subjects as budgets elaboration, identification of information necessary to the budgeting process etc.

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3. **SGARDEA FLORINEL MARIAN**, 2009, Management Control, ASE Publishing House, Bucuresti;

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<sup>4</sup> *To the company with regular production, the turnover/month =166 666 lei and the profitability threshold/month =125 000 lei. It results it will obtain the profitability threshold in about 23 days.*