Chapter 13

Use of Budgets to Elaborate the Strategy of Industrial Production Costs

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ABSTRACT

The industrial companies’ activities must take into account the existence of a balance between income and expenses. In this regard, the budget is the basic tool, and budgeting becomes a systemic economic practice in allocating the financial resources to achieve the objectives set forth by the company strategy. This chapter discusses budgeting as a technique of strategic management. In the companies’ activities of budgeting, the following may be used: general and partial budgets; budgets prepared by departments; budgets prepared by products, projects, and activities; fixed and flexible budgets; etc. Thus, to start with, the fundamentals of budgets are analysed, and afterwards, based on them, industrial companies’ budgets are elaborated. At the end of this chapter, the budgets thus elaborated are used as techniques of the industrial companies’ strategic management.

THEORETICAL APPROACHES

The present chapter focuses on the characteristics of the firms from the mining carboniferous industry. It can be considered that one of the reasons for which mine carboniferous workings have registered losses in the last years, is the fact that returns and expenditures budget focuses only on the global level of each mine working. In this budget the expenses are established on the whole and they are divided on types of expenses according to their nature. Thus, the manager of the mine working and the economic manager are responsible for the appropriate observance of the level of the expenses forecasted in the budget. That is why it is better for the expenditures budgets to be drawn up more analytically, namely on different hierarchical levels of the mine working and each budget should be also linked to a budget holder.

In this way, the expenditures budget in drawn up for one year. The annual budget is divided in quarters and monthly budgets that are allocated on specific structural-organizational divisions called “expenditures centers (places)”.

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An expenditure center will have in charge a partial budget, which is a component of the annual master budget. The distribution of the responsibilities on expenditure centers can be done in a hierarchical way just as it is presented in Figure 1.

The main stages of drawing up expenditure budgets are the following: the establishment of responsibilities on different levels of organization; the establishment of the costs that must be controlled by the responsible of the center, as a decisional factor on that hierarchical level; the forecasting of the coordinates of that center taking into account the forecasted level of the center’s activity and the prices and tariffs negotiated by the supplying and beneficiary units; the sizing of costs really registered; the comparison of the achievements with the forecasts for that period, the identification of the deviation and the evaluation of the tendency of the respective center; the drawing up of expenditures budget at the center level; the negotiation at the superior level of decision; the agreement upon the revised budget and the assumption of responsibility of the expenditure centers for the administration and achievement of the desired profit.

The drawing up of expenditure budget starts with communicating the details related to the forecasting policy of coal mining and the actions, which must be taken by the ones responsible for the preparation of partial budgets. The main data sources used for drawing up the annual expenditure budget are the forecasts of the management regarding the possible levels of the different actions and the book-keeping that contain the indicators specific to past and present operations.

The sizing of budgets focuses not only on the hierarchical relations between the subsystems of mine working but also on the functional relations, which imply the dependency of one budget upon another, according to the relation inputs-outputs (Figure 2.)

The holders of the expenditure centers prepare the basic data of sizing the budget and they are

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*Figure 1. Description of expenditure centers, budget holders and costs that are to be controlled at the level of mine working*