

## **THE RELEVANCE OF THE "EXPENDITURE BUDGET – COSTS BUDGET" BINOMIAL FOR THE MANAGEMENT OF NATIONAL COMPANIES. CASE STUDY – THE ROMANIAN TELEVISION SOCIETY**

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### **Abstract:**

*The short-term forecasting form is usually called budget. Budget represents the typical accounting tool used by companies to plan and control the activities undertaken in order to ensure clients' satisfaction and market success. This paper analyzes the situation of the Romanian Television Corporation, a company that has been confronting major financial problems for the last ten years, and which is subsidized by the state. Our intention was to demonstrate that there are solutions that contribute to improving the financial performance of this company, one of them being that of the transition from the expenditure budgets to the budgets of costs.*

**Key words:** performance, budget, expenditure budget, budget of costs.

**JEL classification:** M41

### **1.INTRODUCTION**

Budgeting represents the starting point of budgetary control. It is useful when it is an integrant part of the strategic analysis of a company. The strategy affects, in its turn, both the long-term planning and the short-term one. This is why **budgeting** is extremely important and necessary.

Budgets provide the managers with the feed-back on the possible effects of their strategies and plans. And sometimes, this feed-back reports the managers that they have to review their plans and even their strategies, if possible. If **planning**, on the one hand, involves setting aut goals and determining some strategies, **budgeting**, on the other hand, establishes the

implementation of the strategy, by assigning the resources of the economic entity. These relationships are highlighted in Figure 1. Based on some studies carried out and on the information gathered, we can appreciate the importance of budgeting due to the fact that the usage of budgets is widespread all over the world; the differences arise in relation to other dimensions of the budgetary activity. Figure 2 shows the percentages of the companies which use budgeting in several states, as well as their importance for the departmental managers. If company managers at all levels do understand and support the budget and all controlling aspects, then they can take advantage of budgeting.

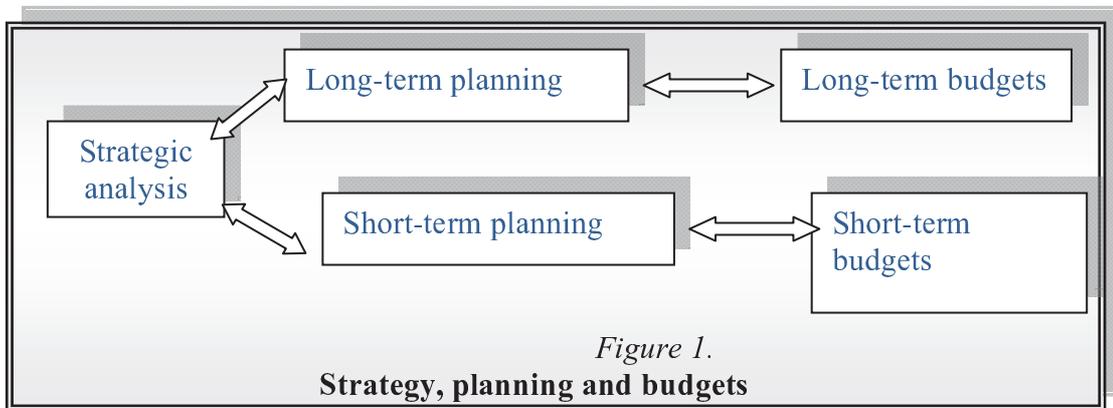


Figure 1.  
Strategy, planning and budgets

Source: C. T. Horngren, S.M. Datar, G. Foster, *Costs accounting, a managerial approach*

Ref. No.	Name	USA	Japan	Australia	The Netherlands	Great Britain
1.	Percentage of companies that draw up a complete general budget	91%	93%	100%	100%	100%
2.	Percentage of companies where departmental managers participate in the debates of the Budget Commission	78%	67%	-	82%	-

3.	Classification of budgetary objectives according to their importance to the departmental managers ( <i>1 being the most important</i> )	1	4	-	-	-
	<i>Return on investments</i>	2	2			
	<i>Profit from operations</i>	3	1			
	<i>Sales revenues</i>	4	3			
	<i>Production costs</i>					
...						

Figure 2. **Budgetary practices in the world**

**Source:** C. T. Horngren, S. M. Datar, G. Foster, Costs accounting, a managerial approach

The changing conditions of the economic environment ask for a modification of plans, therefore budgets should not be rigidly managed by managers. To benefit from all its valences of lever of the economic-financial management, the company's budget has to develop a network of budgets, to descend to the level of each center of responsibility in order to determine the activity areas which negatively influence its results. A manager can unconditionally support a budget, but there might occur a situation when conducting some unplanned repairs or executing an unforeseen advertising program would better serve the company's interests.

Budgets are a fundamental component of most managerial control systems. **Budgeting** is very important to the success of a company since, on the one hand, it determines the managers to analyze the current activity and reflect upon future activities by planning objectives and, on the other hand, it makes possible the performance analysis by comparing results to forecasts. Hence, the undeniable importance of budgeting, through which the overall performance of the company is ensured.

A budget, when intelligently managed: requires strategic planning and implementation of plans; provides a reference framework for performance evaluation; motivates both the managers and the employees of the company; promotes the coordination and communication between the company's divisions.

The dynamics of today's economy requires an improvement in the budgetary process within companies; they need, in order to survive and be prosperous, a complex system of performance and costs management. This can only be achieved by developing advanced forms of budgets.

## 2. CASE STUDY: The Romanian Television Society

The Romanian Television (RTV) is a national society which, in the recent years, has been facing serious financial problems, spendings far exceeding the revenues achieved by it. For this reason, the society benefits from subsidies from the Romanian State.

From the research developed at SRTv, in order to develop this study, it was found that *its management is interested and involved in drawing up, monitoring and controlling the Revenue and Expenditure Budget*, based on the data provided by the general accounting department of the company. Instead, *there is no interest in developing, monitoring and controlling some Costs Budgets*, which would enhance the information of the management accounting and would provide extra useful information to managers. And this, even under the conditions when, within the accounting department of the SRTv, a structuring of expenses into direct, indirect and general expenses takes place. We believe that this is one of the **limits** of the current system of organizing the management accounting in the Romanian Television Society.

### 2.1. General Budget formulation and execution of the SRTv.

**The General Budget** of the SRTv, according to legal regulations in force, is made up of the **Budget of revenue and expenditure, of the Treasury Budget** (cash-flow) and **the situation of the main economic-financial indicators**. The elaboration of the **revenue and expenditure budget** of the SRTv is the procedure whereby they plan the income (resources) meant to achieve the objectives established over a certain period of time (one year) while they plan the level of expenses allowed by resources to meet with the respective objectives.

According to its forecasting function, **the revenue budgeting** represents the estimated level of resources for the budgeted period, respectively for a calendar year. To this effect, within the SRTv, the project of the revenue budget is achieved taking into account all the factors that could determine the size/amount of the budgetary sources, namely:

- The evolution of the income from the TV fee and the TV fee amount charged under the GD 978/2003;
- The assessment of the amounts established by advertising contracts;
- The evolution of income from other activities;
- The level of revenues allocated from the State budget;

- The forecasted level of inflation;
- The estimated exchange rate;
- The forecast of the national economy development in the global economic context, etc.

**The Revenue Budget** is drawn up by the Economic Department via the *Budgets-Economic Analyses Service*. During the process of designing the revenue budget on income categories, the following are considered:

- The situation on the evolution of revenues from the TV fee provided by the *Service Public Television Service Fee*;
- The situation regarding the level of revenues coming from advertising and made by the *Marketing and Product Communication Department*;
- the draft of income budget from budgetary allocations;
- other categories of revenues by analysing the historical evolution of these categories, as well as by adjusting their forecasted level depending on the factors that could influence the evolution of these revenues during the budgeted period.

In order to keep a balance between resources and expenses, the level of expenditure to be budgeted for the given period must be within the forecasted resources.

In the design of the **expenditure budget**, each organizational structure must achieve their own objectives established in accordance with the overall strategy of the SRTV. Also, in the process of drawing up the expenditure budget, they must take into account the factors which could influence the level of estimated expenses and that is:

- programs strategy (the activity of production and broadcasting) established by the head of the SRTV;
- hierarchy of objectives based on the overall strategy of TVR;
- level of resources allocated via the project of expenditure budget of the budgeted period;
- expenses already contracted in previous periods;
- expenses incurred from State budget allocations;
- forecasted level of inflation;
- estimated exchange rate;
- the forecast of the national economy evolution in the global economic context, etc.

All departments and directorates involved have to participate in the process of drawing up the project of the expenditure budget for production and broadcasting so that the expenses incurred by contracting the programs through production conventions must be harmonized with the costs imposed by each and every program and belong to the other structures participating in the making of the respective production (the expenses of the Programs

Department harmonize with those of the Publishing Directorate, of the Artistic and Production Directorate and with those of Technical Department).

*The projects of expenditure budgets*, drawn up by each structure, are submitted to the *Economic Budgets-Analyses Service* which prepares *the overall project of expenditure budget of TVR*, by observing the balance between revenues and costs. The economists responsible for the budgetary activity within each structure must take into account, during the process of expenditure budget elaboration, the principles that constitute the basis of costs level.

The *Economic Budget-Analyses Service* draw up (based on the forecasted overall income and expenditure budget) **the treasury budget**, of the available flow necessary to realize the income and costs budgets. **The treasury budget** is drawn up by using the direct method, on types of activities: operating activity, investment activity and financial activity. Simultaneously, it prepares **an estimated situation of the main economic-financial indicators** on the basis of the project of revenues and expenditure budget.

*The project of the overall budget of income and expenses* is submitted for endorsement to the CD and then for approval to the head of the SRTV, while in CA **it becomes mandatory after approval**. The *Economic Budget-Analyses Service* notifies each structure the level of expenditure budget approved by the SRTV management.

**The implementation of the expenditure budget** shall be made by the *economic Budget-Analyses Service*, the possible differences from the projected level are established, the causes of deviations from the projected level are highlighted and analyzed. **The implementation of the expenditure budget** shall be made by each structure in particular, through the economic staff responsible for this activity, after the data from each structure's own records have been confronted with the data from the financial accounting and the possible differences have been reconciled; considering that the reconciliation of differences implies other structures, too, these shall be notified by the parties involved in the process of expenditure budget implementation (The *Economic Budget-Analyses Service* and the economic personnel of the respective structure). The operative records drawn up by the economic personnel of each structure responsible for running the expenditure budget must observe the principles laid down and fit into the format form for the progress of the foreseen expenditure budget.

## 2.2. Income and Expenditure Budget of the Romanian Television Company

The overall income and expenditure budget of the SRTv includes the Income and expenditure budget from own sources and the Income and expenditure budget from allocations from the State budget (operations covered by the the procedure on budgetary commitments).

The income budget includes total revenues of the SRTv and consists of:

- **own income** of the SRTv which come from:
  - a) sums raised from achieving the object of activity;
  - b) fee for the public broadcasting service;
  - c) delay penalties for failure to pay due tax;
  - d) amounts earned from advertising broadcasting;
  - e) amounts collected from fines and civil damages;
  - f) donations and sponsorships;
  - g) other income earned by the law.
- **Income from allocations from the State budget** approved by the annual budgetary law, allocated to the SRTv to cover some capital expenses (expenditure on development, on equipment purchase), consumables and spare parts necessary for specific activities, to pay the contributions due to international government organizations, as well as, wholly, the necessary funds for the use of broadcasting stations, of radio-relays and video and sound circuits owed to the economic operators in the communications system.

The expenditure budget shall be drawn up by each organizational structure in part starting from the activity specifics and considering: the program schedule approved by the SRTv management, the contracts signed/to be signed for the budgeted period, the necessary facilities and other expenses involved in the proper conduct of the business.

The implementation of the general budget on revenues and expenses of the SRTv comprises the following phases:

- planning the income and expenditure budget;
- implementing the income and expenditure budget;
- tracking, controlling and reporting the income and expenditure

budget.

## 2.3. New dimensions of the antecalculation costs within the SRTv. or the binomial EXPENSES BUDGET – COSTS BUDGET

Studying *THE PROCEDURE regarding THE ORGANIZATION AND LEADERSHIP OF THE MANAGEMENT ACCOUNTING within the SRTV*, approved and implemented in 2010, I came accross, on page 5 (paragraph 5.2.2 of the above mentioned procedure) the formulation according to which,

when drawing up the **Expenditure Budget** of the SRTv, "expenses group into: **direct, indirect and general expenses** and within each group by categories of expenses (materials and inventory items, energy, gas, water, maintenance and repair, rent, insurance, travel, postage, telephone services, protocol, publicity, copyrights and related rights, civil contracts, awards, dues, fees and taxes, labour protection, licences, other services, staff reimbursements – salaries and meal vouchers, banking services, write-off)". Analyzing the structure and content of a **Revenue and Expenditure Budget** drawn up by the SRTv, it was found that the budget groups the expenses in accordance with the requirements of general accounting (financial) and not according to the peculiarities of the management accounting, as previously mentioned in the above procedure. It was also found that at the SRTv **no budgets of costs are drawn up**, there being a confusion between the concept of **expenses** and the term **costs**.

We believe that, based on the above mentioned expenses grouping, within the SRTv, at least three types of **Budgets of Costs** can be drawn up: **the Budget of Direct Costs, the Budget of Indirect Costs and the Budget of General Costs**. In preparing these budgets, we have analyzed the current situation and we consider that these budgets can be drawn up by starting with "THE DRAFT BUDGET OF EXPENDITURE FOR THE YEAR..." which the SRTv draws up annually for the next year, with cost breakdown by each and every month.

Synthesized, the structure of a *Draft Budget of Expenditure* is illustrated below.

**DRAFT BUDGET OF EXPENDITURE FOR THE YEAR ...**

		<b>Budget Position</b>	<b>Jan.</b>	<b>.....</b>	<b>Dec.</b>	<b>Total</b>
<b>Pos.1st</b>	<b>A.</b>	<b>Consumable items</b>	...	...	...	...
<b>Pos.2nd</b>	<b>B.</b>	<b>Inventory items</b>	...	...	...	...
<b>Pos.3rd</b>	<b>C.</b>	<b>Fees</b>	...	...	...	...
<b>Pos.4th</b>	<b>D.</b>	<b>Trips</b>	...	...	...	...
<b>Pos.5th</b>	<b>E.</b>	<b>Insurance</b>	...	...	...	...
<b>Pos.6th</b>	<b>F.</b>	<b>Utilities</b>	...	...	...	...
<b>Pos.7th</b>	<b>G.</b>	<b>Rent</b>	...	...	...	...
<b>Pos.8th</b>	<b>H.</b>	<b>Maintenance-repairs</b>	...	...	...	...
<b>Pos.9th</b>	<b>I.</b>	<b>Telephones</b>	...	...	...	...
<b>Pos.10th</b>	<b>J.</b>	<b>Press passes</b>	...	...	...	...
<b>Pos.11th</b>	<b>K.</b>	<b>Services executed by third parties</b>	...	...	...	...
<b>Pos.12th</b>	<b>L.</b>	<b>Bank fee</b>	...	...	...	...
<b>Pos.13th</b>	<b>M.</b>	<b>Dues</b>	...	...	...	...
<b>Pos.14th</b>	<b>N.</b>	<b>Fees and taxes</b>	...	...	...	...

Pos.15th	O.	Movie licences, sports, coproduction	...	...	...	...
Pos.16th	P.	Protocol	...	...	...	...
Pos.17th	R.	Advertising	...	...	...	...
Pos.18th	S.	Show awards	...	...	...	...
Pos.19th	T.	Salaries	...	...	...	...
Pos.20th	U.	Meal vouchers	...	...	...	...
Pos.21st	V.	Depreciation	...	...	...	...
		<b>Total of expenses</b>	...	...	...	...

We see that at TVR, there are 21 large groups of identified expenses, from consumables, inventory items, fees....to salaries, meal vouchers, depreciation. In its turn, each group of expenses is detailed on a larger or smaller number of expenses items.

For example, for **Pos.1st A. Consumable items**, there is the following particularization:

	A. Consumable items	Jan.	...	Dec.	Total
A1.	supplies	..	..	..	..
A2.	setting	..	..	..	..
A3.	CDs, floppy disks	..	..	..	..
A4.	Cleaning equipment	..	..	..	..
A5.	standard	..	..	..	..
A6.	water, milk (labour protection)	..	..	..	..
A7.	Spare parts	..	..	..	..
A8.	fuel	..	..	..	..
A9.	Other consumable items	..	..	..	..
	<b>EXPENSES ON CONSUMABLE ITEMS</b>	...	...	...	...

In other train of thoughts, from the research carried out, we find that **within the SRTv, costs are divided into compartments and not into programs**. Each compartment of the SRTv has specific budget codes, as follows:

- The "B..." codes represent **direct expenses**;
- The "I..." codes represent **indirect expenses**;
- The "G..." codes represent **general expenses**.

The compartments subordinated to the PDG and to the Economic Directorate have only codes for general expenses. The other structures have codes for direct, indirect and/or general expenses. *Expenses on salaries* have only codes for indirect expenses, they are not allocated to programs, consequently they are not considered direct expenses, but exclusively

indirect expenses. **To our opinion**, this structure of expenses divided into compartments and not into programs is not sufficiently relevant to drawing up budgets of costs and, hence, to analyzing the performance of the SRTv. Background expenses on compartments and not on programs does not allow managers to make decisions that would lead to costs optimization and to an increase of the SRTv performances.

Getting back to the groups of expenses belonging to the *Draft Budget of Expenses* we have referred to above, we **propose** that for each *group of expenses* with the items of expenses it encompasses, we make a separation on categories of direct expenses, respectively production/general indirect expenses if these expenses are covered or not by the production of programs. For example, we propose the following particularization for the expenses group "A. Consumable Items":

	A. Consumable Items	DIRECT EXPENSES, if covered by programs	GENERAL/INDIRECT EXPENSE, if not covered by programs
A1.	supplies	x	x
A2.	setting	x	-
A3.	CDs, floppy disks	x	x
A4.	Cleaning equipment	-	x
A5.	standard	x	x
A6.	water, milk (labour protection)	-	x
A7.	Spare parts	-	x
A8.	fuel	-	x
A9.	Other consumable items	x	x
	<b>EXPENSES ON CONSUMABLE ITEMS</b>	<b>Total of Direct Expenses</b>	<b>Total of General /Indirect Expenses</b>

**Concluding** the above, it results that within the SRTv:

- expenses that fall into the television production (the programs) and which are mentioned in *framework quotations* are exclusively **direct expenses**;
- expenses that do not fall directly into the production of programs are **indirect expenses**.

This particularization of the content of each group of expenses, in order to know the direct and indirect expenses, both in total and per each category, represents *the first step in the process of drawing up a Budget of Costs*.

Based on the above, we consider that at the SRTv they can draw up a **General budget of production costs** which will sum up the information provided by the *Budget of Direct Costs* (BDC) and the *Budget of Indirect Costs* (BIC).

$$\mathbf{GBC = BDC + BIC}$$

**The Budget of Direct Costs**, can be, in its turn, a sum of at least three budgets:

- Budget of Direct Costs with Materials (BDM);
- Budget of Direct Costs with Salaries and Related Contributions (BDS);
- Budget of Other Direct Costs (BOD).

$$\mathbf{BDC = BDM + BDS + BOD}$$

**The Budget of Indirect Costs** is, in its turn, a sum of other two budgets:

- Budget of Indirect Costs of Production (common set costs, BICP);
- Budget of General Costs of Administration (BGCA).

$$\mathbf{BIC = BICP + BGCA}$$

We must certainly consider the **Budget of Broadcasting Costs**, too.

Due to the necessities of costs analyses, and in order to determine the profitability per each product (**TV programme**), in order to identify the concrete possibilities to reduce the production and broadcasting costs and in order to adopt the appropriate measures, the economists from the SRTv can also draw up a **Budget of Unit Cost per Programme**. At the foundation of such a budget there is the nomenclature of production expenses per calculation items.

We must identify the direct production costs **forecasted** for each product (TV programme) in particular. Then, the indirect production costs (common set costs), the general administration costs and the broadcasting/distribution costs are distributed to cost carriers, in order to calculate the production cost, namely, the full cost. The example of a **Budget of unit cost for the Tezaur Folcloric programme** at the SRTv is shown below:

*The Romanian Television Corporation*

**The Budget of Unit Cost for the TV Programme „Tezaur Folcloric”**

*Season: XV*

*Number of editions: 30*

*Duration: 50 min./edition*

<b>CATEGORY OF COSTS</b>	<b>Forecasted unit cost (lei)</b>
<i>Direct production COSTS, of which:</i>	<u>1,250,000.00</u>
a) Direct expenses with materials	500,000.00
b) Direct expenses with salaries and related contributions	750,000.00

	505,000.00
<i>Indirect production COSTS (common set costs), of which:</i>	390,000.00
a) Expenses on maintenance and operation of technical equipment	115,000.00
b) General set expenses	
<b>Production COST</b>	<b>1,755,000.00</b>
<i>Costuri generale de administrație</i>	60,000.00
<i>Costuri de difuzare</i>	89,000.00
<b>Full COST</b>	<b>1,904,000.00</b>
<b>Unit Cost per edition</b>	63,466.66
<b>Cost per minute broadcast</b>	59.33

The **Budget of unit cost** can be useful for the SRTv both at substantiating the income that can be earned from advertising and at performing the budgetary control of the respective structures. Budgetary control allows:

- Comparing achievements at different levels;
- Analyzing and controlling observed differences/deviations;
- Establishing appropriate corrective actions.

### 3. CONCLUSIONS

In an unstable economic environment, extremely competition, given the limited resources at hand, it feels all the more acute the need of forecasting various components of the SRTv, in order to obtain the desired performance. Therefore, the activity of the SRTv must unfold within the relationship of balance between income and expenses. In the current market economy, this company doesn't manage to maintain this balance, the costs of obtaining the production of programs surpassing by far, in some cases, the level of revenues obtained from production sale. Thus, in front of the managers, there rises the issue of finding some methods and tools to enable them to dimension and control the balance relationship between income and expenditure within the company they manage.

**Budget**, can and has to become, an instrument of harmonisation and streamlining the relationship between expenditure and revenues within the SRTv, and **costs budgeting** has to be *a systematic economic practice that involves the deployment of a formal process for allocating the financial resources in order to achieve the objectives laid down for the following periods.*

With the adoption of budgets, the performances of the SRTv can be assessed by reporting the results obtained to the budgets already drawn up. In other words, budgets will allow managers to overcome shortcomings by

using past results in order to analyze current results, namely: the past results include both results and the performances of past standards; by using previous results, we predict the future, though the conditions may vary.

The increased spreading of the use of budgetary technique results from the advantages of using budgetary systems. In order to reap the advantages of budgeting, managers at all levels of the company should understand and support the budget and all aspects of the management control systems. Managers, by planning future activities seek to anticipate certain issues, and also the way these could be avoided. Consequently, **budgets are those that provide a measure of the financial results that the SRTv may achieve as a result of planning some activities.**

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