

Zero Based Budgeting

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Zero Based Budgeting

Zero-based budgeting is the accounting technique that involves the preparation of an organizational budget from a scratch. It involves the assessment of every item included in the cash flow statements and making justifications of all the expenses that a department has to incur. In the zero-based budgeting, all the expenses incurred during the new trading period are typically calculated as the actual expenses that the firm is to incur in the current period while taking into considerations the changes in the operational activity (Glass et al., 2014). One major element of zero-based budgeting is that it does not depend on the past years budget or some historical budgeting data. In essence, it requires that managers come up with the appropriate budget for the current year and gives justifications.

Zero-based budgeting is associated with various advantages and disadvantages. One major advantage of zero-based budgeting is the accuracy. Zero-based budgeting requires every department of an organization to evaluate each item of the cash flow and calculate their operation cost (Glass et al., 2014). This increases its accuracy in estimating the actual budget since it involves a lot of justification for the items to be included in the budget. The other notable advantages of this type of budgeting include flexibility, lower cost, focused operation and disciplined execution of the budgeting process.

Although Zero-based budgeting has several benefits that support its use by firms, there are also some few shortcomings of this budgeting process. The major limitation of this budgeting process is that it can lead to the reward of short-term thinking when it causes a shift of resources towards organizational areas that will generate revenues for the company in the following trading period (Glass et al., 2014). Besides, the zero-based budgeting is required huge resources, failure to support short-term planning and vulnerable to manipulation.

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An example of a company that uses zero-based accounting technique is Tesco PLC.

Tesco which is a giant retail store in the United Kingdom has continuously used the accounting technique to achieve one of its major objectives that are concerned with cost reduction.

ZERO BASED BUDGETING

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Reference

Glass, V., Stefanova, S., & Prinzivalli, J. (2014). Zero-based budgeting: Does it make sense for universal service reform?. *Government Information Quarterly*, 31(1), 84-89.