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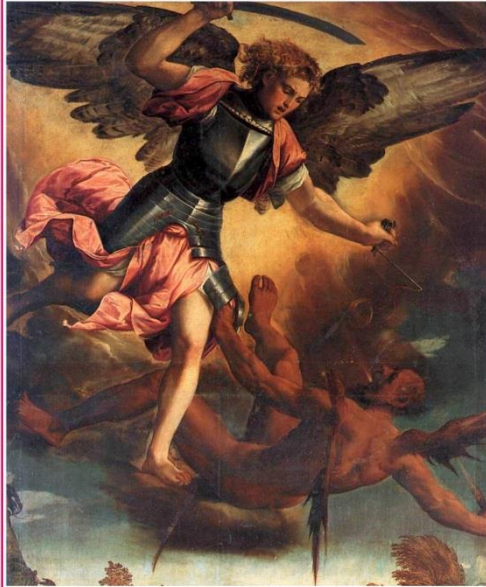
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Universidad del Zulia  
Facultad Experimental de Ciencias  
Departamento de Ciencias Humanas  
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# Preparation of the Cash Budget Based on Activities to Evaluate the Budget

**Ali Abbas Kareem<sup>1</sup>**

<sup>1</sup>Department of Accounting, college of Economics & Administration,  
university of AL-Qadisiyah, Iraq  
[alia80266@mail.ur](mailto:alia80266@mail.ur)

**Adheem naeem pachi<sup>2</sup>**

<sup>2</sup>Department of Accounting, college of Economics & Administration,  
university of AL-Qadisiyah, Iraq  
[a.fdh83@mail.ur](mailto:a.fdh83@mail.ur)

**Asaad Ghani Jihad<sup>3</sup>**

<sup>3</sup>Ministry of Higer Education &Scientific Reesearch  
[aburafat2006@mail.ur](mailto:aburafat2006@mail.ur)

**Ali Naeem Jasim<sup>4</sup>**

<sup>4</sup>Ministry of Higer Education &Scientific Reesearch  
[alzubaidyali305@mail.ur](mailto:alzubaidyali305@mail.ur)

## Abstract

This study aims to go into the subject of the preparation of cash budgets in construction companies, according to one of accounting administrative strategy methods through using the basis of activities for the preparation of this budget. The results of the study have signaled to the possibility of application of this technique in the preparation of cash budgets for construction companies. In conclusion, the determination of the optimal cash balance for the contracting company will provide the possibility of identifying the funds to be retained by the contracting companies to meet the withdrawals by it as well as funds.

**Keywords:** Cash, budget, construction, activities, financial.

## *Preparación del presupuesto en efectivo basado en actividades para evaluar el presupuesto*

### **Resumen**

Este estudio pretende abordar el tema de la preparación de presupuestos en efectivo en las empresas de construcción, de acuerdo con uno de los métodos de estrategia administrativa contable a través del uso de la base de actividades para la preparación de este presupuesto. Los resultados del estudio han señalado la posibilidad de aplicar esta técnica en la preparación de presupuestos en efectivo para las empresas de construcción. En conclusión, la determinación del saldo de efectivo óptimo para la compañía contratante brindará la posibilidad de identificar los fondos que las compañías contratantes retendrán para cumplir con los retiros, así como también con los fondos.

**Palabras clave:** efectivo, presupuesto, construcción, actividades, financiero.

### **1. INTRODUCTION**

In this study, we try to shed light on the reality of preparing budgets in the contracting sector. And directing the budget-making body to focus attention on preparing it more accurately and objectively. The preparation of budgets, which represent one of the pillars of the performance evaluation process in addition to the actual data, will contribute to the development of control methods and the

development of performance using more efficient, efficient and economical human resources.

Therefore, the central objective of this study is to highlight the problem of non-preparation of budgets accurately and objectively in the contracting sector, which leads to the failure of the establishment of any economic project, and then try to find a system of budgets for contracting companies to achieve control over the use of available resources and evaluate the actual performance and planning better for the future. In order to reach the research objectives, the following hypothesis will be tested: Cash Budgets can be prepared on the basis of activities in the contracting company's activity in Iraq. This will help control, reduce costs, plan and control the activities of the company properly during the project period and before the end of the financial period and know the results of the activity of these companies.

## **2. THEORETICAL ANALYSIS**

The cash budget represents one of the important tools in the management accounting for planning, control and help the administration in control of its available funds and planning in order to get full use to achieve highest possible return in the operational and strategic long-term from the traditional view, the cash budget represents one of the most important elements of the budget of the

financial position, it is a presentation of expected receipts and expected payments of cash during a period of time, production schedule and other expenses (Hilton, 2008). From this traditional sense for the cash budget concept, the cash budget is can achieve the ability of long-lasting and competition and achieving its goal for economic unity without being subjected to financial crises. So we can identify the sources and uses of cash through the following table:

No.	Monetary sources (everything lead to incomes)	No.	Using the money (everything lead to exit money)
1	Contributors :issue new shares	1	Production costs : materials costs Wages Industrial costs
2	Lenders : getting loans	2	Expenses of selling , distribution and management
3	Selling operation –monetary activities of selling -fixed available assets Selling collections	3	Selling the fixed available of new monetary
4	Other incomes	4	Paying the loan interests
5	Helps, denotations and grants of other bodies	5	Paying tax on profits
		6	Other uses and distributing profits ,awards

Table 1: The sources and uses of cash

For the purpose of preparing the cash budget, it must identify the main sections , as consisting cash budget from the cash balance beginning of the period, which represents the cash balance last term for a previous, as well as cash receipts and include all expected collected from the cash during a period of budget and cash payments of purchases of cash materials and payments to creditors, direct wages,

costs of industrial indirect monetary and marketing expenses and administrative cash, usually the non-cash payments are excluded when determining the number of budget cash payments, and examples of non-cash payments, which represent such as depreciation and depletion and others. The numbers can be a budget for the cash payments, which represent a table with details of cash expected to be paid within a period of budget (Abuhashish, 2005; Altikriti, 2006; Kohestani et al, 2016).

The concepts of activities have varied in the views and ideas of researchers and academics Kaplan et al. (1995) has defined activity as an event or action or part of the work being done to achieve a particular goal. Hilton (2008) sees activities as the tasks or functions or business units related to a particular goal. While Martin (2004) believes that the activities are an event or action or part of the work, refers to the performance of activities in a various business organization. Another sees it Hansen and Mowen (2007) as the basic unit of work performed within any organization, it can also be defined as a grouping of businesses within the organization useful to managers for planning, control and decision-making. From the standpoint of Hilton (2008), the activity is a business unit or task for a specific goal a set of processes or procedures that forms the essence of the work, the essence of the work that is being performed within the economic union.

### **3. METHODOLOGY**

The scientific methods commonly used in the planning of projects is the economic system budgets but the construction companies privacy must be introduced in the preparation of budgets, including that the work of construction companies or sometimes called companies long-term contracts, where the work is not typical, it is not a production line produces similar homogeneous products and, but that the contracting activity is broad and pledges multiple ones at, for example, but not limited to construction contracting, Electrical & Mechanical Contracting and other species and all of these types can be divided into several sections. For example, a construction contract is divided into the construction of buildings and the construction of roads and the establishment of roofs structures, etc. (Dahir, 2002; Marbán & Mulenga, 2019).

The problem is that the construction companies in Iraq are still using traditional methods and rules for the preparation of their budgets which will reflect negatively on the effectiveness of these budgets as a tool for planning and control in these companies and make them lose the main goals in the field of control and reducing costs within the operating range and strategic range. In order to reach the research objectives, the following hypothesis will be tested: Budgets can be prepared on the basis of activities in the contracting company's activity in Iraq. This will help control, reduce costs, plan and control the activities of the company properly during the project period and

before the end of the financial period and know the results of the activity of these companies. The Near East Company for General Contracting Ltd. was selected as a private sector research firm (Bhimani et al., 2008; Rezaei & Nemati, 2017). in the company, where analysis of the company's activities shows:

Main activities	Supporting activities
Advisory services Activity and engineering and architectural designs	Accounting Activity
Activity of drilling and construction	Fund activity
Activity of electrical installation works	Activity Protection Force Security
Activity of installation works health and aquatic	Activity of stores
Activity of casting and concrete works	Activity of purchases
Painting Activity and Finishing works	Activity of Fixed Assets Division
Activity of maintenance work	
Activity of Woodworking and scaffold	

Table 2: Main and supporting activities in the company

The planned budgets for the company have been prepared, depending on the amount of change of previous years, in which three previous years are selected and the amount of change is calculated then this change is added to the actual calculations for the last year for the purpose of access to the planned budget for the coming year. For the purpose of estimating the income and expenditure of the contracting company S for the year 2010, the researcher will depend on quantitative methods for predicting revenue and costs , the most common of these methods is the general trend so there will be relying



on the balance of the audit of the contracting company S for the years 2005 to 2009 for the purpose of predicting the accounts for the year 2010, we can measure the general direction using the straight-line equation and using the following equation.

$$R = a + b S$$

R = annual revenues/ expenses, S = time in years, a = equation constants, which are calculated by dividing the sum of the five R (number of years), b = constants of the equation, which is calculated by dividing the sum of S R on S<sup>2</sup> to determine the values of a, b extract the following equations: (n value= the length of time).

2- Total of R = n a + b by total s

3- Total of SR = a by total s + b by total S<sup>2</sup>

The revenue for the past five years for the construction company as follows:

Annual accounts	2005	2006	2007	2008	2009
A variety of services	010350	021000	0134800	4000156	000040
Other income	100000	240000	65000	130000	550000
Revenues of completed measurements	814586	1046697	922423	1241400	1114224
Prior year revenues	5001	44000	23600	3700	98000
Revenues of rent fixed assets	50000	120000	300000	320000	256000

Table 3: Q Contracting Company revenues for the years 2005 to 2009. (Amounts in thousands dinars)

Depending on the data of the previous table we can predict revenues of various services by using the straight-line method as in the following.

A variety of services revenue				
Year	X	Y	XY	X2
2005	-2	103500	-207000	4
2006	-1	210000	-210000	1
2007	0	1348000	0	0
2008	1	1564000	1564000	1
2009	2	400000	800000	4
	0	3625500	1947000	10
A		725100		
		194700		

B

Table 4: The application of the equation of a straight-line to predict a variety of services revenue (Amounts in thousands dinars)

It is through the application of straight-line we method can access all the projected income estimate for the contracting company and Q, as in the following table:

$$19470 * 4 + 44510 = 122390$$

Activities	accounts	Amounts
Activity of diversified services	a variety of consulting services	1503900
Activity of current activity revenue	Revenues of the completed measurements	1949021
Other revenue	Selling the commission and transfers	349000
Revenues of previous years	debt collection	54830
Revenue of fixed assets rents	rental machinery and equipment	276800

Table 5: Revenue Planned for the contracting company for the year 2011 (Amounts in thousands dinars)

We note from the above table that the proportion of indirect costs is 82.5 % for the total cost and it is a good percentage for the application of ABC, as the indirect costs will be distributed on activities relying on appropriate cost vectors routers cost, based on the criterion of the cause and effect for the consumption of resources by activities, There is a difficulty in determining the cost vectors for all elements of cost because of the lack of costs system in the contracting company, the research sample. Table (5) shows the distribution of indirect costs depending on the cost vectors.

Accounts	Cost vector
Allocations	number of employees
Stationery	Number of workers in beneficiary activities ,the number of employees and cleaners is excluded
Transfer of the workers employed	number of workers
Travel and delegation	number of workers
Maintenance of furniture and office equipment	number of offices

Table 6: Determining the initial vectors of indirect costs on the services of activities of the contracting company Q. The wages and the share of the contracting company of social security have been allocated to some of the activities based on the available data about associate from the human resources department in the contracting company Q , the remainder of the wages and other costs such as fuel, oil, water, electricity, maintenance of buildings and facilities, maintenance of machinery and equipment , transport of

goods and products, public telecommunications, and other service expenses, etc. have been allocated directly on the activity of public services. The following table shows quantities of cost vectors to be used in the distribution of indirect costs on the activities:

Activity	number of employees	Number of offices
Activity of engineering implementation division	15	3
Activity of engineering designs division division	3	1
Activity of security protection force	6	1
Activity of pricing bids Division		
Activity of fixed assets Division	5	2
Activity of Administration Division	4	1
Activity of PD	4	2
Activity of Accounting Division	2	3
Activity of Fund Division	3	1
Activity of Control and Audit Division	2	1
Activity of Protection Force Security	3	1
Activity of stores	2	1
Activity of public services	2	1
Total	17	55

Table 7: The amount of cost vectors for the distribution of indirect costs on activities.

After viewing the routers cost vectors amounts in the table above, we will use the vectors to distribute the cost that is consumed by activities. It is through the application of the equation can be determined that the cash cost of the activities will be borne by the

contractor as it will be the exclusion of non-cash costs (the extinction of plant and equipment, furniture and office equipment) and also preparing cash budget on the basis of activities for the purpose of preparing the budget on the cash basis of the activities of the contracting company Q for the year 2010 are: First: preparing the budgeting cash receipts. Second: It has been prepared the budget cash payments on the basis of activities

Details	sub	total
Cash balance first period	5674556	
Cash receipts	4133551	
Available cash	9808107	
Cash payments	(4163807)	
Last term , cash balance	5644300	5644300

Table 8: The cash budget for the contracting company Q for the year 2010 (Amounts in thousands dinars).

Based on the model of Baumol applied through the following equation:

$$S^* = \frac{\sqrt{2 \times w \times a}}{P}$$

$S^*$  = optimal cash balance.

$W$  = interest rate borne by the contractor as a result of borrowing from the central bank or other banks.

$a$  = the amounts expected to be spent during the period (of balancing the cash payments).

$P$  = interest expected to be paid by the contractor on the Q funds held.

It is through the application of the equation for the model Baumol get to the cash balance and optimized as follows:

$$S^* = \frac{\sqrt{2 \times (0,05 \times 14958014) \times 14958014}}{0.045}$$

$S^* = 22298000$  thousand dinars' cash balance optimization (with rounding). After determining the optimal cash balance to be retained by the contracting company Q we can determine the amount of the surplus or deficit in the cash balance by comparing the closing balance (the budget of the company's cash) with the optimal balance of cash and, as in the following equation: The cash balance last term - the target cash balance (cash balance optimization) = surplus (deficit) in cash balance

$43068426$  to  $22298000 = 20770426$  thousand dinars surplus in the balance of cash.

### 3. CONCLUSION

It can take advantage of this surplus to achieve profits for the company by investing the surplus in the filing of this surplus in savings deposits at banks bonds and Treasury Bills and other facilities for the other contracting company and should be expanded in the granting of loans, taking into account the risks associated with these loans, especially with the circumstances by the Iraqi economy and its impact on all the activities .Doing so can prove the hypothesis that the study was based upon the possibility of the use of budgets on the basis

of the activities of planning and cost control in the Iraqi construction companies. The study's conclusions and proposals. The researchers found a set of conclusions and are as follows:

1 – The cash budget on the basis of activities aimed at improving the mechanism of action of contracting companies through the provision of high-resolution methods to predict future costs and to develop a more realistic budget through joint efforts by the staff cadre officials in the contracting companies

2 - Diversity and different sources of funding for banks, whether internal or external, and external sources of funding represents the bulk of the money that is in the possession of contracting companies in its various forms, such as deposits and borrowing from the central bank and other banks, local and foreign, and different insurance policies.

3 – Using of funds belonging to the company in the uses of different ones to meet the expenses of different resulting from the practice of contracting companies for various activities, as well as the use of funds in investments as diverse as the purchase of shares in the economic units different to the purpose of obtaining profits or investing in government bonds and treasury bills and public as well as the granting of loans and the granting of advances and other facilities construction companies.

4- The preparation of the budget influenced on a cash basis by internal factors and activities for activities and services provided by construction companies and other factors, as well as external factors surrounding the contracting companies, which requires taken into account when preparing the cash budget for the contracting company.

The recommendations presented by the researchers included the following:

1 - Apply cash budget on the basis of activities instead of the traditional method of preparing the budget in cash for the contracting company that does not provide detailed information about what each regards the activities of the construction companies.

2 – The necessity to prepare a cash budget on the basis of the activities of the contractor and that the importance of the element of criticism in activity in the construction companies, and work to compare actual performance with the planned extraction deviations and determine their causes and methods of treatment in the future.

3 - The cash budget on the basis of activities provide the foundation for the proper management for the purpose of evaluating each activity of the construction companies.

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