

## OPERATING BUDGETS AS THE MANAGEMENT CONTROL

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### **Abstract**

*Regional Water Company (it's called as PDAM) Tirta Tuah Benua East Kutai is a company owned regions that serves the area's water needs in the region Sengatta, East Kutai. PDAM has financial planning for the future that summarized in a budget. The purpose of this study is: 1) Analyzing the operating budget deviations against the realization operational at PDAM Tirta Tuah Benua East Kutai. (2) Analysis of operational deviations to improve management control in PDAM Tirta Tuah Continent East Kutai. Results of variance between budget and actual in 2011 namely: (1) Total revenue has unfavorable deviation; (2) favorable deviation occurs in total of business direct cost, total of business indirect cost, Total revenues and other expenses, and operating loss before income tax. Results of the variance is known that there are deviations between budget and realization in 2012, namely: (1) Total revenue has favorable deviations; (2) unfavorable deviation occurs in total of business direct cost, and profit or loss of business before income tax; 3) favorable deviation occur in indirect cost of business, the cost, the amount of revenue and other expenses. Deviation of the most dominant in the operational budget of 2011 contained in variable of the business direct costs, namely cost of operation of transmission and distribution that have unfavorable deviation. In 2012 the most dominant irregularities contained in the same variable, maintenance cost of Water Treatment which has unfavorable deviation.*

**Key words:** deviation, management control, operating budgets

### **INTRODUCTION**

Every company organization needs a control, financial planning, and company budget. Control [9] is the process of measuring and evaluating the actual performance of each part of the organization of a company, and then implement corrective actions if necessary. Management control [1] is the process by which managers influence other members of the organization's strategies.

The main functions of management control [2] is a planning and control. Planning and control are the two things are inseparable. Planning look to the future, which was to determine the measures to be taken to realize certain goals. Controlling look to back, namely assess that has produced and compared with the plans that have been prepared.

Management to obtain certainty, whether the organization had been carrying out what has been set out in the planning, it is necessary to control the management, as the process of motivating and encouraging managers to

implement the organization's activities in order to achieve the goals set [1].

Important component in the enterprise planning related to finance and budgets. Budget [3] is Budget be defined as a financial plan that serves as basic for expenditure decision making and subsequent control expenditures. Management control [4] is: Profit planning and control may be broadly as defined as systematic and formalized approach for accomplishing the planning, coordinating and control responsibility of management. The budget can be a tool of management control of the company, comprise [5] to evaluate (assess) on the implementation of the work, by the way: (1) Comparing the realization of the budget plan. (2) Perform corrective action when deemed necessary (if there are adverse deviation).

Grouping budget [6] among them the operating budget. The operational budget [9] is a business plan that covers all the main activities of enterprise in obtaining revenue within a certain period, aims to draw up the budget income [7]. The operational budget

includes [8]: (a) budget revenues, (b) cost budget, and (c) profit budget.

The operational budget is one of the tools for the management of a company to planning financial measures and decisive to policy in the future in a certain period.

This is in line with the budget PDAM Tirta Benua East Kutai, which is one important aspect to plan decisions to be taken by the management, so that in the event of a mistake or inaccuracies in planning or executing the budget may result in a decrease in the company's performance. Inaccuracy or the difference between the budget and realization can also occur in PDAM Tirta Benua East Kutai. Regional Water Company (It's call as PDAM) Tirta Benua East Kutai is a business entity (organization) owned by local governments that provide services and to organize public interest in the field of drinking water.

Since the formation to PDAM of the East Kutai Regency in 2001 and then it's changed name to PDAM Tirta Benua East Kutai, PDAM performance did not improve the performance and service PDAM even worse.

Since 2010, East Kutai Regency Government has committed to improving water service to the community. PDAM has reached 14 service areas where 3 Installation of Water Services in the cities area and 11 Installation of Water Services there is in rural areas.

This service improvement is not followed by the improved financial performance, it is seen from the realization of the financial statements below budgeted figures in 2011 and 2012.

Based on description above, the formulation of the problem is: (1) Is there an deviations of operating budget in actual operation; (2) Does the analysis of operational deviations can improve management control.

## **MATERIALS AND METHODS**

Research conducted at PDAM Tirta Benua East Kutai located in Swarga Bara-Sengatta, East Kalimantan, Indonesian. The research focused on Projections of the Budget of Income company PDAM Tirta Benua East Kutai period 2011-2012. The

main component of operating budget PDAM Tirta Benua East Kutai consists of (a) Operating Revenues; (b) Direct Cost of Business; (c) Indirect Costs of Business; (d) Other Costs; (e) profit (Loss) Business Gross; (f) Profit (Loss) Business; (g) Profit (Loss) Before Income Taxes.

Operational Budget study conducted to determine the cause of the deviation that occurred in the budget. This study uses analysis tools as follows:

### **Analysis of Variance**

Analysis of variance was analysis of variance (difference) budget. It's used to determine the actual results of budgeted plan, namely by comparing costs and revenues are allocated to the realization [6].

Deviations between budget and realization consists of deviation favorable and deviation unfavorable. Determination of the deviation favorable (favorable) and adverse the deviation (unfavorable), there is a very significant difference between revenue and costs [7]. That are:

(a) The revenue aspect, if the budget is smaller than the realization then the deviations that occur is favorable. If the budget is greater than the realization of then the deviation unfavorable.

(b) The cost aspect, if the budget is smaller than the realization of then the deviation is unfavorable. Meanwhile, if the budget is greater than this deviation profitable realization or favorable.

### **The cause of deviation.**

Budget variance analysis can show where the difference between actual results with previously set budget. So that can know the cause of the deviations that occurred, but the analysis of variance would have no meaning unless the variances are reported separately based on the factors and organizational units responsible so that deviations can be corrected.

## **RESULTS AND DISCUSSIONS**

### **Results**

This study was conducted on the operational budget income PDAM Tirta Benua East Kutai in 2011 and 2012. Some of the

categories on the profit and loss in the analysis of variance, namely revenue, direct cost of business, indirect costs of business, revenue and other expenses, profit and loss of gross, profit and loss of business, and profit and loss before income taxes.

(1) Revenue, consisting of water revenues, and non-water sales revenue. Non water sales revenue consists of revenue the new connection, openings back, late payment penalties, enforcement services of water meters and water revenue.

(2) Direct Costs of Business, consisting of the operating costs of water source, water source maintenance costs, the cost of raw water, depreciation costs of water sources, operating costs of water treatment, water treatment maintenance costs, depreciation costs of water treatment, operating costs of transmission and distribution, maintenance costs transmission and distribution, depreciation costs of transmission and distribution.

(3) Indirect Costs, comprised of personnel costs, office costs, the cost of the subscription relationship, research and development costs, financial costs, maintenance costs, and cost of allowance and removal, receivables, miscellaneous general expenses, and depreciation and amortization.

(4) Revenue and Cost Others

The following table shows a summary of variances between budget and actual operational of PDAM Tirta Tuah Benua East Kutai for 2011 and 2012.

### Results Variance Budget of Operations PDAM Tirta Tuah Benua East Kutai in 2011.

The following table shows a summary of variances between budget and actual operational of PDAM Tirta Tuah Benua East Kutai for 2011.

#### 1. Operating Revenues:

Operating revenues produces unfavorable variance showed -80.15%. Analysis of variance were performed on:

(1) The results of the analysis of variance in revenues water caused by the budget of water usage, number of customers, average usage per customer connection (SL) per month, and the average price of water is under the specified budget;

(2) Non-water sales revenues consist of revenues the new connection, openings back, late payment penalties, enforcement services of water meters and water revenue. Non water sales revenues have unfavorable deviation caused by the late payment fines adjusted. surveillance services, enforcement services of water meters, repair services and other revenues were realized less than budgeted.

Table 1. Results Variance Budget of Operations PDAM Tirta Tuah Benua East Kutai in 2011.

Description	Year 2011	
	Variance (%)	U/F
Total Operating Revenue	-80.15%	unfavorable
Total Direct Cost of Businesses	-30.77%	favorable
Total Indirect Cost of Businesses	-13.77%	favorable
Total Revenue and Cost Others	-10.96%	favorable
Profit (Loss) Business Gross	-131.90%	unfavorable
Profit (Loss) Business	-401.64%	favorable
Profit (Loss) Before Income Taxes	-263.41%	favorable

#### 2. Direct Costs of Business:

Total direct cost of business produces favorable -30.77% deviation. Analysis of variance were performed on:

(1) The operating costs of water sources do not produces a deviation, because there is nothing in the budget but directly realize unfavorable expenditure; (2) Cost of Maintenance of Water Resources, has a favorable aberration due to the cost of electricity, the cost of chemicals is realized less than budgeted; (3) Cost of raw water do not produces favorable aberration because its budget is the result at the end of this month without doing it realization; (4) Depreciation costs of water sources produces unfavorable deviation; (5) The operating costs of water treatment produces favorable aberration caused miscellaneous of amortization expense and depreciation expenses are under budget; (6) Cost of maintenance of the water treatment produces unfavorable deviation. This deviation is caused by the water maintenance costs realized under the budget; (7) Depreciation costs of water treatment produces unfavorable deviation; (8) The operations cost of transmission and

distribution produces unfavorable deviations because it has the greatest deviation from the value of other components; (9) The cost of maintenance of transmission and distribution produces deviation favorable; (10) Depreciation costs of transmission and distribution produces deviation caused depreciation costs are under budget.

**3. Indirect Costs of Business:**

Indirect costs of business have favorable - 13.77% deviation. Analysis of variance were performed on:

(1) Cost of employees, office fee, customer fee produces deviations favorable; (2) Research and development costs do not produces deviations because budget has been implemented without realized; (3) The cost of maintenance, and the cost of the allowance for receivables have favorable deviation; (4) Miscellaneous general costs have unfavorable deviation; (5) Depreciation and amortization does not have a presentation deviation, because the direct costs in the budget realized without beforehand.

**4. Revenue and Cost Others:**

Total revenues and other expenses have favorable -10.96% deviation. Analysis of variance were performed on:

(1) Total revenue outside the business have unfavorable deviation. This occurs because receipt of interest on deposits and interest checking services that factor into the preparation of other income is smaller than that in the budget; (2) Jumlah biaya di luar bisnis memiliki penyimpangan yang menguntungkan.

**5. Profit (Loss) Before Income Taxes:**

Income (loss) before income tax resulting from the calculation of total income, total expenses and business income. Analysis of variance is favorable.

**Results Variance Budget of Operations PDAM Tirta Tuah Benua East Kutai in 2012.**

The following table shows a summary of variances between budget and actual operational of PDAM Tirta Tuah Benua East Kutai for 2012.

**1. Operating Revenues.**

Total revenue produces favorable deviation 29.67%. Analysis of variance were performed

on:

(1) The results of variance in water revenue produces favorable deviations that. Budget predetermined number has a smaller value than its realization; (2) The sales income of non water has favorable deviation, caused by supervisory services, enforcement services of water meters, repair services realized lebh larger than budgeted.

Table 2. Results Variance Budget of Operations PDAM Tirta Tuah Benua East Kutai in 2012

Description	Year 2012	
	Variance (%)	U/F
Total Operating Revenue	29.67%	favorable
Total Direct Cost of Businesses	21.97%	unfavorable
Total Indirect Cost of Businesses	-3.49%	favorable
Total Revenue and Cost Others	-27.45%	favorable
Profit (Loss) Business Gross	11.20%	unfavorable
Profit (Loss) Business	2.18%	favorable
Profit (Loss) Before Income Taxes	18.47%	unfavorable

**2. Direct Costs of Business:**

Total direct cost of business produces unfavorable deviation 21.97%. Analysis of variance were performed on:

(1) Costs of operating sources produces unfavorable deviation. This happens because the cost of electricity, the cost of chemicals is realized is greater than the budget; (2) Cost of Maintenance of Water Resources has a favorable deviation. This increase is due to the work cable networks that are not budgeted; (3) Cost of raw water do not produces favorable deviation. because the budget is not realized; (4) depreciation costs of water sources produces unfavorable deviation; (5) The cost of the water treatment operations produces unfavorable deviation, because research and development costs in excess of its budget; (6) Cost of maintenance of water treatment produces the greatest deviation among other irregularities namely unfavorable. This variance is caused the maintenance of water treatment realized over the budget; (7) depreciation costs of water treatment produces unfavorable deviation; (8) The operations cost of transmission and distribution produces unfavorable deviation;

(9) The cost of maintenance of transmission and distribution produces unfavorable deviation; (10) depreciation costs of transmission and distribution produces unfavorable deviation.

### **3. Indirect Costs of Business:**

Total indirect costs of business have favorable -13.77% deviation. Analysis of variance were performed on:

(1) Cost of employee produces favorable deviation; (2) Cost of office produces favorable deviation; (3) Cost of customer relationship produces favorable deviation; (4) Costs of research and development produces unfavorable deviation; (5) The financial costs have favorable deviation; (6) Cost pemeliharaan produces favorable deviation; (7) Cost of allowance receivables have favorable deviation. This happens because of the interest and principal that is not in the budget; (8) Other general costs have favorable deviation. This is due to miscellaneous general expenses were realized under budget; (9) Depreciation and amortization had a favorable deviation.

### **4. Revenue and Cost Others:**

Total revenues and other expenses have favorable -27.45% deviation. Analysis of variance were performed on:

(1) Total revenue outside the business have unfavorable deviation. Deviations occurred in others income occurred because the interest rate on deposits and giro services can be factors others income component is smaller than the budget. Other revenues under the budget also caused by the sale of meter former and retribution fees decreased hygiene; (2) Total expenses outside the business have favorable deviation.

### **5. Profit (Loss) Before Income Taxes:**

Income (loss) before income tax resulting from the calculation of total income, total expenses and profit (Loss) business. Deviations are favorable 18.47%.

## **2. Discussions**

### **1) Results of Variance.**

Based on the results of the variance in the operating budget and realization in PDAM Tirta Tuah Benua East Kutai in 2011 and 2012 can be seen in several managerial aspects, namely:

#### **a. Operational budget by 2011.**

After carried the variance is known that in 2011 occurred the many costs that exceed the budget, namely the cost of operating the water source, water source depreciation costs, maintenance costs of water treatment, water treatment depreciation costs, cost operations of transmission and distribution, depreciation costs of transmission and distribution, other general expenses, depreciation and amortization. These costs realized greater than budget. It becomes the task of the Human Resources (HR) and production because the cost exceeds the budget. On the part needs to be traced back the factors that cause costs exceed the budget, so as to the deviation of budget for next year does not recur difference and minimized.

Besides the cost incurred exceeds the budget, revenue the sales of water and revenue the sales of non-water has realized revenue under the budget so the difference is unfavorable. This is caused not achieving the target number of connections customer previously planned. Besides revenue outside the business are also under budget. Causes of realization are under budget is a task related parts in it, one of which is a part of marketing. The section should further improve its performance so that the number of a connection new customer and water usage is increasing. The increasing number of these resulted in water revenues increased.

#### **b. Operational budget for 2012.**

Results of variance was also carried on the budget in 2012. Once processed almost all of the cost exceeds the budget. These costs include the cost of operating the water source, water source depreciation costs, operating costs of water treatment, water treatment maintenance costs, depreciation costs of water treatment, Costs distribution of transmission and operation, maintenance costs of transmission and distribution, transmission and distribution of depreciation costs, costs of research and development. Besides the many unbudgeted expenses also resulted in increasingly large amount of costs to be incurred. Total cost greater than the budget would result in reduced profit margin in the previous year.

Great cost incurred are the responsibility of the parts related to the cost of the part. On that section should be examined again needs costs, because if expenditure is too large can result in disadvantages the company. Therefore, the related parts must make efficient the cost needed.

## 2) The cause of Deviations.

All the variables above, the deviation of the most dominant in the operational budget of 2011 contained in the variable of direct costs of business, namely Costs distribution of operation and transmission that have unfavorable deviation 971.01%. Whereas in 2012 the most dominant deviation contained in the same variable, but with different costs, namely costs Maintenance Wastewater who has unfavorable deviation 145.08%. Deviations were dominated was presented as the main culprit in every operating budget period. For that it is the duty of management control to address the causes of deviation of the most dominant in each period operating budget PDAM Tirta Tuah Benua East Kutai.

## CONCLUSIONS

Based on the results and the discussion concluded, that:

(1) The results of the variance is known that there are deviations between budget and actual of PDAM Tirta Tuah Benua East Kutai in 2011 namely total revenues has unfavorable deviation. In the total direct cost of business deviations favorable with percentages. Indirect costs of business has deviations favorable. Similarly, the amount of revenue and other expenses has deviations favorable, while profit (loss) of business before income tax generated in the analysis of variance has favorable deviation.

(2) The results of variance is known that deviations between budget and actual of PDAM Tirta Tuah Benua East Kutai in 2012 namely total revenue has favorable deviation. In the total direct cost of business has deviations unfavorable. Indirect costs of business has deviations favorable. Similarly, the amount of revenue and other expenses has

deviations favorable. Profit (loss) before income tax operating has deviation unfavorable variance.

(3) Deviations of the most dominant in the operational budget of 2011 contained in the variable of direct costs of business, namely costs distribution of operation and transmission that have unfavorable deviation. In 2012 the most dominant deviation contained in the same variable, but with different costs, namely costs Maintenance Wastewater who has unfavorable deviation. Deviations were dominated was the main culprit in every operating budget period. For that it is the duty of management control to address the causes of deviation of the most dominant in each period operating budget PDAM Tirta Tuah Benua East Kutai.

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