BUDGETING CONTROL

Session I

BUDGET

- A budget is a blueprint of plan of action to be followed during a specified period of time for the purpose of attaining a given objective.

- According to CIMA Terminology, budget is **“a plan quantified in monetary terms prepared and approved prior to a defined period of time, usually showing planned income to be generated and/or expenditure to be incurred during that period and the capital to be employed to attain a given objective”.**

FEATURES:

An analysis of the above definition reveals the following essential features of a budget:

(i) It is prepared beforehand based on a future plan of actions;

(ii) It is related to a definite future period and is based on the objectives to be attained;

(iii) It is expressed in financial terms;

(iv) It shows planned income to be generated;

(v) It shows probable expenditure to be incurred;

(vi) It indicates the capital to be employed during the period;

Thus, a budget sets the firm's goals in clear formal terms to avoid confusion and provides a detailed plan of action for achieving the goals. It is a means of communication by which the top management uses the budget as a vehicle to communicate their ideas to the subordinates who are to give them the practical shape.

BUDGETING

- Budgeting is the process of designing, implementing and operating budgets. It is the managerial process of budget planning and preparation, budgetary control and the related procedures. Budgeting is the highest level of accounting in terms of future which indicates a definite course of action and not merely reporting.

- It is an integral part of such managerial policies as long-range planning, cash flow, capital expenditure and project management.

PURPOSE AND OBJECTIVES OF BUDGETING:

The overall purpose of budgeting is to plan different phases of business operations, coordinate activities of different departments of the firm and to ensure effective control over it.

To accomplish this purpose, a budget aims at attaining the following objectives:

1. To prognosticate the firm's future sales, production cost and other expenses in order to earn desired amount of income and minimize the possibility of business losses.

2. To anticipate the firm's future financial condition and future need for funds to be employed in the business with a view to keeping the firm solvent.

3. To decide the composition of capitalisation in order to ensure availability of funds at reasonable cost.

4. To coordinate the efforts of different departments of the firm toward the common objectives.

BUDGETARY CONTROL

Budgetary control is the process of preparation of budgets for various activities and comparing the budgeted figures for arriving at deviations if any, which are to be eliminated in future. Thus budget is a means and budgetary control is the end result. Budgetary control is a continuous process which helps in planning and coordination. It also provides a method of control.

According to Brown and Howard “Budgetary control is a system of coordinating costs which includes the preparation of budgets, coordinating the work of departments and establishing responsibilities, comparing the actual performance with the budgeted and acting upon results to achieve maximum profitability”.

FEATURES

1. The pre-requisite for budgetary control is to set different kinds of budgets and fix the responsibility of personnel for the successful implementation of the policy.
2. Actual performance is compared with budgets to reveal deviations for the purpose of cost control.
3. Corrective action is initiated to set right the unfavorable deviations.

Objectives of Budgetary Control:

Budgetary control is inevitable for policy formulation, planning, control and coordination. The essence of budgeting is to plan and control.

Following are the main objectives of budgetary control:

1. Planning:

Budgeting ensures effective planning by setting up of budgets.

2. Coordination:

Budgets are helpful in coordination of business activities.

3. Efficiency and Economy:

Effective budgetary control results in cost control and cost reduction.

4. Increase in Profitability:

Costs are controlled with help of budgets and profits targeted are achieved.

5. Anticipation of Future Capital Expenditure:

Estimated increases in sales necessitating higher production capacity provides advance warning for the possible capital expenditure in near future.

6. Control:

Controlling function is made to be effective as the control is centralized while budgets are prepared and implemented.

7. Deviations:

Ascertainments of deviations are essential to fix responsibility and correct the deviations as far as possible.