

BUDGETING CONTROL

SESSION 2

Essentials of Successful Budgetary Control:

A business budget is a detailed plan covering phases of operations for a definite future period. It is laying down of policies, plans, objectives and goals set in advance by the top management for the enterprise as a whole and for each segment.



Organization for budgetary control



Budget centers



Budget officers/committee



Budget manual



Budget period

The following are the essential requisites for implementing budgetary control successfully:

1. Top Management Support:

The budgetary control system should have continuous support of top management which can ensure its all-round acceptance.

2. Clearly Defined Organizational Structure:

The authority and responsibilities are to be properly defined to pin-point the responsibility of specific individuals in key positions.

3. Efficient Accounting System:

The accounting system should provide the required information in time.

4. Reporting of Deviations:

Efficient system has to be devised to reduce the differences between the budgets and actual performance.

5. Motivation:

Staff is to be appraised of the budgets and benefits they are going to derive directly and indirectly.

6. Realistic Targets:

The targets set should be realistic so that they are achievable and budgets should not frustrate the workers by fixing unrealistic targets.

7. Participation of All Departments Concerned:

Budgets are to be set for all the departments so that their participation in implementation will be effective.

8. Flexibility:

Budgets are prepared on the basis of certain conditions. If there is change in conditions budgets also should be adjusted to accommodate the changes.

Budgeting Types

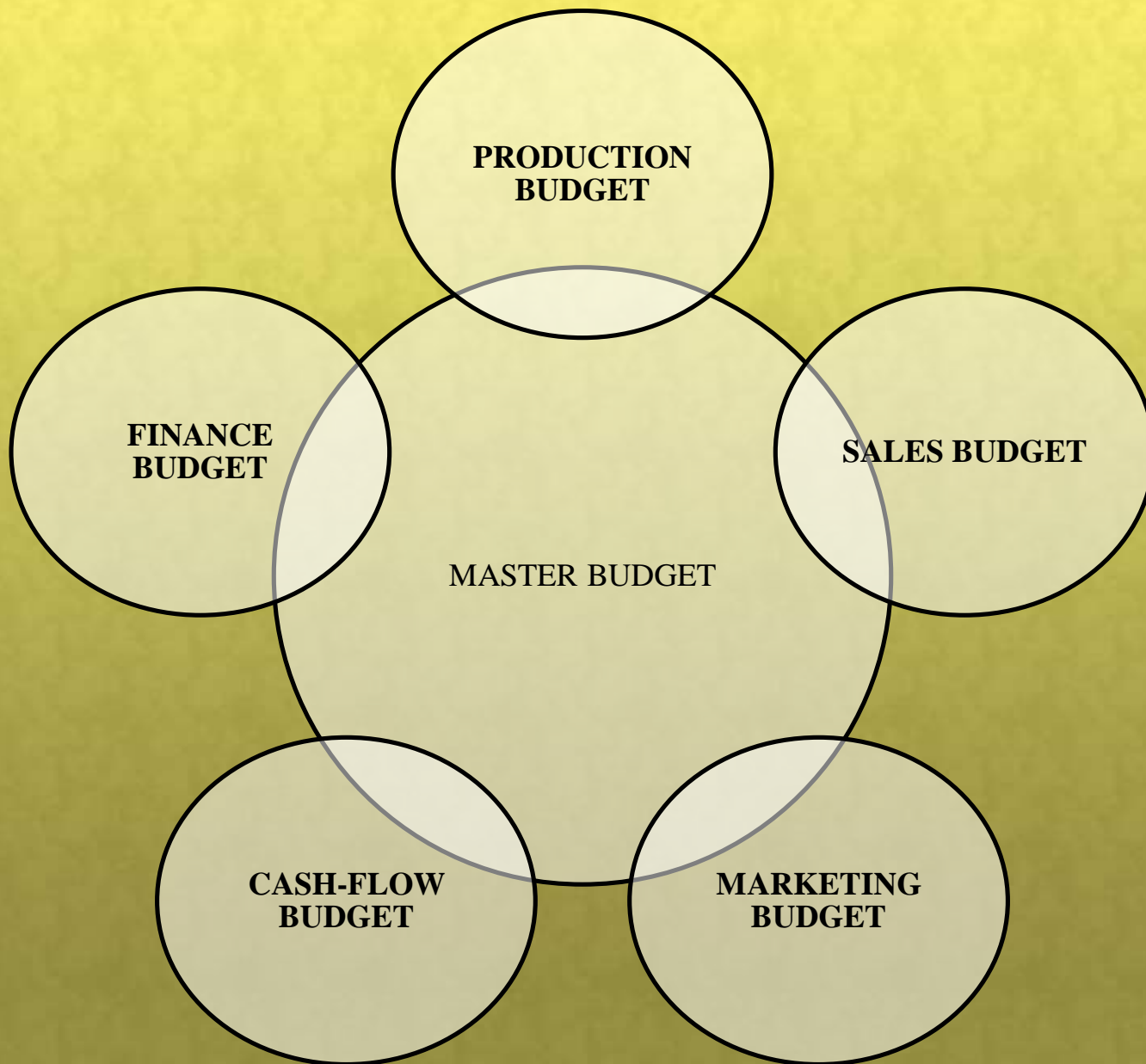
The main two types of budget “on the basis of their flexibility” are:

Flexible Budget:

The budget changed easily according to the change in the scale of operations of the business. If the business increases its scale, the flexible budget will also change accordingly. It is dynamic in nature. This can be modified easily as the main emphasis of such budgets is on the variable factors. For example: The sales budget is prepared after forecasting the future situations. The sales budget is flexible as it can adjust according to the situation.

Fixed Budget:

The fixed budgets are the budgets that remain fixed. They do not change with the change in the scale of operations. It is also called static budget. For example: If a company pays its employee a salary of 20,000 per month, then it will remain the same. It will not change with the change in the level of sales.



The budgets “on the basis of operations” are:

1. Master Budget:

The name itself indicates that it is the comprehensive budget of the business. The master budget contains the compiled budget of the whole business. It takes into consideration all the small budgets formed in the business and provides it at one place.

The components of a Master Budget can be enlisted as follows:

(i) Production Budget:

This budget forms the budget or the quantitative estimate of how much the firm needs to produce in the coming business. The total estimate of material required for the job, labor requirement and expenses for production are estimated and expressed in the production budget.

(ii) Sales Budget:

Sales budget refers to the forecasting of the sales of the business in the coming year. It is the target that the business plans to achieve.

(iii) Marketing Budget:

Marketing Budget aims at defining the amount to be invested in the marketing strategies of the business as it forms a vital part of the business.

(iv) Cash-flow Budget:

It is the determining of the movement of cash in the business. All the expected revenues and expenses are enlisted in this budget.

(v) Finance Budget:

The finance budget focuses on designing the capital structure of the firm i.e. from whom the amount is to be raised, how it is to be raised and where it is to be utilized.