

Budgetary control

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Budget

A budget is a financial plan of spending that shows income and expenses. It shows how much money you will earn and spend over a while. Creating a budget is to effectively manage personal or organizational finances by predicting future financial activity and setting spending limits. This tool helps you track your spending, identify areas where you can save money, and make informed investment and saving decisions. Businesses and organizations can prepare their budgets monthly, quarterly, or yearly.

Budgeting

- Budgeting is the process of making a plan to spend money. Making this spending plan helps the companies to determine whether they have enough money to do the things they need or would like to do. If your expenses exceed your spending, you can use the planning process to prioritize the more essential things. It involves making a comprehensive list of expenditures or focusing on a few categories. Some companies use to prepare budgets using spreadsheets, while others use budgeting apps. Budgetary is the cost control technique wherein the actual cost is compared to the budgeted cost and thus is aimed at profit.

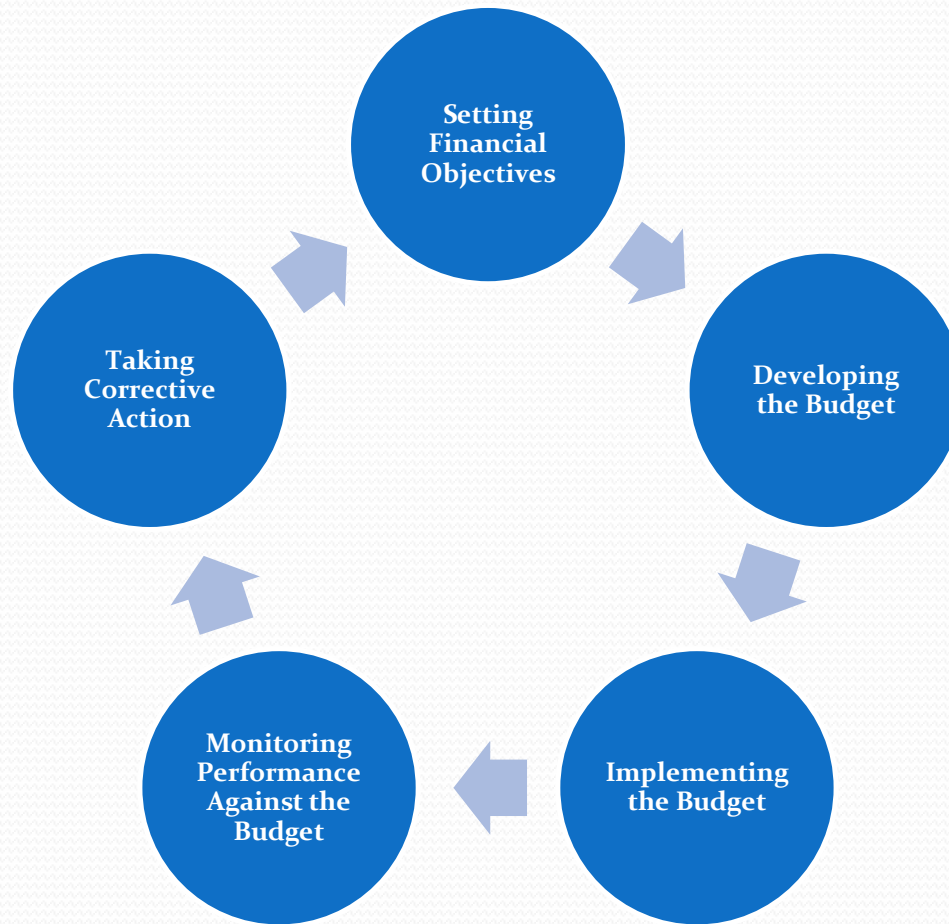
Budgetary control

Budgetary control in management accounting is a procedure that ensures that organizations' actual revenue and expenditure adhere to the financial plans or not. This system controls budgets by coordinating with various departments and establishing and comparing them with the actual results. It implies regularly comparing actual expenses with the planned income and expenses. Preparing aims to ensure corrective measures in case of any variances.

Characteristics of a budget


- Participation: involve as many people as possible in drawing up a budget.
- Comprehensiveness: embrace the whole organisation.
- Standards: base it on established standards of performance.
- Flexibility: allow for changing circumstances.
- Feedback: constantly monitor performance.
- Analysis of costs and revenues: this can be done on the basis of product lines, departments or cost centres.


Steps



Steps in the Budgetary Control Process

- **Setting Financial Objectives:** The first step in the budgetary control process is determining the organization's financial objectives. This might include increasing revenue, reducing costs, improving cash flow, or increasing profit margins.
- **Developing the Budget:** The next step is to develop a comprehensive budget that outlines expected income and expenditures for a specific period. This might include creating separate budgets for different departments, products, or projects.

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- **Implementing the Budget:** Once the budget has been developed, it must be implemented within the organization. This might involve communicating the budget to employees, creating systems to monitor and control expenditures, and making necessary changes based on employee feedback.
 - **Monitoring Performance Against the Budget:** The final step in the budgetary control process is monitoring performance against the budget. This might involve comparing actual expenditures and revenues to budgeted amounts, tracking cash flow, and reviewing financial reports.

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- **Taking Corrective Action:** If the organization is not meeting its budgeted targets, it may be necessary to take corrective action. This might involve reducing expenditures, increasing revenue, or changing the budget itself.

Objectives of Budgetary Control

- Involving different levels of management in a cooperative endeavour to accomplish the firm's objective.
- Facilitate centralized control with delegated authority and responsibility.
- Reduction in losses and wastes to a minimum.
- Clarification of the issues where actual work is required.
- Ensuring adequate working capital in other resources for efficient
- Achieving maximum profitability by planning income and expenditure through ideal use of the resources available operation of the business.
- Ensure the firm is not deflected from its long-term objectives without being overwhelmed by emergencies.

Advantages

Planning

and

Increased

Efficiency

Decision

Improved

Financial

Increased


Better Cash

Flow

Management

Advantages of Budgetary Control

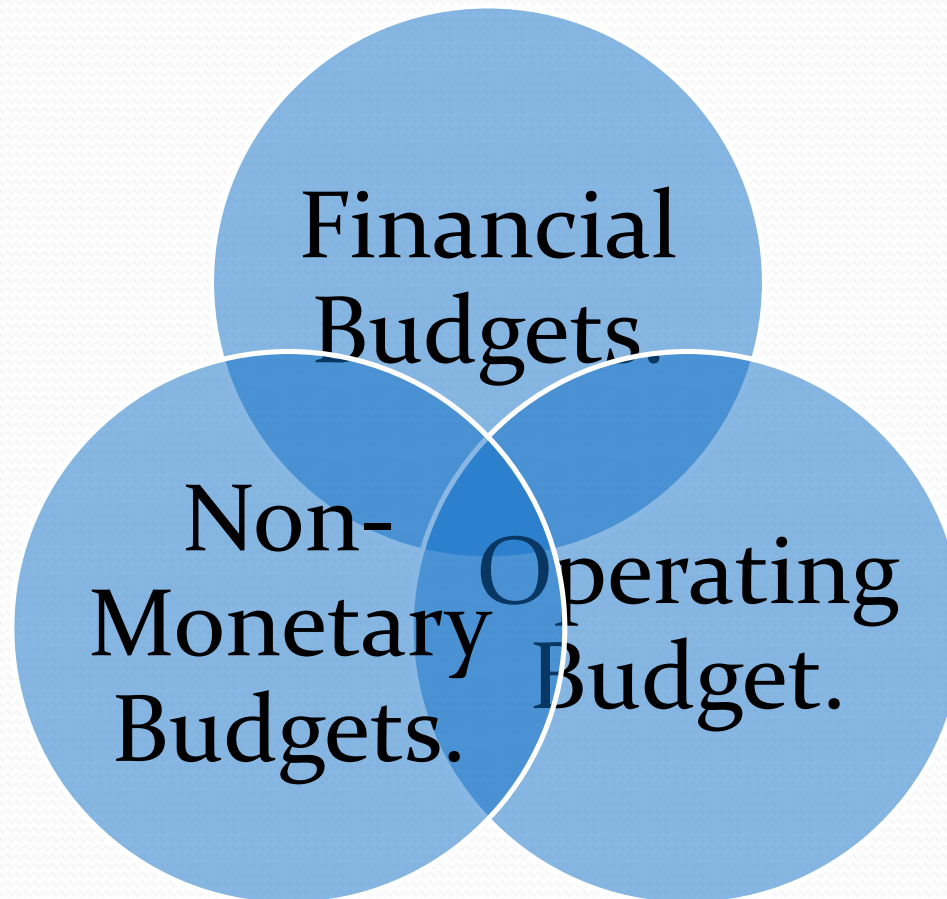
- **Improved Planning and Forecasting:** Budgetary control enables organizations to plan their financial activities and forecast future results. This helps to identify potential problems and make adjustments to the budget accordingly.
- **Increased Efficiency:** It helps organizations allocate resources more effectively, reducing waste and increasing efficiency.
- **Better Decision-Making:** Providing detailed financial information facilitates better decision-making at all levels of the organization.

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- **Improved Financial Performance:** By implementing a budget and monitoring performance against it, organizations can identify areas for improvement and take steps to improve their financial performance.
 - **Increased Accountability:** It assists in increasing accountability within an organization by providing clear performance targets and measures of success.
 - **Better Cash Flow Management:** This process gives organisations a clear understanding of their cash flow, helping them make informed decisions about managing their cash resources.

Disadvantages

- Budgeted numbers often need revision as future prediction is difficult.
- Time-consuming and costly process, need people and resources Budgetary control processes.
- This process sometimes requires coordination between various departments and is a difficult task.
- This process requires approval and support from top senior management.
- Always comparing the actuals with a budget is detrimental to employees' motivation.

Types of Budgetary Controlling Techniques




Financial Budgets

- Such budgets detail where the organization expects to get its cash for the coming period and how it plans to spend it. Usual sources of cash include sales revenue, the sales of assets, the issuance of stock, and loans.
- On the other hand, the common uses of cash are to purchase new assets, pay expenses, repay debts, or pay dividends to shareholders.

Operating Budgets

- This type of budget is an expression of the organization's planned operations for a particular period. They are usually of the following types:
- **The sales or revenue budget**
- It focuses on the income the organization expects to receive from normal operations. It is important since it helps the manager understand what the future financial position of the organization will be.

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- **The expense budget**
 - It outlines the anticipated expenses of the organization in a specified period. It also points out upcoming expenses so that the manager can better prepare for them.
 - **The project budget**
 - It focuses on anticipated differences between sales or revenues and expenses i.e. profit. If the anticipated profit figure is too small, steps may be needed to increase the sales budget or cut the expense budget.

Non-monetary budgets

- Budgets of this type are expressed in non-financial sales or revenues and expenses, i.e. profit. If the anticipated profit figure is too small steps may be needed to increase the sales budget or cut the expense budget.

Essentials of a Good Budgetary Control System

Support from top management

Quantification of organizational goal

Creation of responsibility center

The split of organizations' goals

Realistic

Participation


Good accounting system

Coordination

Flexibility

Essentials of a Good Budgetary Control System

- **Support from top management**
- The effective implementation of the budgetary control system depends upon the attitude and perception of management towards it.
- If the top executive takes the budgeting as a mere routine job and does not take any interest in its implementation, it will be a futile exercise.

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- **Quantification of organizational goal**
 - The goal of the organization should be clearly expressed and quantified. There should not be any misconception and confusion in the minds of employees regarding goals to be attained.
 - **Creation of responsibility center**
 - The entire organization should be divided into sections and subsection with clear assignment of duties and responsibilities for each of them.

- **The split of organizations' goals**
- The goals of each department or responsibility center should be spelled out towards the attainment of the overall goals of the organization. The functional goals should be compatible with the organizational goal.
- **Realistic**
- The target to be set in the budget should be fairly attainable.
- If it is set at a level beyond the capacity of employees, they will lose their interest in its implementation, on the other hand, if it is set at a very low level, it will be meaningless as the job, in any case, will be done.



- **Participation**

- All the key employees should be made involved in the preparation of the budget. Participation brings in commitment. Commitment enhances the efficiency and productivity of employees.

- **Good accounting system**

- The accounting system should be designed in such a way that the actual performance of various responsibility centers can be readily available for comparison with the target.



- **Coordination**

- Co-ordination is an important requirement” of budgetary control. It brings in common thinking, mutual trust, and confidence amongst various departments.

- **Flexibility**

- A budget should be amenable to change if the changing situation so warrants.

- **Reporting system**

- The success of budgetary control depends upon a good reporting system. The actual performance vis-a-vis the target should be continuously reported to the management to enable them to take corrective action in the areas which are not performing well.



Thanks