
Budgeting and Budgeting Control

Definition –

Budget

It is financial or quantitative statement, prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective.

Budgeting –

It is the whole process of designing, implementing and operating budgets.

The main emphasis in this is short-term budgeting process involving the provision of resources to support plans which are being implemented.

Budgetary control –

Budgetary control is establishment of budgets, relating the responsibility of executives to the requirement of policy, and the continuous comparison of actual with budgeted results either to secure individual action the objective of that policy or to provide a basis for its revision.

Advantages

1. Budgeting control establishes a basis for internal audit by regular evaluating departmental results.
2. Scarce resources can be allocated in optimal way.
3. It forces management to plan ahead, so that long term goals are achieved.
4. An effective budgetary control system will allow people to participate in setting of budget, and thereby have a motivational impact on the work

Problems

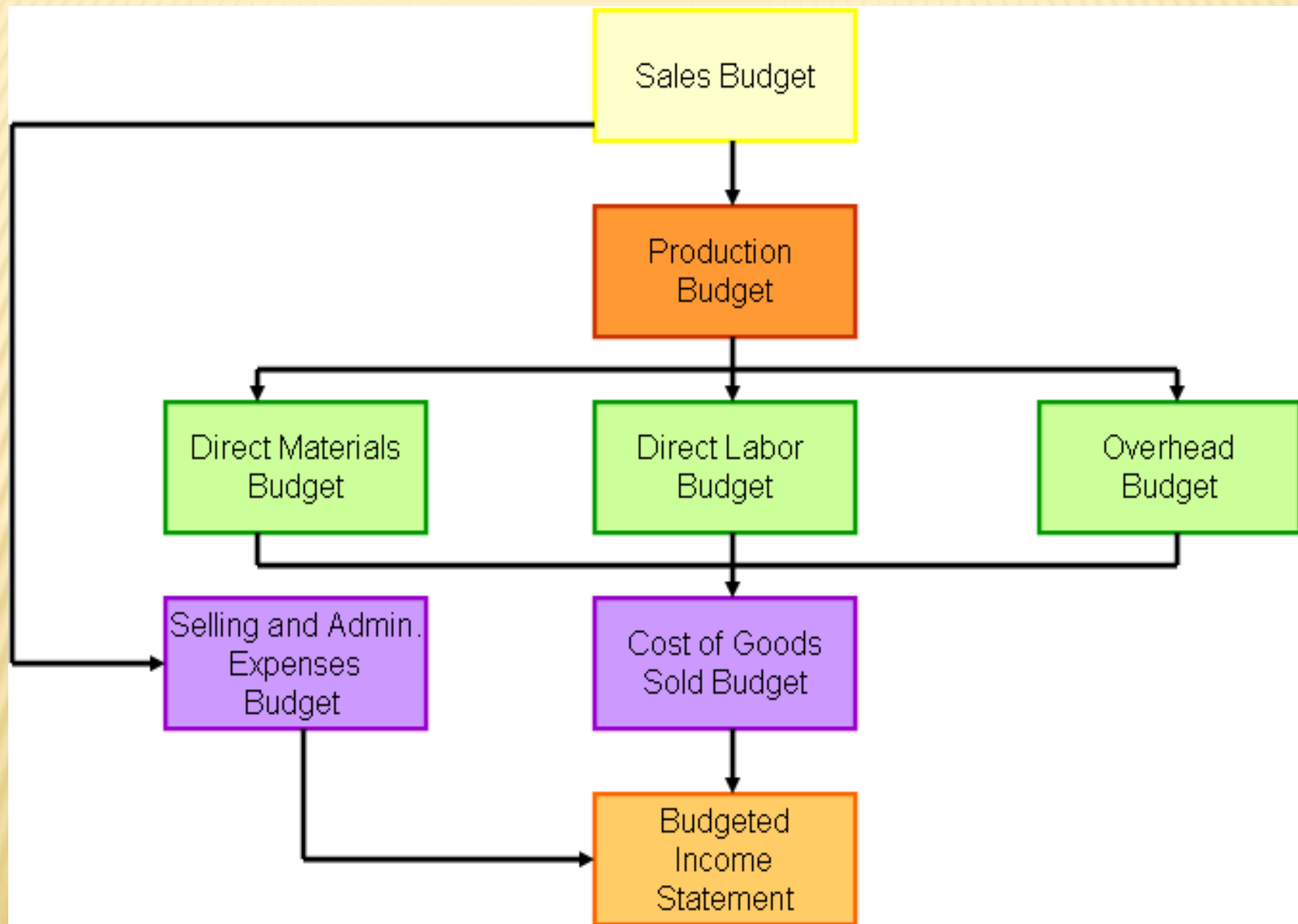
- * Budget are perceived by the work force as a pressure device imposed by top management . This can have an adverse effect on labour relationship.
- * Manager may over- estimate cost in order that they will not be responsible in the future for over spending.
- * Department conflict arises , if the target are not archived.

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- * Uncertainties can occur in the system, eg uncertainty over demand, inflation, technological, change, competition, weather, ect.

¹ Master Budget

is a set of interconnected budgets of sales, production costs, purchases, incomes, etc. and it also includes pro forma financial statements.

of future financial transactions. A master budget serves as planning and control tool to the management since they can plan the business activities during the period on the basis of the budget. At the end of the period, actual results can be compared with the master budget and necessary control actions can be taken.



Sales BUDGET

- * It is the starting point of Master Budget.
- * It begins with sales forecast of individual product.
- * These fore cast may be by geographical area, by class of customer or some other aspects.
- * Forecasting sales can be difficult, as it demands analyzing,
 1. Customer demand at different prices .
 2. Competitors prices
 3. Economic activity

4. Advertising and promotion expenditure.

5. Exchange rates.

Production budget

- * The production budget is the estimate of the quantity of goods that must be produced during the budget period.
- * The aim of production function will be to supply finished goods of specified quantity to meet the marketing demand.
- * In order to prepare a production budget, we need the level of sales expected , and the desired level of stock of finished goods.
- * The following formula can be used

$$\text{Production} = \text{sales} - \text{opening stock} + \text{closing stock.}$$

| Fixed budget | Flexible budget |
|--|---|
| Cost are not classified according to their variability | Cost are classified according to the nature of their variability |
| It remains the same irrespective of the volume of business activity | It can be suitably recasted quickly to suit the changed conditions |
| It assumes that conditions would remain static | It is designed to change according to a change in the level of activity |
| Actual and budgeted performance cannot be correctly compared if the volume of activity differs | Comparison are realistic since the changed plan figure are placed against actual ones |
| Budget has limited application | Budget has more application |

' Zero-base budgeting

all of their budgeted expenditures, rather than the more common approach of only requiring justification for incremental changes to
an expenditure base line of zero

Advantages of Zero-Base Budgeting

- ' **Alternatives analysis**
- ' **Communication**
- ' **Eliminate non-key activities**
- ' **Required review.**
- ' **Resource allocation**

