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Budgetary Control

One of the primary functions of the management is to plan for the future and to ensure that plans are put into effect. A budget is merely a plan related to a period of time expressed in quantitative terms. In the business world, A budget is the formal expression of the expected incomes and expenditure for a definite future period. Comprehensive control procedures provide in valuable aid for scientific management.

Meaning of Budget:

According to brown and Howard, "A budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with the results are absolute achieved."

Budgets have the following characterises:

- A budget is primarily a planning and control device.
- A budget is prepared in monetary terms and/or quantitative terms
- A budget is prepared for a definite future period
- It shows planned income and expenditure and also the capital to be employed

Budgeting:

The act of preparing budgets is called budgeting. In other words, the entire process of preparing the budget is known as budgeting.

Budgetary Control:

Budgetary Control is a system of controlling costs through preparation of budgets. Budgeting is thus only a part of the budgetary control.

Characteristics-

The main characteristic of Budgetary Control is:

1. Establishment of versions for each function/department of the organization
2. Comparison of actual performance with the budgets on a continuous basis
3. Analysisof variations of actual performance from that of the budgeted performance to know the reasons thereof
4. Taking suitable remedial action where necessary

Objectives of Budgetary Control:

1. Planning
2. Coordination
3. Communication
4. Motivation
5. Control
6. Performance evaluation

Advantages of Budgetary Control-

1. Budgeting coordinates the activities of various departments and function of the business
2. It increases production efficiency and eliminate waste and control the costs
3. It pinpoints efficiency or lack of it
4. Budgetary control AIMS at maximization of profit through careful planning and control
5. It's your management action is needed to remedy the situation
6. It ensures that working capital is available for the efficient operation of the business
7. A budget motivates executed to attain the given goals
8. budgetary control system creates necessary conditions for the introduction of the standard costing technique.

Limitations of Budgetary Control-

1. The budget plan is based on estimates
2. Danger of rigidity
3. Budgeting is only a tool of management
4. Extensive technique

Essentials of effective Budgeting-

A budgetary controlsystem can true successful only when certain conditions and attitudes exist, absence of which will navigate to a large extent the value of budget

system in any business. Essential for effective budgeting are as:

1. Support of top management
2. Participating by responsible executive
3. Reasonable goals
4. Clearly defined organizations
5. Adequate accounting system
6. Constant vigilance
7. Maximum profits
8. Cost of the system
9. Integration with standard costing system

Difference between Forecast and Budget:

• A forecast is a prediction of what may happen as a result of a given set of circumstances. Ab budget, it is a planned exercise to achieve a target.
• Forecast is an assessment of probable future events but the budget is prepared fordefinite future period.
• Budget is based on the pros and cons of a forecast. Forecasting does proceed the preparation of a budget.

Thus, is the forecast is concerned with 'probable events' while budget relates to 'plannedevents. Forecast can be made by anybody, where is budget Bing and enterprise objective can be set only by the authorised management.

Types of Budgets:

There are two types of budgets:

a. Functional budget
b. Fixed AndFlexible Budgets

Functional Budget:

A functional budget is one which relates to a function of the business e.g.sales budget, production budget, production cost budget, raw material budget, purchases budget, labour budget, production overhead budget, administration budget, cash budget etc.

Fixed and Flexible Budget:

Fixed budget-A fixed budget is one which is prepared keeping in mind 1 levelof output. It is defined as a budget which is designed to remain unchanged respective of the level of activity attained. If actual output device from budgeted level of output, variances will arise. Fixed budget is prepared on assumption that outputs and sales can be estimated with a fair degree of accuracy.

Flexible budget- A flexible budget which is designed to change in relation to the level of activity attained. The underlying principle of the flexible budget is that a budget is of little use and less cost and revenue are related to the actual volume of production. Flexible budgeting has been developed with the objective of changing the budget figures to correspond with the actual output achieved. Thus, a budget might be prepared for various levels of activity, say, 70%,80%,90% and 100% capacity utilization. Then whatever the level of output actually reached it can be compared with an appropriate level.

Flexible budget is prepared in those companies where it is extremely difficult to forecast output and sales. Search a situation may arise in the following cases:

- Where is sales are affected by weather conditions
- Where sales are affected by changes in the fashion
- Where company frequently introduces new products
- The last part of output is intended for export

Preparation of Flexible Budget:

The preparation a flexible budget necessitates the analysis of all costs into fixed andvariable components. this analysis of course not specular to flexible budgeting is moreimportant in flexible budgeting than in fixed budgeting. This is so because in flexible budgeting varying levels of outputs are considered and each class of overhead will be different for each level. budgeting a series of budgets are prepared for every major level of activity so that whatever is actual level of output it can be compared with appropriate budget or can be interpolated between budgets of the activity levels on either side.

For example, budgets may be prepared for, 60%, 70%, 90% and 100% level of activity. If the actual level of activity is 85%, then the budget allowance for 85% activities should be computed.

In flexible budget, the following important points should be noted:

- Total fixed cost for each level remains unchanged
- Per unit fixed cost decreases when level of output increases and vice versa
- Total variable cost increases in production to increase in the level of output
- Per unit variable cost remains unchanged at each level.

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Long Answer Type Questions:

1. Define 'budget' and 'budgetary control'. State the advantages of budgetary control in an organization
2. What do you understand by budgetary control? What are the essentials for the success of a budgetary control system?
3. Define and explain the term flexible budget. how are a flexiblebudget structured and what difficulties do you expect in the construction of a flexible budget? Explain the usefulness of a flexible bi budget to management.

Short Answer Type Questions:

1. What is fixed and flexible budget?

2. What is the difference between forecast and budget?

3. What are the characteristics of budgeting control?

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