What is Budgetary control?

Budgetary control is the process by which budgets are prepared for the future period and are compared with the actual performance for finding out variances, if any. The comparison of budgeted figures with actual figures will help the management to find out variances and take corrective actions without any delay.

Meaning:

Budgetary control is the process of determining various actual results with budgeted figures for the enterprise for the future period and standards set then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded.

The comparison of budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

Definitions:

“According to Brown and Howard, “Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.” Weldon characterizes budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

J. Batty defines it as, “A system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities and services. Welsch relates budgetary control with day-to-day control process.”
According to him, “Budgetary control involves the use of budget and budgetary reports, throughout the period to co-ordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget.”

From the above given definitions it is clear that budgetary control involves the follows:

(a) The objects are set by preparing budgets.

(b) The business is divided into various responsibility centres for preparing various budgets.

(c) The actual figures are recorded.

(d) The budgeted and actual figures are compared for studying the performance of different cost centres.

(e) If actual performance is less than the budgeted norms, a remedial action is taken immediately.

Objectives of Budgetary Control:

Budgetary control is essential for policy planning and control. It also acts an instrument of co-ordination.

The main objectives of budgetary control are the follows:

1. To ensure planning for future by setting up various budgets, the requirements and expected performance of the enterprise are anticipated.

3. To operate various cost centres and departments with efficiency and economy.

4. Elimination of wastes and increase in profitability.

5. To anticipate capital expenditure for future.

6. To centralise the control system.

7. Correction of deviations from the established standards.

8. Fixation of responsibility of various individuals in the organization.

Essentials of Budgetary Control:

There are certain steps which are necessary for the successful implementation budgetary control system.

These are as follows:

1. Organisation for Budgetary Control

2. Budget Centres

3. Budget Mammal

4. Budget Officer

5. Budget Committee

6. Budget Period

7. Determination of Key Factor.

1. Organization for Budgetary Control:

The proper organization is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed, which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets.

The Chief Executive is the overall in-charge of budgetary system. He constitutes a budget committee for preparing realistic budgets A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made responsible for their departmental budgets.

2. Budget Centres:

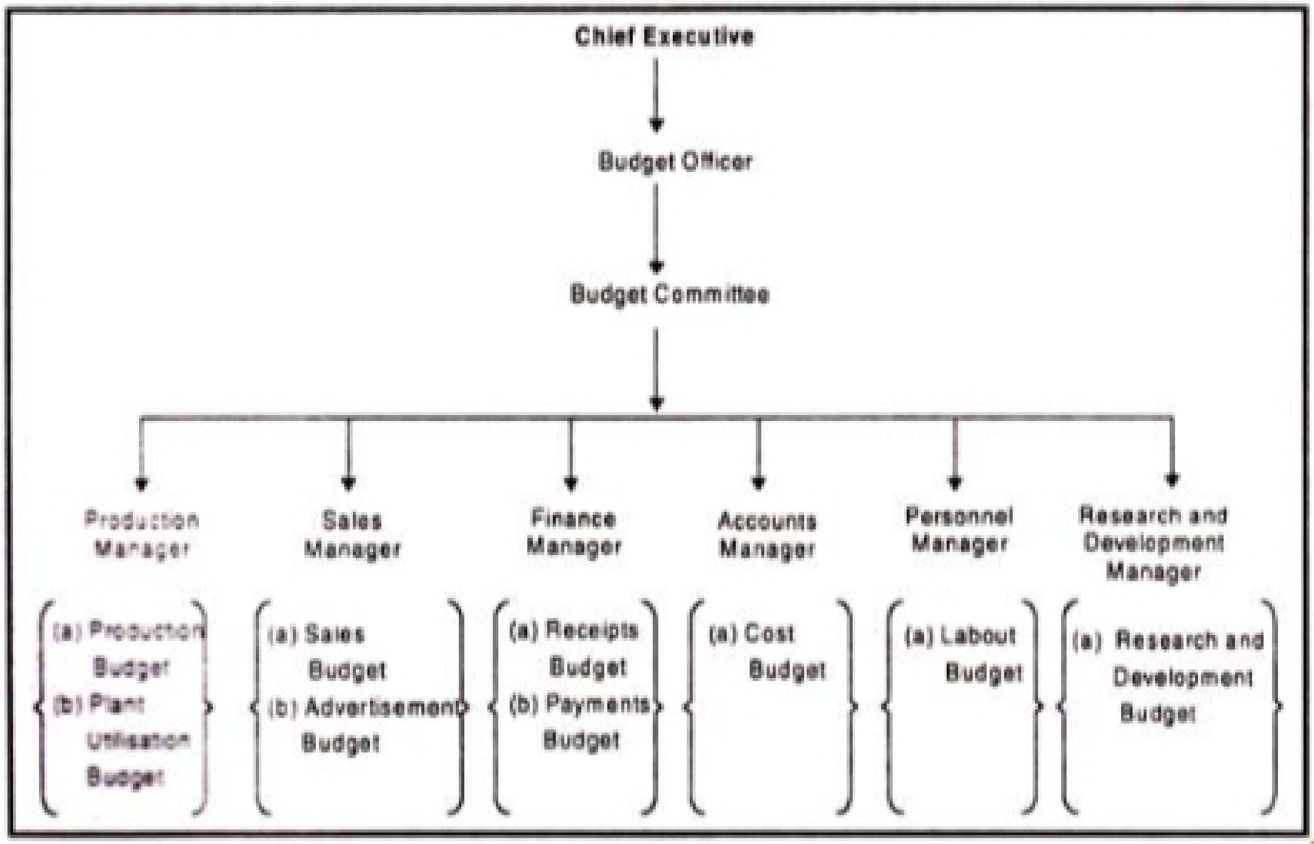
A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres are also necessary for cost control purposes. The appraisal performance of different parts of the organization becomes easy when different centres are established.

3. Budget Manual:

A budget manual is a document which spells out the duties and also the responsibilities of various executives concerned with the budgets. It specifies the relations amongst various functionaries.

The Chief Executive, who is at the top of the organization, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them, if the situations so demand. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and the actual performance and takes necessary steps to rectify the deficiencies, if any.

He works as a coordinator among different departments and monitors the relevant information. He also informs the top management about the performance of different departments. The budget officer will be able to carry out his work fully well only if he is conversant with the working of all the departments.



5. Budget Committee:

In small-scale concerns the accountant is made responsible for preparation and implementation of budgets. In large-scale concerns a committee known as Budget Committee is formed. The heads of all the important departments are made members of this committee. The Committee is responsible for preparation and execution of budgets. The members of this committee put up the case of their respective departments and help the committee to take collective decisions if necessary. The Budget Officer acts as convener of this committee.

6. Budget Period:

A budget period is the length of time for which a budget is prepared and employed. The budget period depends upon a number of factors. It may be different for different industries or even it may be different in the same industry or business.

The budget period depends upon the following considerations:

(a) The type of budget i.e., sales budget, production budget, raw materials purchase budget, capital expenditure budget. A capital expenditure budget may be for a longer period i.e. 3 to 5 years purchase, sale budgets may be for one year.

(b) The nature of demand for the products.

(c) The timings for the availability of the finances.

(d) The economic situation of the country.

(e) The length of trade cycles.

All the above-mentioned factors are taken into account while fixing period of budgets

7. Determination of Key Factor:

The budgets are prepared for all functional areas. These budgets are interdependent and inter-related. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as Key Factor or Principal Factor.

There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all other budgets will be prepared by keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited, so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available.

The key factor may not necessarily remain the same. The raw materials supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sales staff, etc. Similarly, other factors may also improve at different times. The key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exists.