

A Study on Budget and Budgetary Control

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Abstract

This research aims to provide a comprehensive examination of budget and budgetary control practices, their significance, and their impact on organizational performance. Budgeting is a critical management tool used for planning, coordination, and control of financial resources within an organization. Employing a mixed-methods research design, including case studies and interviews, this study seeks to explore the principles, processes, and effectiveness of budgeting and budgetary control in various organizational contexts. Key objectives include understanding the role of budgeting in strategic planning, evaluating the methods employed in budget development, and analyzing the mechanisms of budgetary control for performance monitoring and accountability. The study also aims to identify challenges and best practices associated with budgeting processes within different sectors. The findings of this research are anticipated to contribute valuable insights for organizations, financial managers, and policymakers in enhancing their budgetary practices, fostering financial discipline, and ultimately improving overall organizational efficiency.

Keywords: *Budget, Budgetary Control, Financial Management, Organizational Performance, Strategic Planning, Case Studies, Financial Discipline, Budget Development, Performance Monitoring.*

1. Introduction

Budget is essential in every walk of our life, in domestic, national and international. A budget is prepared to have effective utilization of funds and for the realization of objective as efficiently as possible. Budgeting is a powerful tool to the management for performing its functions i.e. formulation plans, coordination activities and controlling operations etc., efficiently. For efficient and effective management planning and control are highly essential functions. Budget and budgetary control provide a set of basic techniques for planning and control [1]. A budget fixes a target in terms of rupees or quantities against which the actual performance is measured. A budget is closely related to both the management function as well as the accounting function of an organization. As the size of the organization increases, the need for budgeting is correspondingly more because a budget is an effective tool of planning and control. Budget is helpful in coordinating the various activities (such as production, sales, purchase etc.) of the

organization with result the all the activities precede according to the objective. Budgets are means of communication. Ideas of the top management are given the practical shape [2]. As the activities of various department heads are coordinated for the very success of an organization. Budget is necessary in future to motivate the staff associated to coordinate the activities of different departments and to control the performance of various persons operating at different levels. Budgets may be divided into two basic classes. Capital and operating budgets. Capital budget are directed towards proposed expenditure for new projects and often require special financing. The operating budgets are directed towards achieving short-term operational goals of the organization for instance, production or profit goals in a business firm. Operating budgets may be sub-divided into various departmental of functional budgets. The term 'Budget' appears to have been derived from the French word 'bague' which means 'little bag', or a container of documents and accounts. A budget is an accounting plan. It is a formal plan of action expressed in monetary terms. It could be seen as a statement of expected

income and expenses under certain anticipated operating conditions. It is a quantified plan for future activities – quantitative blue print for action [3]. Every organization achieves its purposes by coordinating different activities. For the execution of goals efficient planning of these activities is very important and that is why the management has a crucial role to play in drawing out the plans for its business. Various activities within a company should be synchronized by the preparation of plans of actions for future periods. These comprehensive plans are usually referred to as budgets. Budgeting is a management device used for short-term planning and control. It is not just accounting. The system helps in fixing the goals for the organization as a whole and concentrated efforts are made for its achievements. No system of planning can be successful without having an effective and efficient system of control. Budgeting is closely connected with control. The exercise of control in the organization with the help of budgets is known as budgetary control. The process of budgetary control includes Preparation of various budget Continuous comparison of actual performance with budgetary performance. Revision of budgets in the light of changed circumstances. A system of budgetary control should not become rigid. There should be enough scope of flexibility to provide for individual initiative and drive. Budgetary control is an important device for making the organization [4]. More efficient on all fronts. It is an important tool for controlling costs and achieving the overall objectives .Some advantages of budget and budgetary system are: It helps in maximization of profits of the enterprise by proper planning and coordination of different functions. The working of different departments and sectors is properly coordinated to achieve the target of the budget. The deviation in budgeted and actual performance will enable the determination of weak spots. The management will be able to take corrective measures whenever there is a discrepancy in performance. Controlling your financial affairs requires a budget. For many people, the word "budget" has a negative connotation. Instead of thinking of a budget as financial handcuffs, think of it as a means to achieve financial success. Whether you make thousands of rupees a year or hundreds of thousands of rupees a year, a budget is the first and most important step you can take towards putting your money to work for you instead of being controlled by it and forever falling short of your financial goals. Budgeting and tracking your expenses gives you a strong sense of where your money goes and can help you reach your financial goals. Since financial matters are one of the leading causes of marital discord and divorce, getting a handle on you're spending, implementing a budget, and saving for the future can also have positive effects on your relationship with your spouse or partner. Budget is the way to communicate. The concept of senior management became given a shape of price range and given them a subordinate in real form. Since the overall performance of heads of departments is synchronized on a budget basis, its miles very beneficial when the improvement organization completes the specified team paintings. Therefore, the price range is mandatory, prepares for the future, motivates personnel to unite and swimming pools activities at all levels. Overall, budget is a blueprint for a huge fulfilment plan expressed in both physical and monetary phrases. It includes plans for every of the company's operational obligation centers and affords hyperlinks between the agency's numerous departments' bodily and monetary plans. The finances approach must make it very critical for control to set desires and targets, formulate guidelines, formulate brief-time period and lengthy-time period plans, and decide overall performance similarly to desires. Budget is essential in every walk of our life – domestic national and international [5]. A budget is prepared to have effective utilization of funds and for the realization of objective as efficiently as possible. Budgeting is a powerful tool to the management for performing its functions i.e. formulation plans, coordination activities and controlling operations etc., efficiently. For efficient and effective management planning and control are highly essential functions. Budget and budgetary control provide a set of basic techniques for planning and control

1.1 Objectives of the Study

- To understand the budget and budgetary control.
- To study variations of components of revenue budget and components of operational expenditure budget.

- To analyses and compare the variation of revenue budget and operational budget.
- To suggest the effective budgetary mechanism.

1.2 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 [6]. 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.

1.2.1 Advantages of Budgetary Control

The budgetary control system help in fixing the goals for the organization as whole and concerted efforts are made for its achievements. It enables 'economies in the enterprise.

1.2.2 Some of the Advantages of Budgetary Control are

Maximization of Profits: The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and co-ordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.

Co-ordination: The working of different departments and sectors is properly coordinated. The budgets of different departments have a bearing on one another. The co-ordination of various executives and subordinates is necessary for achieving budgeted targets.

Specific Aims: The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal, of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims.

Tool for Measuring Performance: By providing targets to various departments, budgetary control provides a tool for measuring managerial performance. The budgeted targets are compared to actual results and deviations are determined. The performance of each department is reported to the top management. This system enables the introduction of management by exception.

Economy: The planning of expenditure will be systematic and there will be economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extend to industry and then to national economy. The national resources will be used economically and wastage will be eliminated.

Determining Weaknesses: The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts are concentrated on those aspects where performance is less than the stipulated.

Corrective Action: The management will be able to take corrective measures whenever there is a discrepancy in performance. The deviations will be regularly reported so that necessary action is taken at the earliest. In the absence of a budgetary control system the deviations can be determined only at the end of the financial period

Consciousness: It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.

Reduces Costs: In the present day competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those

combinations of products where profitability is more.

Introduction of Incentive Schemes: Budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes.

2. Steps In Budgeting Control

2.1 Organization for Budgeting

The setting up of a definite plan of organization is the first step towards installing budgetary controlling system in an organization a budget manual should be prepared giving details of the powers, duties, responsibilities and areas of operation of each executive in the organization.

2.2 Budget Manual

A Budget manual lays down the details of the organizational set up, the routine procedures and programmes to be followed for developing budgets for various items and the duties and responsibilities of the executives regarding the operation of the budgetary control system [7]. CIMA England defines a budget manual as “a document schedule or Booklet which sets out, inter alia, the routine of and the forms and records required for budgetary control”. Thus, it is a written document which guides the executives in preparing various budgets. Budgets are to be drawn keeping in view the objectives of the organization given in the budget manual. Responsibility and functions of each executive in regard to budgeting are written down in the budget manual to avoid any duplication or overlapping of responsibilities. Steps and the methods for developing various budgets and the methods of reporting performance against the budget are written down in the budget manual. In short it is a written document which gives everything relating to the preparation and execution of various budgets. It should be clear and there should be no ambiguity in it [8, 9].

The following are some of the most important matters covered in a Budget manual:

- Introducing and brief explanation of the objects, benefits and principles of budgetary control.
- Organization chart giving the titles to different personnel's with full explanation of the duties of each to operating system and preparation of departmental and functional budgets.
- Length of budget periods and control periods should be clearly stated.
- A method of accounting and control of expenditure.
- A statement showing the responsibility and of authority given to each manager for approval of budgets, vouchers and all other forms and documents which authorize them to spend the money. The authority for granting approval must be clearly stated.
- The entire process of budgeting program including the time table for periodical reporting. A schedule should be drawn for this.
- Purpose, specimen form and number of copies to be used for each report and statement. Budget centers involved should also be stated clearly.
- Outline of main budgets and their accounting relationships.
- Explanation of key budgets.

3. Fixation of Budget Period

The budget period mean the period for which a budget is prepared and employed. The budget period will depend upon the type of business and the control aspect. Budget period mean the period for which a budget is prepared and employed. The budget period depends upon the nature of the business and the control techniques. For example, in case of seasonal industries (i.e., food or clothing) the budget period should be a short one and should cover one season. But in case of industries with heavy capital expenditure such as heavy engineering works, the budget period should be long enough to meet the requirements of the business. From control point of view, the budget period should be a short one so that the actual results may be compared with the budget each week end or month end and discussed with and discussed with the Budget committee. Long term budgets should be supplemented by short term budgets to make the budgetary control successful, as short-terms budgets will help exercising control over day-today operations. In short, the budget period should not be too long so that there may be sufficient time before budget implementation. For most business, annual budget is quite

common because it compares with the financial accounting year. There should be a regular time plan for budget preparation. It may be on the following lines.

- Long-term budgets for three to five years should be prepared for expansion and modernization of the undertaking, introduction of new products or new projects and undertaking heavy advertisement.
- Annual budgets coinciding with financial accounting year should be prepared for the operations activities (i.e., sales, purchases, and production etc of the business)
- For control purposes, short-term budgets-monthly or even weekly budget-should be prepared for watching progress of actual performance against targets. Short-term budgets are prepared to see that actual performance is proceeding according to the budgets and early corrective action may be taken if there is any pitfall.

The responsibility for preparation and implementation of the budgets may be fixed as under.

3.1 Budgetary Controller

Although the chief executive finally responsible for the budgetary programme. It is better if a large part of the supervisory responsibility is deluged to an official designated as Budget Controller or Budget Director. Such a person should have knowledge of the technical details of the business and report directly to the president or the chief executive.

3.2 Rolling (Continues) Budget

A budget which is updated continuously by adding a further period (a month\quarter) and deducting a corresponding earlier period. Budgeting is a continuous process under these methods of preparation of budget. Once the first period elapses, the forecast for that period is dropped and the forecast for the future period beyond the existing could not be predicted and forecast reliably, this method is useful. However, it is a costly exercise but matched by considerable reduction in operational

4. Different Types of Budget

Different types of budgets have been developed keeping in view the different purposes they serve. Budgets can be classified according to:

4.1 Fixed Budget

A fixed budget is a budget that does not change or flex for increases or decreases in volume. ("Volume" could be sales, units produced, or some other activity.) A fixed budget is also known as a static budget.

4.2 Flexible Budget

A flexible budget is a budget that adjusts or flexes with changes in volume or activity. The flexible budget is more sophisticated and useful than a static budget. (The static budget amounts do not change. They remain unchanged from the amounts established at the time that the static budget was prepared and approved.)

- The coverage they encompass;
- The capacity to which they are related;
- The conditions on which they are based; and
- The periods which they cover.

4.3 Road Ahead

Going forward, the adoption of food safety and quality assurance mechanisms such as Total Quality Management (TQM) including ISO 9000, ISO 2000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) by the food processing industry offers several benefits. It would enable adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition, enhance product acceptance by overseas buyers and keep the industry technologically abreast of international best practices.

5. Findings

- The budget and budgetary control of HERITAGE FOODS IND LTD. Was found to be very effective when considered to all categories of items.
- In the 2018-2022 the total budgets value was high. Where was in the next two years it has come

down drastically.

- In all the four years budget expenditure was of high consumption of value.
- Materials consumed which is one of the inputs for the production.
- It is also found that the reasons for maintaining huge stock of Banking expenses in 2018- 2019 is due to high production of manufacturing expenses as well as the sales is also high in the year of 2018-2022 compared to other year.

6. Suggestion

- It is recommended to the company that every item to be considered when categorizing the items into budgets.
- At national level, we need to develop the capability of customizing the open access Osoftware to suit local requirements.
- Pre audit of all expenditure proposals before issue of order and to check whether the expenditure is legitimate, approved by appropriate authority and availability of funds for the above items.
- The budget estimations should be made that they will reach with the actual for every year with very less variation.
- In revenue expenditure and revenue receipts are not interdependent on each other.
- The revenue expenditure will be spent based on the production target irrespective of the revenue receipts.
- In this proves the effective financial performance of budget department in the organization.

Conclusion

Since, all the production units in HERITAGE FOODS IND LTD will run perpetually throughout the year, there will be minimum variations in the revenue expenditure. Budget estimates and actual the expenditure will be incurred more or less to the estimations made by the organization. Hence budgetary control is an important tool for any organization to establish a budget for future events. It helps organization in proper utilization and control of its resources. Budgets are estimates and are based on forecast which is not certain therefore the effectiveness of budgetary control Depend on the availability and the quality of the forecast.

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