COST MANAGEMENT
UNIT 4 : BUDGETARY CONTROL

-BINDUSHREE C K

Meaning of Budget

- The word Budget is derived from French word “Bougette” representing a leather pouch into which funds are appropriated to meet the anticipated expenses.
- The word budget therefore refers the monetary or quantitative expression of business plans and policies to be persued in the future.

DEFINION OF BUDGET

- The ICMA, England defined a Budget as a “financial and/or quantitative statement prepared and approved prior to a period of time, of the policy to be persued during that period for the purpose of a attaining a given objective.
- According to J.L BROWN and L.R HOWARD “a budget is a predetermined statement of management policy during a given period which provides a standard for comparison with the results actually achieved.

Meaning and Definition of Budgeting.

- Budgeting refers to the procedure followed to prepare the budget.
- In other words the procedure for preparing plan in respect of future financial and physical requirements.
- According to W.J Vatter “Budgeting is a kind of future accounting in which the problems of future are ,et on the paper before the transaction actually occurs.

Meaning and Definition of Budgetary Control

- Budgetary control is a system of controlling costs through preparing of budgets.
- According to CIMA, “Budgetary Control as establishment of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision”.

Features of Budgetary Control

- Preparation of budgets in advance for a future period.
- Measurement of actual performance at the end of the budgeted period.
- Comparison of the actual performance with the budgeted performance to find out whether the company has achieved the targets set in the budget.
- Analysis of the reason for not achieving the targets, so that correcting measures may be taken.

Advantages of Budgetary Control

- Co-ordination is established among the different departments and individuals through planning, policies and control.
- It helps the managent to review the performance of different budget centres both continuously and periodically.
- It acts as a yard stick with actual are compared and necessary corrections can be made.
- It promotes efficiency and thereby helps the management for taking future course of action.

- It creates a healthy competition among various divisional managers.
- It ensures the optimum utilisation of available resources to achieve the goals.
- It facilitates introduction of standard costing.
- It ensures effective and efficient usage of resources.

Disadvantages of Budgetary Control

- Budgeting is an expensive tool it involves expenditure which small concerns may not afford.
- Budgets are based on estimates. If forecasts are made on the basis of inadequate and inaccurate data, budgeted figures would be far away from realities. The target set would also be inaccurate.
- Budgets are not substitute for managements

- This system can not be used in those firms where policies, processes, techniques etc., are frequently changing since it does not take into account such change.
- There are many factors over which the management has no control but the budgetary control system depends on them. In such a case it may be inaccurate and fails to serve the purpose for which it is meant.
- Budgets clearly specifies the targets and ways through which targets can be achieved mere preparation of budgets will not ensure the desired results.

Steps in Budgetary Control

- Step 1:- Organisation chart for Budgetary control.
- Step 2:- Budget Centre.
- Step 3:- Budget Manual.
- Step 4:- Budget Officer.
- Step 5:- Budget Committee.
- Step 6:- Budget Period.
- Step 7:- Determination of key factors.

Classification of Budgets

1. On the basis of Time

   i. Long term Budgets: these are prepared for long term planning of the business which varies between 5 to 10 years.

   ii. Short term Budgets: generally for 1 to 2 years and are in the form of monetary terms.

   iii. Current Budgets: generally of months and weeks. It relates to the current activities of the business.

2. On the basis of nature.

i. Fixed Budget: prepared on the basis of fixed or given level of activity. It does not make any change even if the level of activity changes in comparison with the budgets.

ii. Flexible Budget: are those which may frequently change according to the level of activity.

- 3. On the basis of their Control

  i. Budget in monetary term: expressed in monetary terms i.e. in rupee terms, e.g, cash, capital expenditure budget etc.

  ii. Budget in Physical term: it may also be prepared in physical term e.g, Material budgets, production budget etc.

- 4. On the basis of Functions.

  i. Sales Budgets: it is a forecast of total sales expressed in quantities and money.

  ii. Selling and distribution cost budget: it is the forecast of selling and distribution expense during the budget period. This is inter-related with the sales budget.

  iii. Production Budget: It is the forecast of the quantity of production for the budget period. It is usually expressed in physicl quantities- units of output, material and labour requirements.

- iv. Production cost budget: it is the forecast of the cost of production as per the Production budget. It shows cost broken into elements- material, labour and overheads.
- v. Materials Budget: it shows the estimated quantities as well as cost of raw material required for the production of different products during the budgeted period.
- Vi. Purchased budget: it shows the quantity of different type of materials to be purchased during the budget period taking into consideration the level of activity and the inventory levels.

- vii. Labour Budget: It is the forecast of the labour (direct and indirect) requirements during the budget period.
- viii. Productions overhead budget: it shows the forecast of all production overheads to be incurred during the budget period. It includes the cost of indirect material, indirect labour and indirect work expenses.
- ix. Cash Budget: it is the process of forecasting the expected receipts(in flows) and expected payments(out flows) of cash to meet the future obligations.