

Budgeting to be  
pursued during that  
period



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Budgeting is a powerful tool in the hands of management performing its functions (i. e., formulating plans, coordinating activities and controlling operations etc.) efficiently. It provides invaluable aid for scientific management. Concept of Budget: Budget is an important tool of planning and control. Planning involves looking ahead systematically at the future so that decisions can be made today which will bring the company its desired results.

Control is the process of measuring and correcting actual performance to ensure that plans for implementing the chosen course of action are carried out. Budget is based on the idea of a plan. It is a plan relating to a period of time expressed in monetary and/or quantitative terms. “ A budget is financial and or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure and employment of capital.” — Chartered Institute of Management Accountants (C. I.

M. A.), London. “ A business budget is a pre-determined detailed plan of action, developed and distributed as a guide to current operations and as a partial basis for subsequent evaluation of performance.” — Gordon Shillinglaw. Characteristics of Budget: Characteristics & features of budget are as follows: (i) A budget is prepared for a definite future period.

(ii) Purpose of a budget is to implement the policies formulated by management for attaining the given objectives. (iii) A budget is primarily a planning device but it also serves as a basis for performance evaluation and

control. (iv) A budget is prepared either in quantitative terms or in monetary terms or in both. Objectives of Having Budgets: The objectives of designing budgets can be understood by the following activities, it leads to: 1.

Communication 2. Planning 3. Motivation 4.

Performance evaluation 5. Coordination 6. Control

### **1. Communication:**

A budget is a communication device.

The approved budget copy are distributed to all management personnel which provide not only adequate understanding and knowledge of the programmes and policies to be followed but also gives knowledge about the restrictions to be adhered to. It is not the budget itself that facilitates communication, but the vital information is communicated in the act of preparing budgets and participation of all responsible individuals is solicited in this act.

2.

### **Planning:**

A budget provides a detailed plan of action for a business over a definite period of time. Materials requirement, labour needs, advertising and sales promotion performance, research and development activities, capital additions, etc. are drawn up. By planning, many problems are anticipated long before they arise and solutions can be sought through careful study. Thus, most business emergencies can be avoided by planning. In brief,

budgeting forces management to think ahead to anticipate and prepare for the anticipated conditions.

### **3. Motivation:**

A budget is a useful device for motivating managers to perform in line with the company objectives.

If individuals have actively participated in the preparation of budget, it acts as a strong motivating force to achieve the targets.

### **4. Performance Evaluation:**

A budget provides a useful means of informing managers how well they are performing in meeting targets they have previously set. In many companies there is a practice of rewarding employees on the basis of their achieving the budget targets or promotion of a manager may be linked to his budget achievement record.

5.

### **Coordination:**

Budgeting aids managers in coordinating their efforts so that objectives of the organisation as a whole harmonise with the objectives of its divisions. Effective planning and organisation contributes a lot in achieving coordination. There should be coordination in the budgets of various departments. For example, budget of sales should be in coordination with the budget of production.

Similarly, production budget should be prepared in co-ordination with the purchase budget, and so on.

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**6. Control:**

Control is necessary to ensure those plans and objectives, as laid down in the budgets, are being achieved. Control, as applied to budgeting, is a systematised effort to keep management informed of whether planned performance is being achieved or not. For this purpose, comparison is made between plans and actual performance.

The difference between the two is reported to management for taking corrective action.