Budget control and its benefits

Finance

In itself, a budget is a tool for expenditure control within a firm. In order to stick to the laid out expenditure program and prevent excessive spending, the organization has to carry out effective budget control measures, both before and after planning. Below is an outline of the main steps of budgetary control.

Policy Formulation

This phase involves drawing up a list of policy guidelines for the firm that will guide both the management and lower-level employees in their daily operations. Integrating long term policies with short term ones forms a basis for periodic evaluation of success in implementing a set of policy guidelines. Several objectives that guide the business are laid out in order of prioritization. Besides profitability, which is the key objective of most business organizations, quality, market positioning, product differentiation and cost leadership form some of the more common goals that guide policy formulation (Toigo and Woods, 2006). Whereas policy harmonization is key to the achievement of set goals, each level of management rolls out several objectives that guide its specific situation. However, the goals must work towards achieving the corporate objectives laid out by the top management.

Preparation of Forecasts

Each function that is deemed to complement the achievement of policies formulated is listed together with its expected costs/ revenue. The forecasts should be made at both the micro and macro levels. Micro-level forecasts involve activity-based costs, while macro-level forecasts involve transaction costs, administrative costs among others (Pollitt, 2001). Scientific methods are applied to determine the estimates.

Budget Preparation

Once the forecasts are developed in accordance with the policy guidelines, the costs pertaining to each expense/ activity are moved to the budget document. They then serve as the agreed guidelines against which performance will be evaluated.

Expenditure Evaluation

The expenditure is then evaluated at regular intervals to investigate whether the expenses have been corresponding with the budgetary estimates. This provides an avenue for review of expenditure habits, thereby providing control to expenditure against set objectives (Rose, 2003).