

# Budgeting and budget expenditures

Business



It is cumbersome to prepare, offers little information to management, and usually creates parallel accounting systems. It also does not indicate levels of efficiency or address value.

Generally, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in that period.

It refers to the process of linking costs to activities, then identifying specific outputs to be produced by services or activities. Then setting targets or goals and afterward preparing a budget based on these performance goals set. The new approach to performance budgeting seeks to concentrate on the outcomes rather than the output. This approach has the advantage of offering a means of estimating future expenditures and measurement of activities efficiency. On the other hand, its drawback is that there is a need to distinguish between fixed and variable costs. Furthermore, it has no benefit in public accounting, as efficiency is not the only measure required.

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It involves the organization of the business operations into programs with specific goals and missions. After identifying the goals, sub-goals and objectives and their input and output are outlined, as budgets are prepared along with these programs. They facilitate the choice of alternative strategies, evaluation of goals and finally, it takes budgeting beyond efficiency compared to performance budgeting approach. However, there is no single methodology to single out alternatives available. In addition, it places heavy demands on officials to achieve their stated goals.

Zero-based budgeting operates by justifying budget requests probably of each department or functional unit of operation every budgeting cycle,

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regardless of prior period budgets. It is budgeting in accordance with priorities. The positive effect of this approach is that it enables the management to identify under and overfunded budget lines. It also a very effective source of management data helpful in the decision-making process. The main disadvantage of this approach is that it takes a lot of time to go through the process of analysis and review. Secondly, it may lead to competition among managers in terms of prioritizing their programs to be funded.

#### Illustration

Aman works in the local authority of Haman as an accounting clerk in the Finance Department under the special program. While budgeting for Aman's salary the local authority will classify it in the following manner in the line item, program, and performance-based budgeting approaches.