

# [Budgeting](https://assignbuster.com/budgeting-essay-samples/)

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Line item budgeting is an accounting tool employed mostly by public entities. They group budgeted financial statements according to the administrative entities and objectives. The budget item groups are usually presented in an increasing version while comparing it to the performances in the previous periods (Meyer, 1985). Line item budgeting may also be employed in private sectors so as to compare, and budget for the selected object groups. It is also used to compare the change in future expenditure in the organization. There are two ways of grouping the budget financial items budget, either through departments or cost centers.

It is a traditional method of budgeting where a budget is identified as a subaccount. Calculations are done to establish if the expenditure in the subaccount is more than the allocated budget. If it is in expenditure, in excess of the budget then it is recorded as an overdraft. The line budgets can be drawn according to the needs of the organization. It can be on a weekly, monthly or yearly basis. The line item budgeting possesses a number of advantages over the other budgeting forms.

Firstly, the budget is easy to prepare. It is an easy step by step budgeting process. Small businesses usually prefer it due to the ease of preparing it. It involves only making a list of all revenues and expenses, and one prepares it. It does not involve the complex steps of linking it to accounting concepts just as in performance based accounting. Another advantage is a flexible control.

It grants the organization the freedom to budgetary control. Activities, which have a wider scope, are allocated more money than the others. This avails the flexibility in the business. However, the money allocated should be within the funds available and should be in line with the guidelines and measures in the association. It relies on past data for the budgeting process.

It employs data from the finished financial year to determine whether the funding should be increased or decreased. The organization that is carrying out the budgeting may use even sample budgets of similar organizations in the same industry. The last advantage of line item budgeting is that it put a mechanism with which managers control the expenses at the operational level. The managers can, therefore, easily control the expenses incurred by trimming it at the operational level. Managers can easily employ this tool through using the simple available resources to them. To prepare a single line item budget; just take a computer spreadsheet or paper and make a column of the expenses facing the business, for example, salaries.

The next step is to state the maximum allowed amount of money for each expense. So as to draw comparisons fill in a column for comparison with the previous year performances. The result of each month has to be recorded in a column while updating the current expenditure. To find out if the current expenditure is in line with the budget, continuous monitoring has to be carried out. The last step in the budgeting procedure is to come up with a criterion which best suits the budgeting needs of the business. Another fundamental budgeting is the zero based budget.

The main characteristic of this budget is that it allows management not to consider previous budgets for the items. It allows them to come up with new expenditures that will best suit the organization. The zero based budgeting criteria involves using all the funds available to the organization to all categories. The funds available are divided among all the expenses facing the business. Often, the main problem comes in where a new expense arises, and the organization has to trim funds from the other expenses to cover it.

The budgeting type is more flexible as compared to the budgeting decisions in the line budgeting method. It is not bound by any historical budgeting decisions. Management is free to come up with any budgeting decision based on the conditions prevailing in the organization. However, this may bring a problem of budget deficits compared to the line budgeting method that has already been proofed as a viable budget through historical experience. The method of budgeting is also more complex than the line budgeting method.

The line budgeting method involves an easy step by step method. On the other hand, zero based budgets involve using complex principles to come up with a viable budget for business. It may not be ideal for use in small businesses or on a micro platform for the business due to this complex nature. The zero based budget is goal oriented. Managers can employ it during budget cuts to achieve certain objectives of the firm.

Other types of budgeting may not be able to accomplish the objectives; therefore, this becomes an essential tool to the management. It allows transfer of funds allocated to expenditure to a new and emerging expenditure. This shows the flexibility of the method compared to the others. It gives them the mandate to approach problems facing the organization with an open mind to devise a creative solution to the problems. Program planning budgeting systems (PPBS) is a method of budgeting that is an integrated management system.

It employs analysis to achieve a decision. It provides management with a tool for making their decisions. They use it to make basic decisions on the purposes and aims of the organization and allocating of its resources. For this process to be a success, the management must define the organization’s goals, set benchmarks to measure the performance and finally, implement the plans of the business. It is mostly concerned with key decision making processes.

It helps the organization to achieve planning, budgeting, programming, operations and evaluation. Program planning budgeting system is concerned with planning budgeting and programming in the organization. The method attempts to create unity within the three systems. The designer of the budget will base it on a program of carrying out the project. It is then narrowed down to the individual objects within the program.

Planning is the methods process of program formulation. The annual budget of the organization is obtained from the financial and program plan. The complex nature of the method renders to be difficult to apply it small business. IIt requires expertise who successfully employ, and implement it the organization. However, it has its advantages over the line item budgets and the zero based budgets, in that it provides a more detailed process that leads to accurate decisions in the organization. The most appropriate method in public organizations is the line item budgets.

The method allows breakdown of the organizations into compartments as either departments or cost centers. This allows it for easy management on an operational platform. The use of historical data from previous fiscal years ensures that the public organizations have consistency in their budgeting decisions. However, the public organizations are not limited to the line item budgets; they may employ zero based budgets or program planning budget systems (PPPS), depending on the issues facing the organization. The government through its machinery prepares a budget for the whole country.

The federal budget covers all the central government operations and also allocates the remaining resources to the state government. The federal arm of the government employs complex budgeting methods to come with the budget. However, the budget must be approved in congress each year for it to be effective. The state governments through its state offices prepare a budget to cover its operations at the state level and also equitably among the counties. The budget has to receive approval from the state stakeholders before it is implemented. They use historical data, and other factors like population density to come up with a viable budget.

The budget of a state can be increased due to emerging issues that may demand a budget cut or increase. The state budgets receive revenue from various sources including taxes. The county governments also prepare budgets effectively to allocate their resources. Their sources of funds are local and also allocations from the state government. They use the revenue to cover all expenses incurred by the local government and also in service delivery. The local budgets must also be approved through set mechanisms.

All the budgets in the United States are monitored to ensure conformity to the budget. Deviations from the budget are known as deficits if negative or surplus if positive. The line item veto act of 1996 brought into law a line item veto by the federal government of United States. It received a lot of opposition from various stakeholders until it was declared unconstitutional on February 12, 1998. The law was challenged in court, in the case, Raines v.

Byrdin 1997. It was unpopular receiving a challenge from hospitals, city of New York, unions and cooperatives (Casenote, 2008). The bill was designed to give the president the right to veto appropriations, initiate new direct spending and make him subject to tax benefits. This was evident in veto of a provision of the balanced budget of 1997. I would not re-enact this legislation because it may result in misuse of power. Placing the power in the president to effect changes in the budget without being subjected some balances and checks may lead to distortions in the budgetary activities, in the United States.