

According an
individual or a group
of people



**ASSIGN
BUSTER**

According to QFinance dictionary, budget management refers to “ the comparison of actual financial results with the estimated expenditures and revenues for the given time period of a budget and the taking of corrective action” (Para 1). It entails the process of formally identifying, approving and paying all costs or expenses incurred in a project or any other activity for which a budget is prepared (“ The Project Budget”, Para. 18). A budget on the other hand is “ a quantitative statement, for a defined period of time, that may include planned revenues, expenses, assets, liabilities, and cash flows” (QFinance Dictionary). Budgets enable people to predict revenues and expenditures. This enables people and various organizations to measure the actual expenditure their business against the predicted expenditure in the budget.

The budget becomes the focus of an individual or organization during spending as it helps to organize and direct activities as well as allocating resources. For an individual or a group of people to manage well a budget, they must have an intimate knowledge of the business the budget is addressing. Large deviations from the budget reflect either mismanagement of the budget or insufficient knowledge of the revenue and costs of equipment and services by the people involved in coming up with that budget.

Without proper budget management, the managers may not achieve the purpose, goals and objectives of the budget. The process of budget management also refers to budget control. Budget management is important in enabling individuals, groups, organizations and governments to achieve their goals. Budget management ranges from the use of simple methods to

the use of complex methods. Personal budgets may require the use of simple methods in management like the use of pen and paper to simple spreadsheets while complex budgets in big organizations may require complex computer programs to effect budget management.

They may also employ other techniques like auditing, taking financial reports, control of operations or management by exception. In any of these cases, it is important to remember that a budget is a tool, which the management or individuals use to achieve their goals. They prepare budgets prior to the effective period and therefore “ effective budget management requires thinking ahead, anticipating needs based on relatively predictable conditions” (Sennewald, pg 175). Budget management should be an organized activity and must, among other components, embrace planning and control of the all activities involved within the budget (Bryans, pg. 154). All the plans should be realistic and the managers or individuals should document them well. All activities should also be under control to ensure that there are no wide variations from the budget.

Recording and reporting are also important components of budget management because they provide important information and data necessary to calculate deviations from the budget. There is a wide range of budget management strategies. It ranges from highly centralized budget management strategy to highly decentralized management strategy. In a highly centralized budget management strategy, the chief management officer is takes the responsibility of managing the budget and holds the budget managers responsible for carrying out expenditure as stipulated in the original budget. The main aim of the manager in this case is to achieve

the goals of the budget and is less strict on what comprises a good budget management (Ferren & Stanton, pg.

125). The manager has to approve all expenditures and any adjustments that have to be made to the existing budget. In decentralized budget management, the managers closest to the activities have the power to make decisions on effecting expenses and making minor adjustments to the budget. This promotes accountability, which in turn leads to increased performance. In all these management strategies, we should understand that a budget does not give people an authority to spend.

All expenses and adjustments to the budget have to be justified. This is why, especially in highly centralized budget management, the management has to make approvals for every expenditure and adjustment to the budget. Even in this case, “ good budget management requires flexibility” (pg. 126). Cooperation and responsible management is necessary at both unit level and in senior management level in order to achieve the desirable goals.

Budget management should work in such a way to reduce overspending which might lead to a serious deficit and create serious problems to a firm, government or an individual. If overspending persists, there will be no money to pay wages and other expenses and this may lead to liquidation of a firm. People expect a good managed budget to produce books that balance. This is likely to be the case if suitable managers delegated with responsibility and authority for spending work at the field. However, if the management imposes many rules, it may impair the success of budget management both at departmental level and even at the top management level. Therefore, if

managers need to achieve good budget management, they should record and scrutinize all the records from the local management and take a corrective action to the budget where applicable.

In order to achieve effectiveness in budget management systems, budget managers have to consider a number of issues. They first have to understand the size and scope of the budget. This is because size and scope of a budget will affect the performance of the budget and will dictate the level of management input needed to achieve success. Therefore, managers must employ management principles to achieve success in delegation while at the same time taking into consideration the sustainability of the budget. The managers also need to get financial information in time in order for them to take remedial action at the required time.

The reports should be able to provide managers with early warnings of foreseeable problems. The reports the managers receive must be transparent, accurate and verifiable and presented in a simple and understandable way with facts, figures and variations at each stage. They should have clear figures and variations should be clear at each stage. Teamwork is necessary for the budget managers in order for them to reach a mutual agreement and a working financial plan.

Accountability and authority for budget managers is important for financial management as part of the delegation process with the overall goal of improving performance. Budget management has both advantages and disadvantages. A budget coordinates activities across all departments of an organization. It also helps managers to translate their strategic plans into

action. Good budget management helps managers to keep records, which help them to organize well their activities. It improves resource allocation due to the process of clarification and justification of all requests.

Good budget management also improves communication between employers and employees as well as providing a means for corrective action through resource reallocation (Barnat, Para. 1). It helps maximize profits of enterprises. To achieve this, the managers have to undertake proper control over all expenses and revenues. Budget management enables managers to put available resources into the best possible use. It is a good tool for measuring performance of the management. The top management in big organizations gives targets to their departments and expects them to control their budget to meet their specified goals.

The departments compare the budgeted targets with the actual results and determine deviations from the budget. They then communicate this to the top management of their performance at departmental level. The performance, derived from the deviations, help the management to determine the weaknesses and strengths in the implementation of the budget towards achieving the specified goals. This helps the management to direct their efforts to the areas where performance is less and thus improving the general performance. It also helps the management to take corrective action whenever there is a deviation thus reducing the costs of operation. Without the corrective action, the management may run into loss and sometimes lead to decreased efficiency in their work. Budget management on the other hand can create problems. This mainly occurs in the process of budget control.

Problems are likely to occur when the management applies budgets mechanically and rigidly. This can lead to decline of motivation of the employees in the case of organizations or governments and thus lead to more problems due to lack of proper participation of all employees. If the employees are not fully involved in the process of budget management, they may not sometimes understand the importance or reason of the budgeted expenditures and thus will not commit themselves to them (Barnat, Para. 2).

There can be resource competition due to implementation and management of budgets. A rigid budget management may reduce initiative and innovation making it difficult to obtain money for new ideas especially at lower levels of an enterprise. These aspects can make organizations or individuals fail to achieve their goals. Therefore, budget management should be as flexible as possible for it to achieve the set goals. In the case of a project, the management or the project finance committee prepare a budget and submit it to the donor or source of funding of the project for approval. The project budget prepared reflects all the money allocated for specific purposes for a specified period (" The Project Budget", Para.

1). Budget management in this context ensures that those involved control all the costs of the project to ensure that they are within the approved budget and that the budget yields the expected outcome. The project budget manager is involved in monitoring and controlling the operations of the budget and ensures that only relevant and important changes are included in the budget baseline. The budget managers in the field level must communicate any changes they see necessary to be made to the budget to the management who then authorize the corrective actions. In project

management, the finance department is responsible for budget management. The general management expects the finance department to “record, track and monitor the budget from a cost accounting perspective” (“The Project Budget”, Para. 17) and prepare reports for the management and the donor agency. In projects, “budget management is the process by which costs or expenses incurred on the project are formally identified, approved and paid” (Para.

18). Like many other organizations, the project budget management may have various authorization levels. If the authority is centralized, the central management before any adjustment or payment must approve all budget reports. A good managed project budget ensures that the managers achieve the project goals within the required time and without many deviations from the stipulated expenses. Budget management in health and social care ensures that the cost incurred achieves the maximum level of service delivery possible (Bryans, pg. 3). Managers work to reduce the amount of expenses they can use to achieve successful health and social care without reducing the quality of service offered. They also monitor the budgets to eliminate all sorts of losses of funds through carelessness, fraud, corruption, collusion and other professional malpractices.

To achieve this, the managers have to come up with an implementation plan for the budget and use tactical interventions to avert wastage of budget funds and resources. They prioritize the activities and organize their implementation in such a way as to eliminate all the additional expenses that may arise due to disorganized operations. Inflation and changes in the economic climate of a place can affect the functionality and applicability of a

budget. In this case, the management under approval of the funding authority makes necessary adjustments to the budget to make it operational.

“ The main purpose of budget management in health and social care is to provide an early indication of resource performance within the limits of time and money so that, if necessary, appropriate intervention is possible.

” (pg. 31). Best managers who are known to maintain discipline in spending are preferred in the post of budget managers in health and social care.

The management then gives them full authority and responsibility of spending in order for them to run smoothly the budget management exercise. Budget management in this case has its benefits. It enables the institutions to work within the stipulated limits, makes it easy for the budget manager and the institution to coordinate their activities as well as helping the institution to make realistic, tactical, and strategic decisions. Reporting is also an important component of budget management in health and social care.

Another example is the academic budget management. In large institutions of learning like colleges and universities with a few to many campuses or branches, the budget management process is sometimes complex and requires complex computer programs to effect. The chief academic officer is responsible for all the expenditure in the academic institutions (Ferren & Stanton, pg. 107). He or she gives the budget managers authority to effect expenditure and corrections to the budget after submitting reports to him or her. This requires honest budget managers who are true and committed to the aim and objectives of the learning institution. The budget management

strategies in institutions of learning vary greatly from highly centralized to highly decentralized systems. If the chief academic officer has vast knowledge about budgeting and budget management, it makes it easier for the budget managers to perform effectively their management activities, especially, in a highly centralized management system.

The major aim of budget management in this area is to align the budget with the requirements and priorities of academic work. Budget managers ensure that the funds are used for the specified functions. They also encourage spending for the budgeted functions and discourage laziness among the academic staff in executing their duties. The academic budget management employs the internal audit systems to indentify the effectiveness of the budget implementation and to check the weak points thus giving recommendations and room for corrective action for improved performance. Another example is the management of a personal budget. Individuals make budgets to enable them live within the limits of their income.

Mismanagement of these budgets can create serious deficits an issue that will increase loans and debts, further leading to bankruptcy. Management of personal budgets involve the comparison of the budgeted values relative to the actual expenditure and making necessary changes to enable one live within the budget constraint. An individual can make adjustments by cutting costs on unnecessary expenditures or on those expenditures that are not urgent. Inflation and other economic factors can alter the actual prices of the commodities or services budgeted for and therefore individuals normally adjust their budgets from time to time to ensure that it represents the most current value of what they budget for. Different people use various methods

and tools of personal budget management. This, like any other type of budget, depends on the complexity of the budget. This ranges from the use of simple diary records to use of computer programs. Most people prefer the use of Microsoft Excel spreadsheets to analyze their budgets and see where they need adjustments.

The software enables an individual to identify easily the areas he or she is overspending in and thus gives room for adjustments. Like any other type of budget management, personal budget management also requires a lot of flexibility in order to achieve success. In conclusion, budget management is an important component of financial management. It enables managers to compare the values in the budget to the values in the actual expenditure and allows them to make necessary adjustments to the budget. The level of management in a budget depends on the complexity of that budget.

Complex budgets in complex organizations require more attention and a high level of budget management to achieve success. It is important to note that the financial environment differs from time to time and therefore it is important to adjust the budget to be in agreement with the current financial standards. Budget managers need to be highly skilled in the issues of financial management in order for them to achieve efficiency in their work. In order for a budget to be effective in achieving its goals, its management requires a lot of flexibility. Managers need to be skilled on the best methods of budget management in order for them to employ the relevant management tools to achieve departmental and organizational goals. A good budget manager is supposed to identify and eliminate all forms of

mismanagement of budget firms through careless spending, corruption, collusion or other professional malpractices.

Taking good records and reporting is an important practice in any type of budget management. The success of a budget is when it achieves the intentions of the budgeters and in the period stipulated. This is likely to produce books that balance and is an indication of good budget management. Good budget management is also a good tool for organization and management of an institution, a firm or a country.

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