

# Discussion of the four types of budgeting system

[Economics](#), [Budget](#)



In Business terms if we talk about budgeting it is the ability of a manager to plan and allocate the available funds to different departments of the organization. This enables the organization to efficiently allocate the funds to more productive areas and cut back expenses from the less productive areas.

This includes utilization of assets to generate income and public relationships. Normally budgeting is done by accountants, financial experts and representative of the respective department whose budget is being formed (Wisegeek, n. d, n. p)

In daily life also budgeting is an effective way to determine the monthly living expenses keeping in view the bills of previous month. Say for example if an individual is earning \$4, 500 per month, by deducting his known bills from this amount before they even come, he can forecast his household budget, now instead of assigning fixed dollar amounts he can assign percentages to the rest of the sundries (Wisegeek, n. d, n. p).

A successful budget is neither too strict nor too lenient but a balance between the two extremes because there are some expenses which are to be paid in full so it should be the strict side of the budget. In organizations, each and every department should know their upper limits on spending.

The reason of forming a periodic budget is to have a clear cut view of the limits in term of expenditure (Wisegeek, n. d, n. p).

Another view in budgeting is that not every project can be assigned a fixed dollar amount because an organization cannot forecast each and every

expense and here comes the lenient side of the budget in which we are working with the percentages.

Also there is always the chance of unexpected which requires immediate attention, so in that case if an organization or individual has fixed his budget he they would not be able to change or reallocate it. So what accountants and financial experts do is that they regularly adjust the figures according to their needs (Wisegeek, n. d, n. p).

When the inflow of income is greater than the outflow most of the people negligent about budgeting, but those who have formed a practical budget and they follow it can survive even greater financial setbacks (Wisegeek, n. d, n. p).

#### Traditional (Incremental) Budgeting

Traditional or incremental budgeting is the most common type of budgeting used today, which includes forecasting for the whole year and no change is bought in the whole budgeting period. Because of simplicity and easy coordination traditional approach is mostly liked by the organizations (Immattersonline, n. d, n. p).

Imperative approach now a day is criticized from modern organizations. They say that this type of budgeting no longer serves the needs of organization, because mostly budget is timed incorrectly (for too long or for too short) period, depends on wrong measures (too basic or too composite), also too stiff in changing globalenvironmentand some times too political (which shows that benefits are only derived by upper management)

If we look at the time period of traditional budgeting its fixed and specific, normally starting at the beginning of a fiscal year. The forecasted values of the budget also remains same during the whole cycle of the budget, the process of forecasting values is done keeping in view the values from the previous budget and the expectations are also made by looking at them.

Finally the determination of goals is done by the top management, which is then communicated to lower management for implementation (Immattersonline, n. d, n. p).

The advantages of traditional or imperative budgeting approach are that it is easy to form, simple to manage and easy to evaluate. Furthermore every one's goals are clear and accountability can easily be done (Immattersonline, n. d, n. p).

On the other hand disadvantages of traditional or imperative budgeting approach are that it is unable to cater the needs of modern organizations and that the decision making during the year becomes difficult because of inflexibility in budget (Immattersonline, n. d, n. p).

### Zero Based Budgeting (ZBB)

Zero based budgeting (ZBB) is an alternate of traditional budgeting approach mostly used by government or not for profit organizations. Using this approach means that managers have to justify all expenditure and not only the changes from previous year. The benchmark for this approach is zero rather than last year's budget (accountingformanagement, n. d, n. p).

If we compare zero based budgeting (ZBB) with the traditional or imperative budgeting approach, in incremental approach the managers start from the

last year budget and then add or subtract according to the predicted needs, taking last year's budget for granted as baseline, while on the other hand zero based budgeting approach requires considerable documentation from the managers to justify the budget (accountingformanagement, n. d, n. p).

Which not only includes the master budget document but also the decision packages showing all the activities of the particular department ranked according to their importance and the cost of each activity should also have to be determined.

Top executives then cross check the decision packages and cut back the expenses from less important areas (accountingformanagement, n. d, n. p).

Zero based budgeting (ZBB) is considered to be a good approach; the only issue with it is the number of times the review is carried out. As this approach is quite time consuming and too costly to justify on an annual basis, also that annual reviews become mathematical and the purpose of budgeting is lost (accountingformanagement, n. d, n. p).

For some managers zero based budgeting (ZBB) is quite helpful for others it is nothing but the wastage of resources like time and money. So it's up to an individual what he chooses? (accountingformanagement, n. d, n. p).

The advantages of zero budgeting approach (ZBB) are that the resources are utilized properly, and the identification of need and benefits become justified. ZBB also lead towards cost effective ways. It helps to identify inflated budgets and then helps the service oriented organizations to identify their output.

The decentralization is also one of the benefits which increases the motivation of staff and gives them the message that they are also accountable for their actions (accounting for management, n. d, n. p).