

Budgetary control: advantages and disadvantages



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Budget and budgetary control are the two most important aspects of any business. The budgetary control acts as a complimentary aspect to budget and works and in hand. Budget can e termed as an accounting concept, whereby, an organization and its members, try to define the trend of activities of an organization during a course of time, depending on the past experience. Budgets, comes up various figures relating to sales, purchase etc. and puts forward a frame of reference in front of its employees and other members. Thus, it helps an organization to keep a check on its present activities in relation to budget thus provided, and this check in words can be termed as budgetary control.

Budgets, by definition, have to be prepared in advance; and as a result, often referred to as the feed forward system. Feed forward incorporates the most important aspect of budgeting: looking at situations in advance, thinking about the impact and implications of things in advance and attempting to take control of situations in advance. Budget and budgetary control seems to stream line the activities of organizations and provides a disciplinary outlook. Budgets are often termed as integral part of any business and thus, play a vital role in a organizational success. In the following report, an attempt has been made to put across a brief overview in regard to the same.

A budget can be described as a plan expressed in quantitative and money terms. Budgets are usually prepared and approved in advance and take into consideration the period it needs to be used and the similar period on the previous years.

Budgets are prepared to put across a picture whereby, an organization tries to implement different actions and planning to attain the budgetary figures. Budgets are prepared on a department wise as well as a whole. The budgetary figures put across helps an organization to gear up its activities and often act in boosting up the employee motivation. However, since budget and budgetary facts and figures relates to future, the forecasting and its preparation should be taken care off.

BUDGETORY CONTROL

As already mentioned, budget and budgetary control works hand in hand. A budget puts forward the financial data representation of certain facts and figures depending on the past, which needs to be fulfilled in the near future. However, budgetary control ensures the fact that the budget is properly followed and an organization attains the predetermined growth. In other words, the concept of budgetary control can be described as an action relating to the usage on the budget to attain pre-determined organizational success. The whole phenomenon can be described as a chain of activities whereby, budgets are prepared to attain an organizational goal and then, the successful implementation and following those figures in different sphere of activities can be described as budgetary control.

In simple words, budgetary control relates to the establishment of budgets relating the responsibilities of budget holders the needs of a policy.

Budgetary control also relates to the continuous comparison of actual with budgeted results to ensure that the objectives of the same are properly achieved; or to provide a basis for the change of those objectives.

In summary, a budget is a statement setting out the monetary, numerical or non quantitative aspects of an organisation's plans for the coming week or month or year. Budgetary control is the analysis of what happened when those plans came to be put into practice, and what the organisation did or did not do to correct for any variations from these plans.

BENEFITS OF BUDGET AND BUDGETARY CONTROL

Budgets provide benefits both for the business, and also for its managers and other staffs:

1. The budget assists planning – A budget is prepared for the future in order ensures proper allocation of resources among all the departments and so that the organization attains the predetermined success. A budget thus assists a business to plan its future course of action.
2. The budget communicates and co-ordinates – A budget once prepared and accepted by the authority is usually communicated to all the departments and other members so that all the work can be properly co-ordinated. The budget helps in controlling over-utilisation of resources or increase in cost/expenses and a decrease in incomes/sales.
3. The budget helps in decision-making process – A budget is designed kept in mind the future course of action and thus, helps in the decision-making activities of the future.
4. The budget can be used to monitor and control – A budget helps in keeping a control on the overall activities of a business organization.

5. The budget can be used to motivate and control – A budget puts forward certain monthly and quarterly figures which different departments needs to attain during that specific. Often on attaining such figures, the employees are rewarded with bonus or increments.
6. The budget maintains a discipline – A budget helps an organization to maintain a discipline over its expenditure trends and thus, keeps a maintains an organizational discipline.

LIMITATIONS OF BUDGET & BUDGETARY CONTROL

Though there are various benefits to the fact of budget and budgetary control, however, there are few limitations also and these are described below:

1. Benefits of producing a budget should exceed its cost – Often small organizations cannot cope up with the cost of budgeting and maintain its activities at par. For tem, budgets are of mere use.
2. Budgets are often not accurate – This document provides details based on the figures of the past and therefore, it often happens that the budgets are not realistic because of the changes in the market structure and demand pattern.
3. The budget might demotivate – Employees who might not be able to achiee the budgeted targets might be demotivated with the budget.
4. Budgets might lead to dysfunctional management – Targets might pose in a threat within various departments of an organization. For example, a production department might achieve extra output than the sales department actually requires. As a result, budgets need to be

set at realistic levels and linked and co-ordinated across all departments with proper informations.

5. Budgets might be set at too low levels – Budgets being prepared by individuals can be manipulated and hence, should be properly checked because low level budgets might effect the work culture.

Applicability of Budgeting and Budgetary Control

Budgeting can be applied to virtually every situation. Different organizations require different types of budgeting in order to achieve its organizational goal. As it can be pointed out, there are many issues underlying the use of a budgeting system that need careful consideration. For example, the budgeting systems cannot just be imposed on an organisation nor do they run themselves. Managers at all levels often resent revised budgets and budget targets after closely inspecting the present scenario.

The budgeting process

The budgeting process is a very lengthy process: typically, for a large organisation, the pre budgeting phase can begin up to a year before the budget period starts. In this section, Jones and Pendlebury (1984), pp62-63, gives some insight into the beginning of the budgeting cycle for the preparation” Timetable for preparation of detailed revenue budget and capital programme” for a Local Authority.

The process starts in June in the year preceding the budget period with the draft budget manual being sent to Finance Officers, who discuss this draft with their departmental staff (with a view to adoption or amendment). The budgetary planning phase is completed in March (ready for an April start)

when the printed budget book is published and the approved estimates are put into the financial control system.

The budget period

The budget period is the period for which a set of budgets is prepared: typically the budget period is of one year's duration, and will be designed to coincide with an organisation's financial, or fiscal, year. There is no reason why a budget period has to be one year, but typically it is. However, a fiscal year is usually divided into several smaller periods such as monthly or quarterly to keep a close check on the departmental activities.

However, in certain situations, the budget period will be analysed according some particular feature of the work in that situation: for example, stockbrokers have their year divided into "accounts" of two and three weeks' duration. These divisions of a budget period are control periods.

Budget centres

Different organizations are tend to be divided in various organizational departments to ensure the maximum benefit of the budget and the budgetary control. A budget centre is one part of an organisation for which budgets are prepared. That is, a budget centre, like a cost or profit centre, is a section of an organisation (division, department, building, individual) for which a separate budget is prepared.

Interrelationships of budgets

As mentioned, different budget centres get their specific budget and according to them they plan their activities. But, strikingly, all these

departmental budgets has interlinked and possess inter-relationships and as a result, has to be worked out properly, in order to apply it effectively.

On preparation of sales budget, it can be easily noted that the same has got strong links with the stock budget and the stock budget has strong links with the cash budget. Therefore, when any of the budgets are changed it has its direct impact on the other related budgets. The more complex the organisation and the more complex the processes within that organisation, the greater the number and variety of interrelationships that any budget for that organisation is bound to contain.

Conclusion

In the above paragraphs, various aspects of budgeting has been discussed. After all the discussions it can be further concluded that a budget plays an integral part of any business operations and in order to assure the proper utilisation of budget and to keep a close check on the different activities of an organization, budgetary control is necessary. Both these process helps an organization to attain its organizational goal. However, all the details provided in this report are not absolute and are subject to various limitations pertaining to limited knowledge, time and resources. But, we hope that the report will provide a brief idea about the subject.