

BUDGETARY CONTROL IN INDUSTRIES

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ABSTRACT

Budgetary control in turn improves the financial position which may not be noticed directly but due to the frequent updating of failures of various departments and rectification of them in right time will lead to the financial soundness of the company.

The data collected is all from the Primary Source i.e. from the records of the company. The analysis made by the Cost Control Department and Accounts Department is collected and evaluated to identify the importance of the Budgetary Control. The data collected from the concerned departments are placed under the concerned topics which help to understand the relevant topics within a less time

Keywords: *Budgetary control, Budget, cash flow*

I. NEED FOR THE STUDY

It is quite common either to individual or organization that cannot march towards growth without having predefined set of goals. There should be some path or direction to be fixed to achieve the given targets. Budgets given at various levels are the measuring tools, which provide the base to monitor the achievements in regular intervals. It is necessary to observe and understand the basis on which the budgets are fixed. Budgets given without systematic approach makes the whole purpose baseless.

There is a need to study this concept which help us to understand the success stories of the organizations which are very small compared with their competitors but due to their planned approach and effective control measures overwhelmed themselves in their achievements in the existing dynamic environment.

The study also help us to understand that how budgetary controls acts as measuring tools to compare and measure the organizational human resources and to distinguish them with promotions and increments based on their achievement.

II. OBJECTIVES

2.1 Planning: Budget preparation drives the managers to plan ahead. Managers express their operational plans for anticipated business conditions. Without a formal procedure of budgetary control there is no proper direction to go ahead.

2.2 Communication: Budgets effectively communicate the information to employees about the organizational aims, objectives of submits and the part that they have to play for their attainment. Besides, budgets keep different subunits in the attainment of overall organizational objectives.

2.3 Coordination: To coordinate is to harmonize all the activities of a company so as to facilitate its working and its success.

2.4 Motivation: If employees have actively participated in budget preparation and if they are convinced that their personal interests are closely associated with the success of the organizational plans. Budgets provide motivation in the form of goals to be achieved.

2.5 Control: Under this system, budget is thoroughly discussed and reviewed to be finally approved as functional budgets fit in the organizational objectives. The inbuilt mechanism of the routine of budgetary control is bound to participate to an operational control.

2.6 Approved Plan: A master budget provides an approved summary of results to be expected from proposed plan of operations.

III. INTRODUCTION OF BUDGETS

A budget is a plan expressed in quantitative and money terms. Budgets need to be prepared and approved in advance of the period in which they are to be used. Budgets can include some or all of income, expenditure, and the capital to be employed. Moreover, a budget can be drawn up for an entire organization, any segment of the organization such as a department or sales territory or division, or for a significant activity such as the production and sale of a specific product.

The estimation department will forward the offer price to the Marketing Department for onward submission to the client to pick up the order. Once the order is finalized the offer price with all the amendments made during negotiations will be considered and converted into budget value. The budget statement will consist the details of the various inputs/equipments required by the project and cost of each item in detail. The budget statement would be forwarded to the Execution team, procurement department and Cost control Department. Every expenditure after due certification from the Execution Head will be submitted to Cost Control Department to check the expense with the budget and any expense above the budget should requires the reason for additional cost justifying to the management. The bills which involves cost overrun would be approved only after the authorization of Managing Director with due consensus from estimation department.

IV. ADVANTAGES OF BUDGET TO VARIOUS DEPARTMENTS

4.1 Estimation Department

The standard formats prepared for different equipments covering all the basic inputs to consider while finalizing the budget provides the basis for fixing the cost. The size of particular equipment may differ from project to project For Example: Belt Conveyor size of one project may differ from the other project but ultimately the inputs required for the Belt conveyors will be same irrespective of the sizes. Budget statement of one Belt conveyor with utmost care prepared will provide the base for new belt conveyors with different sizes. The missing of the inputs will be avoided if the standard statement is designed for preparation of budgets.

During the justification of the expenses which are above the given budget by estimation department the negligence or ignorance of the concerned departments in controlling the cost are clearly noted. The justification statement which clearly highlights the reason for cost overrun will also help the estimation department to eliminate the mistakes in the next budgets of similar in nature.

4.2 Procurement Department

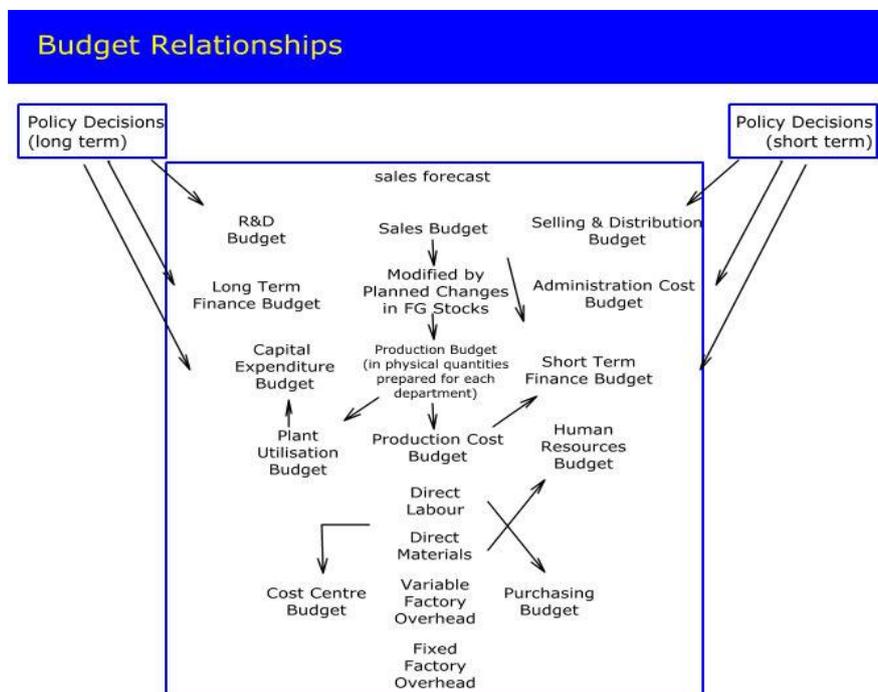
The budget forwarded by estimation department will provide the basic information of the cost price of the inputs. Based on the available data, Procurement division can negotiate with the supplier for the final price to ensure that the procurement cost is within the given budget.

Cost Control Department: Any expense above the given budget will not be processed by Cost Control Department unless the reason for the cost overrun is properly justified. They play as intermediaries between the departments in correcting the deviations between the expenses vs. budget. They also forward the feedback of the project cost to make the necessary corrections in the future budgets.

4.3 Advantages to The Company As A Whole

A budget helps us in the following ways:

1. It brings about efficiency and improvement in the working of the organization.
2. It is a way of communicating the plans to various units of the organization. By establishing the divisional, departmental, sectional budgets, exact responsibilities are assigned. It thus minimizes the possibilities of buck passing if the budget figures are not met.
3. It is a way or motivating managers to achieve the goals set for the units.
4. It serves as a benchmark for controlling on-going operations.
5. It helps in developing a team spirit where participation in budgeting is encouraged.
6. It helps in reducing wastage and losses by revealing them in time for corrective action.



V. DESCRIPTION

1. Past sales figures and trend: The record of previous experience forms the most reliable guide as to future sales as the past performances related to actual business conditions. However, the other factors such as seasonal fluctuations, growth of market, trade cycles etc., should not be lost sight of.

2. Salesmen's estimates: Salesmen are in a position to estimate the potential demand of the customers more accurately because they come in direct contact with the customers. However, proper discount should be made for over-optimistic or to conservative estimates of the salesmen depending upon their temperament.
3. Plant capacity: It should be the endeavor of the business to ensure proper utilization of the plant facilities and that the sales budget provides an economic and balanced production on the factory.
4. General trade prospects: The general trade prospects considerably affect the sales. Valuable information can be gathered in this connection from trade papers and magazines.
5. Orders on hand: In case of industries where production is quite a lengthy process, orders on hand also have considerable influences in the amount of sales.
6. Proposed expansion or discontinuance of products: It affects sales and therefore, it should also be considered.
7. Potential market: Market research should be carried out for ascertaining the potential market for the company's products. Such an estimate is made on the basis of expected population growth, purchasing power of consumers and buying habits of the people.
8. Availability of material and supply: Adequate supply of raw materials and other supplies must be ensured before drafting the sales programme.
9. Financial aspects: Expansion of sales usually requires increase in capital outlay also, therefore, sales budget must be kept within the bounds of financial capacity.

Steps in preparing a cash budget

- i) Step 1: set out a pro forma cash budget month by month. Below is a suggested layout.

	Month 1	Month 2	Month 3
	\$	\$	\$
Cash receipts			
Receipts from debtors			
Sales of capital items			
Loans received			
Proceeds from share issues			
Any other cash receipts			
Cash payments			
Payments to creditors			
Wages and salaries			
Loan repayments			
Capital expenditure			
Taxation			

Dividends			
Any other cash expenditure			
Receipts less payments			
Opening cash balance b/f	W	X	Y
Closing cash balance c/f	X	Y	Z

- ii) Step 2: sort out cash receipts from debtors
- iii) Step 3: other income
- iv) Step 4: sort out cash payments to suppliers
- v) Step 5: establish other cash payments in the month

VI. CONCLUSION

Budgetary Control plays a vital role in measuring the performance at every level to improve upon the performance of the individual.

The basic ideas and theory underlying budgeting and budgetary control are clearly examined and explored: what they are and what they contain, whether that be monetary, qualitative or non quantitative aspects. We have also seen that budgeting needs to be used as part of a budgetary control system, otherwise budgets are merely arithmetical exercises that mean little.

We have also seen the basic elements of the budgeting process, the budget period and budget centers. Finally, the interrelationships that exist between the various parts of a budget and the nature and meaning of the limiting factor.

The ultimate success of control on budget can be achieved only if the budgets are practical in nature, there is a drive to achieve the budgets and the proper mechanism to monitor and review them in regular intervals.

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