

# CHAPTER 4

## BUDGETARY CONTROL

# BUDGET

A quantitative statement, for a defined period of time, which may include planned revenues, expenses, assets, liabilities and cash flows. A budget provides a focus for the organization aids the coordination of activities and facilitates control. Planning is achieved by means of a fixed master budget, whereas control is generally exercised through the comparison of actual costs with a flexible budget.

# TYPES OF BUDGETS

- The Planning budget
- Appropriation budget
- Control budgets

# THE BUDGET-SETTING PROCESS

- Step 1: Establish who will take responsibility
- Step 2: Communicate budget guidelines to relevant managers
- Step 3: Identify the key, or limiting, factor
- Step 4: Prepare the budget for the area of the limiting factor
- Step 5: Prepare draft budgets for all other areas
- Step 6: Review and co-ordinate budgets
- Step 7: Prepare the master budgets
- Step 8: Communicate the budgets to all interested parties
- Step 9: Monitor performance relative to the budget

# BUDGETARY CONTROLS

Control in a business is the process of guiding organisation into viable patterns of activity in an environment. The main objective of a control system is to make sure that the right things get done. A system such as a big organisation must be controlled to keep it steady or to enable it to change safely. Control is therefore required because unpredictable disturbances might enter the system so that actual results deviate from the expected results or goals.

## CONDITIONS NECESSARY IN A CONTROL CYCLE

There are four necessary conditions that must be satisfied before any system can be said to be controlled. These are:

- Objective of the process being controlled must exist
- The output of the process must be measurable in terms of the dimensions defined by the objective.
- A predictive model of the process being controlled is required so that causes for the non-attainment of objective can be identified and proposed corrective action analyzed.
- There must be capability of taking action so that deviation of attainment from objective can be reduced.

# ADMINISTRATION OF THE BUDGETING PROCESS

- The budget committee
- The accounting staff
- Stages in the budgeting process

## THE MAIN OBJECTIVES OF BUDGETARY CONTROL ARE AS FOLLOWS:

- It is essential for planning, controlling and also acts as an instrument of coordination.
- It coordinates the actions of various departments.
- Budgetary control helps in eliminating wastes and raises the profitability position of a business enterprise.
- It makes a prediction about capital expenditure for future.
- It helps in amending deviations from the established standards.
- It centralizes the control system.
- Budgetary control operates various cost centers and departments with efficiency and economy.



## BUDGET CONTROLLER

Although the chief executive is finally responsible for the budget programme, it is better if a large part of the supervisory responsibility is delegated to an official designated as Budget Controller or Budget Director. Such a person should have knowledge of the technical details of the business and should report directly to the president or the Chief Executive of the organization.

# QUESTIONS

1. What is a budget?
2. State and explain three types of budgets.
3. What do budgets have to do with control?

## REFERENCE

- [https://www.academia.edu/27871831/MANAGEMENT\\_ACCOUNTING\\_STUDY\\_NOTES](https://www.academia.edu/27871831/MANAGEMENT_ACCOUNTING_STUDY_NOTES)
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