

**Topic 6**  
**[week 9 and 10]**

**Budgetary Control**

EDUCATION BEYOND BORDERS

# Learning Outcomes

**Upon completion of this topic, the students should be able to:**

- **Describe the importance of budget and budget process**
- **Construct the respective budgets accordingly**

# Budget

**Can be defined as a financial and/or quantitative statement, prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure, and the employment of capital.**

# Budgetary Control

**Can be defined as the establishments of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a firm basis for its revision.**

# Advantages of Budgeting

- **Provides managers with a way to formalise their planning efforts**
- **Provides definite goals and objectives that serve as benchmark for evaluating subsequent performance**
- **Uncovers potential bottlenecks before they occur**
- **Coordinates the activities of the entire organisation by integrating the plans and objectives of the various parts.**

# Objectives of Budgetary Control

- **To plan the policy of the business**
- **To coordinate the activities of a business so that each is part of an integral total**
- **To control each function so that the best possible results may be obtained**

# **Preparation of the Budget**

**In large companies, the preparation of the budget is usually the responsibility of a budget committee. Normally, the chief executive is the chairman of the committee, but the responsibility for operating the system is undertaken by a budget officer. The budget officer is generally a senior member of the accounting staff.**

# Functions of the Budget Officer

- Issuing instructions to various departments
- Receiving and checking budget estimates
- Providing historical information to departmental managers to help them in their forecasting
- Suggesting possible revision
- Discussing difficulties with managers
- Ensuring that managers prepare their budgets in time
- Preparing budget summaries
- Submitting budgets to the committee and furnishing explanation on particular points
- Coordinating all budget work

# The Budget Period

No specific period of time can be formulated as being the best budget period, although it can be said that many firms regard the period of a year as being a natural period for budgeting. The determining of the budget period is usually related to two factors:

- The type of business
- The control aspect

# Basic Budget

**Can be defined as a budget based on long-term plan as a basis for developing current budgets. A basic budget is usually much broader in scope and less detailed than a current budget.**

# Current Budget

**Can be defined as a budget which is established for use over a short period of time, usually one year but sometimes less, and related to current conditions. Current conditions may be interpreted as average conditions likely to prevail during the budget period.**

# **The Key Factor**

**In preparation of budgets, it is essential to consider the key factor or, as it is sometimes termed in budgeting, the principal budget factor. This is the factor, the extent of whose influence must first be assessed in order to ensure that the functional budgets are reasonably capable of fulfilment.**

# Functional Budget

**A functional budget is one which relates to any of the functions of an undertaking. Functional budgets are subsidiary to the Master budget. There are many types of functional budgets, of which the following are frequently used:**

- **Sales budget**
- **Production budget**
- **Production cost budget**
- **Plant utilisation budget**
- **Capital expenditure budget**
- **Selling and distribution cost budget**
- **Purchasing budget**
- **Cash budget**



# Master Budget

**The master budget summarises the financial projections of all the organisation's individual budgets. It then results in a set of related financial statements for a specified time period, usually a year. It embraces the impact of both operating decisions and financing decisions. Operating decisions centre on the use of scarce resources. Financing decisions centre on how to obtain the funds to acquire those resources.**