DIMENSION OF BUDGETARY CONTROL

Dr. Rashmi Rathi
Assistant Professor
Onkarmal Somani College of Commerce, Jodhpur

ABSTRACT

Present business world is full of competition, uncertainty and exposed to different types of risks. The complexity of managerial problems has led to the development of various management control techniques and procedures useful for the management in managing the business successfully. One of the essential features of modern business management is planning and control. Budgetary control is the most common, useful and widely used standard device of planning and control. It is very helpful for the business organization to conduct a business in the competitive market. A budget is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period to which it applies. It acts as a business barometer as it is complete programmed of activities of the business for the period covered.

INTRODUCTION

A small organization which is managed by only one person has an effective control procedure since the management is able to participate in each decision, control each activity and obtain information as soon it arises, however in larger organization no one man can do all the management work; it is therefore become essential to establish procedures for management control to ensure efficient working. The management control process, the process by which top management coordinates and controls an undertaking, consists basically of analyzing the present position of the organization, its strength and its weakness, scanning the environment for opportunities and changes relevant to the organization, making a business or corporate plan, organizing the operations, providing the inputs to achieve planned objectives, preparing and monitoring, evaluating performance and subsequently repeating achievable plans under functional and sub-functional responsibilities, monitoring performance in comparison to plans, evaluating performance and subsequently repeating the process based on past experience and future expectations.

The management control function can be considered as the measurement and correction of the activities of subordinates to whom the responsibilities has been delegated.

A budget is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period to which it applies. It acts as a business barometer as it is complete programmed of activities of the business for the period covered. Budget is a financial and or quantitative statement, prepared and approved.
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prior to a defined period of the policy to be pursued during that period for attaining a

given objective. It may include income, expenditure and employment of capital.

Besides' budgetary control' refers to a system of management and accounting control

by which all operations and output are forecast as far as possible and the

actual results, when known are compared with the budget estimates. Thus the term

budgetary control is designed to evaluate the performance in terms of goals budgeted.

Budgetary Control may be defined as a system of management control and accounting

where in all operations are forecast and planned, and actual results compared with

forecast and planned results. Budgetary control aims at comparing results with desired

standards of performance and taking necessary action in relation to significant

Deviations. Thus, budgetary control provides a system of control, which is concerned

with comparing actual performance with budget and taking corrective action when

actual performance falls short of the budget significantly. : Budgetary Control is
defined as "the establishment 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 objective of that policy or to provide a

base for its revision. The objective of this paper is to Show how the system of
budgetary control has deviated from the conventional concept and captured a new
dimension.

BUDGETARY CONTROL FUNCTION

Hanson has described the budgetary control function in details specifying its expanded

concept, determining the objectives to be achieved, over the budget period, and the

policies that might be adopted for the achievement of these ends.

The activities of budgetary control is determining the variety of activities that should

be undertaken for achievement of the objectives and drawing up a plan or a scheme of

operation in respect of each class of activity, in physical as well as monetary terms for

the full budget period and its parts, performance evaluation, laying out a system of

comparison of actual performance by each person section or department with the

relevant budget and determination of causes for the discrepancies, it control action,

ensuring that when the plans are not achieved, corrective action are taken and when

corrective actions are not possible, ensuring that the plans are revised and objective

achieved budgetary control

OBJECTIVES OF BUDGETARY CONTROL SYSTEM

The objectives of a Budgetary Control System are -

- Definition of Goals: Portraying with precision, the overall aims of the business
  and determining targets of performance for each section or department of the
  business.

- Defining Responsibilities: Laying down the responsibilities of each individual
  so that everyone knows what is expected of him and how he will be judged.
• Basis for Performance Evaluation: Providing basis for the comparison of actual performance with the predetermined targets and investigation of deviation, if any, of actual performance and expenses from the budgeted figures. It helps to take timely corrective measures.

• Optimum use of Resources: Ensuring the best use of all available resources to maximize profit or production, subject to the limiting factors.

• Co-ordination: Coordinating the various activities of the business and centralizing control, but also making a facility for the Management to decentralize responsibility and delegate authority.

• Planned action: Engendering a spirit of careful forethought, assessment of what is possible and an attempt at it. It leads to dynamism without recklessness. It also helps to draw up long range plans with a fair measure of accuracy.

• Basis for policy: Providing a basis for revision of current and future policies.

CONVENTIONAL CONCEPT OF BUDGETS AND CONTROL

A budget is a formal statement of management plan for a given time period which will be used for control. It is treated as a `yardstick' against which the performance is measured. The evaluation of this measurement actually states what corrective action is necessary. This conventional concept of control is incomplete, since it denotes control through budgeting as a mechanistic and responsive action without considering that it is to some degree a self-governing action. Responding to measured differences between actual and budgeted performances, corrective actions are always taken after the performance creating the differences take place.

CONCEPT OF BUDGETS AND CONTROL

The additional areas of control under the expanded concept may be categorized as, (a) The nature of authority and the budget , (b) the degree of identification with budget goals, and (c) The degree of attainability of budget goals.

The above attributes explicitly recognize the self-governing character of control through budgeting. These may help in reducing the divergence between actual performance and budget continuously. In fact, the above intangible aspect of control takes place before the process of measuring and evaluation starts. They are also complementary to the responsive and corrective action as highlighted in the conventional model.

• The Nature of Authority and the Budget:

In an authoritative relationship, the decisions made by superiors are communicated to subordinates. A budget gets an authoritative character when it is communicated to the concerned person. It is a customary practice in authoritative relationship that the person to whom a budget is communicated will take action to meet the budget requirement . Authority is, therefore, a
major source of control. As a budget acquires authoritative character, it acts as an effective control mechanism.

- **The Degree of identification with Budget Goals**

  Communication of budget to concerned person does not state that his response will be entirely as per the budget requirement. The reciprocal aspect to authority indicates that a subordinate may not abide by the communicated budget. There is a continuum of responses, some of which may be more appropriate than others in meeting the budget. The more closely an individual identifies himself with the budget goals, the more appropriate will be his budget response. The degree of identification with budget goals is, therefore, a significant aspect of the control function. The participative budgeting is an example to be drawn as to increase individuals’ identification with budget goals. The persons responsible for performances of cost and profit centers should therefore, participate in the planning of expected performance.

  The members of the organization once involved in the preparation of budget become aware of the budget goals more easily. Thus, the participative process acts as a control mechanism, since it encourages identification with budget goals.

  Another procedure influencing identification with budget goals is the existence of a system of evaluating performance. Under the conventional concept of control function, the measurement and evaluation of performance provides the basis for formulating corrective action. Inherent in this process, there is an element of control influencing the action of persons as they perform. For example, a report on performance may be an important stimulus to good performance on the part of the person whose performance will be judged.

  Moreover, there are some procedures which may lead to individuals’ identification with budget goals and goals of the organization as well. There may include recruitment and training programs, involvement in extra-organizational activities and a scheme of reward and penalty. A company’s selective recruitment and hiring policy may help to achieve the organization’s needs and objectives by means of potential interest and motivations of the individuals. Training programs whether of the formally structured type or of the continuous on-the-job, must be designed as per the organization’s values.

  The involvement of individuals in the company’s extra organizational activities, like participation in the company’s recreational functions, may help to strengthen the identification process. A system of reward and penalty may serve to maintain an individual’s identification with company goals more directly.

  The examples of a reward system may include periodic pay raises, commissions, pensions, stock options, promotions and bonuses. Penalties may consist of pay cut or no increase, demotion or no advancement and possibility of losing the job.
• The Degree of Attainability of Budget Goals:

The third critical area involves the degree of attainability of budget goals. In some situations, budget standard may not be reasonably attainable. As a result, the performance of individuals will be found to be inefficient. It will be impractical if the budget standards are too easily attainable. For efficient and productive performance, it is necessary to prepare budgets which are attainable and at the same time challenging.

In view of attainability of budget goals, it is desirable to design a control mechanism to prevent too unfavorable deviations. One such control mechanism is participative budgeting discussed earlier. Apart from it, there are two other control techniques viz, flexible budgeting and establishing a range of performance levels for each budget goal.

A flexible budget is intended to provide attainable goals regardless of the operating level. A range of expected performances is prepared for each budget goal. Sometimes, a gradation in expected levels or performances is made on the basis of excellent, good, fair and poor. It is preferable to accept some performances within this range than others.

Responsibility accounting is a concept related to attainability or budget goals. An individual will achieve a budget goal only when he has the responsibility for whatever performance to reach the goal. In the absence of such responsibility, the budget will be unattainable. For an effective budgetary control function, it is desirable to formulate budgets in terms of responsibility centers.

Besides, comparison of actual with budgeted performance should be made more frequently and communicated to persons concerned. The objective of such a recommendation is that budget goals may be adjusted, if necessary, in order to keep them rigorous yet attainable.

CONCLUSION

The discussion above brings out that the expanded concept of budgetary control has added a new horizon to management control system. The conventional concept of budgetary control is mechanistic and as such not expected to arouse responsive action. It does not consider the fact that it is to some degree a self-governing action. The expanded concept of budgetary control is recognized by its self-governing character. It is complementary to responsive and corrective action of the conventional concept. The first attribute of the expanded concept of budgetary control is that a budget gets an authoritative character by way of communication process. The second attribute is the degree of identification with budget goals. The identification process is made possible through participative budgeting, a system of evaluation performance, a suitable recruitment and training program, involvement in extra-organizational activities and a policy of reward.
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and penalties. The third essential attribute is the degree of attainability of budget goals. A budget become attainable through flexible budgeting, establishing a range of performance levels for each budget goal, responsibility accounting and frequent comparison of actual with budgeted performance. These three attributes of the expanded concept of budgetary control establish an effective control mechanism.

REFERENCES

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