

## 1: Session Financial management 2: Planning and budgeting

*Financial planning is a proactive way to ensure that you optimize the limited monetary resources available to your business. Budgeting is a key tool in financial planning that helps you decide how.*

While creating such responsibility, each department or budget centre could be treated as a cost centre. Cost centres are responsibility centres, for which inputs or costs are measured in terms of monetary units, but for which outputs are not measured in monetary terms. The basic objective of creating such cost centres is to control the activities of the organization. It would be useful to understand the nature of costs. Costs are of two types: Engineered costs include items for which estimates can be obtained with a reasonable degree of reliability. For example, cost associated with the use of fertilizers is an example of engineered cost. On the other hand, discretionary costs are those for which estimates cannot be arrived at. Each departmental head should be responsible for costs or expenses incurred by his or her department. Cost information is important in planning and control. Performance should be evaluated by comparing actual costs with budgeted costs, and is called analysis of variance. This technique is discussed in the next section. It is very important that management educates staff regarding responsibility centres, the usefulness of the budgetary control system, and the role it plays in achieving objectives. The involvement and cooperation of the employees is sought and developed through the education process. Developing accounting controls The recording of transactions should not be just for the purpose of preparing financial statements but should be so developed that significant information for planning and control is produced simultaneously. Accounting controls are an integral part of the budgetary control system. The controls ensure that transactions are implemented only by those authorized to do so by management. Records are maintained; they also describe the accountability of resources, a physical examination and count of organization resources to make it sure that accounts and records are correct, and access to resources is through documented management authority. The effectiveness of a budgetary control system depends on timely availability and supply of information, and good accounting controls ensure this availability. Development of accounting controls will revolve closely around creating responsibility accounting centres. The system should produce an accounting report for each centre and the data should be useful in the planning and control process. Communication It goes without saying that there should be top management support in making the budgetary control system successful. Top management should not only educate all involved concerning the usefulness of the system, but also communicate the goals, objectives, means of implementing the budget, and responsibilities of each departmental head. The success of the budgetary control system depends very much on the kind of information which forms the input to the whole process. Management should take care that it creates an atmosphere which leads to a flow of correct and relevant information. The people involved in the process should be encouraged to discuss and draw attention to all facts relevant to the given situation. One problem which management faces is the accuracy of information supplied by various departments. This problem relates to the need to assess accurately the predictability of future outcomes. This problem is implicit in all planning systems, and can be minimized by emphasizing a reasonable degree of accuracy in prediction. Another problem is related to the kind of interdepartmental conflicts which may arise during the budgeting process. These conflicts generally originate in resource allocation. Through effective communication, the organization can resolve some resource allocation conflicts. The follow-up procedure -to ensure that there is effective implementation of the budget - is also a part of communication. Coordination The development of a budgetary control system is an activity which requires coordinated efforts from different departments and at various levels. To ensure that staff become involved and participate in a useful and meaningful manner, all efforts need to be coordinated. Since different departments are involved, conflicts are likely to arise. The organization should develop mechanisms to resolve such conflicts without affecting the basic objectives. Management must also ensure that people actively participate in the budgeting process. It is only through active participation that staff feel committed, motivated and encouraged to work towards the common goals and objectives. Budget administration The complexities involved in preparing the budget and implementing the budgetary control system are many.

Management has to put in an effort to ensure that the basic objectives of budgeting are achieved. As discussed earlier, a joint effort on the part of all departmental heads is required in preparing the budget. Management must provide an opportunity to all members to participate in deciding goals and objectives, setting priorities, developing future action plans and formulating general and specific policies. To achieve this, the organization needs to develop some formal mechanisms. One mechanism is to constitute a Budget or Planning and Policy Committee. Management can delegate the task of budget administration to this committee. Budget administration should include setting of priorities, preparing the budgets and follow up. All budget centre heads should be members of this committee. Management should also appoint one coordinator to the committee. The major functions of this committee would be to: Through the budget committee system, management ensures that the heads of activities prepare budgets in a coordinated manner and that control mechanisms are effectively implemented. The budget committee should also ensure that there is no conflict among the different activity heads, and should resolve them if there are any. The budget committee should draw a detailed time schedule for budget preparation, submission, discussion, modification and final approval. These schedules should be strictly adhered to; this will ensure that the budgetary control system is effectively implemented. Sharing of information is an important activity of the budget committee system. Carefully designed formats for preparing the budget and reporting budget performance will highlight actual versus planned levels of activities. The budget committee should also decide about the frequency of submitting reports on actual performance; primarily this depends upon how critical is a particular activity. The department or cost centre should be required to submit a detailed budget, indicating establishment expenses and other expenses Figure 3. Establishment expenses would generally include salaries, wages and other staff-related costs. Each cost centre would indicate both plan and non-plan expenditure: Total plan expenditure is what is spent on capital and revenue items. Details of plan expenditure for new activities and programmes are discussed in the next session. Once departmental budgets are obtained, the information can be conformed and collated to provide the basis for the institute budget. Control Planning is a process of stating what we want to achieve, and trying to achieve what has been planned. Future outcomes are controlled on the basis of what has been achieved in past. Control is possible only if we have established criteria against which the actual accomplishments can be compared. The indices developed for the purpose of evaluating planned tasks and actual accomplishments Session 1 of this module provide important insights into achievement efficiency of planning. However, a detailed investigation of the outcome of these indices is required. The ultimate objective would be: To ensure that plans are achieved requires that activities and operations of the organization are coordinated in such a manner that the achievement of plans is given more emphasis. Any departure from the planned figure is treated as serious, and a detailed examination of factors causing such deviation is undertaken. Emphasizing what can be achieved can be an outcome of changed circumstances which have made such achievements possible now. Variance analysis Planning and control are future-oriented activities. However, past achievements cannot be altogether ignored, because it is on the basis of past achievements that one draws expectations about the future. This is known as variance analysis. The objective is to strengthen the control process in the future by eliminating negative elements and encouraging positive ones. The analysis draws attention to weaknesses of operations in the past and forces management to make a concentrated effort to minimize them. In situations where variance is favourable, insights into capitalizing positive aspects of activities are provided. For looking into the reasons for variance, we have to primarily investigate two dimensions. One is the prices paid for various items purchased by the organization, and the other is the quantities of the items used. The actual price and actual quantities used are compared with the budgeted prices and budgeted quantities to assess the variance: The following expressions can be used in evaluating total variance. Positive variance in both would imply that the actual price or actual quantity is less than that originally budgeted, and hence the variance would be favourable. In contrast, negative variance implies that the actual state of affairs exceeds the budgeted figures, and hence the variance is unfavourable. The sum of the two variances would be the total variance. The aim of breaking the total variance into two components is to separate the influence of changes in prices from changes in quantities used. When analysing variance, two points are important. The first is that change in the scale of activities and operations has an effect on variance.

Suppose that a research organization has a research project and plans to employ 10 people temporarily to cultivate 50 plots of land. For a variety of reasons, the project actually employs 18 people and cultivates plots. The actual value is likely to be greater because of a change in the scale of activity. This should not be seen as negative variance. Variance has to be adjusted for a change of scale. Similarly, quantity variances may not be because of inefficient use of resources. The second point to note is that it is very important to separate the influence of rising prices from price variance. A comparison of prices with the base period price may help the analysis. After including these two adjustments if necessary, one can look into the factors responsible for variance. One practical difficulty which management may face in doing such an analysis is the existence of a large variety of costs and associated variances. It may not be possible to keep track of all variances, both small and large.

## 2: Budgetary control | Meaning | Objectives | Advantages | Disadvantages

*Definition: Budgetary control refers to how well managers utilize budgets to monitor and control costs and operations in a given accounting period. In other words, budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.*

A plan which for a definite period, covers, all phases of operations in the future is known as a business budget. Thus an overall budget will be there for the concern composed of several sub-budgets which are in the form of departmental budgets. Besides, plans relating to items such as levels of inventory, additions to capital assets, plans of production, plans of purchasing, requirements of labour, requirements of cash etc. The basic elements of a budget are: The following steps are involved in the process of budgetary control: Alternatively, where due to the change in circumstances, the budgeted targets cannot be achieved, the budget is revised. Individual objectives of a department etc. Objectives of Budgetary Control: The objectives of budgetary control are: In order to make sure that each person is aware of what he is supposed to do, it is necessary that there is a formal system. The budgetary control coordinates the activities of different departments or sub-units of the organization. A system of control can be established by having a plan against which progressive comparison can be made of actual results. Employees are motivated for improving their performances by budgetary control. Requisites of an effective system of budgetary control: Advantages of Budgetary control: The advantages of budgetary control system are as follows: Also, the magnitude of differences is established by it. Limitations of Budgetary Control: The main limitations of budgetary control are: Normally for attaining a reasonably good budgetary programme, it takes several years. Enthusiastic participation is required by all levels of management in the programme. The place of the management is not taken by it; rather it is a tool of the management. We have the best tutors in Economics in the industry. You will get one-to-one personalized attention through our online tutoring which will make learning fun and easy. Our tutors are highly qualified and hold advanced degrees. If you are stuck with an Advantages, Limitations of Budgetary Control Homework problem and need help, we have excellent tutors who can provide you with Homework Help. Our tutors who provide Advantages, Limitations of Budgetary Control help are highly qualified. Our tutors have many years of industry experience and have had years of experience providing Advantages, Limitations of Budgetary Control Homework Help. Please do send us the Advantages, Limitations of Budgetary Control problems on which you need help and we will forward then to our tutors for review. Other topics under Budget and Planning:

## 3: Benefits & Barriers of Budget Control & Financial Planning | [www.enganchecubano.com](http://www.enganchecubano.com)

*Advantages of budgeting and budgetary control* There are a number of advantages to budgeting and budgetary control:  
• Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system.

Management Accounting Disadvantages or Limitations of Budgetary Control Budgetary control is used as a tool of management control and derives some benefits. Even though, there are some disadvantages or limitations also. They are listed below. The budgets are prepared on the basis of estimates. If the estimates are wrong, the budgets will be misleading. Hence, the success of budgetary control is fully depending upon the degree of accuracy of estimates. Future is uncertainty and cannot be predictable accurately. A budget is prepared for future period. Hence, the budget does not show reality. A budgetary programme is a rigid one. The deviations are find out by comparing actual performance with budgeted figures. The deviations are accruing due to changed conditions. If so, the management cannot fix responsibility on any employees. The budgets may be revised from time to time because of changed conditions. If so, it leads to more administration expenses. If the budgets are revised frequently, the employees can lose their faith in budgeting. Budgets may serve as constraints on managerial initiative because every employee tries to achieve the budgeted figures. The budgetary control requires active participation and cooperation in preparation and implementation among the employees at all levels. But, in practice, such type of participation and cooperation are not easily available to the organization. The budgetary control develops conflicts among the line managers. The reason is that every manager wants to get more resource allocation through budgets, shirk responsibility and blames others for pit falls. A budget cannot be used as a substitute for management. A small business organization cannot afford the employment of budgetary control as a cost control technique since it involves more expenses. The preparation of budgets requires specialized staff. Such specialized staff is not available adequately to the organization. The cost of installing and operating a budgetary control system should be commensurate with the benefits derived there from. But, in practice, it is not like so. If the budgetary control system is badly implemented, the employees are frustrated and cause antagonism. These things lead to low morale among the employees. Despite the above limitations of budgetary control system, the budget is an essential one to an organization for exercising effective control on employees.

## 4: 7 Benefits of Budgetary Control Explained!

*Budgeting in the organisation makes financial planning and control easy. The ultimate effect of budgeting is the thorough examination and scrutinizing the financial aspect of the business enterprise. This helps in optimum use of financial resources of the enterprise.*

Definition, Objectives and Benefits Article shared by: Definition of Budgetary Control: It has resulted in the elimination of waste and excess costs in every suitable instance where budgetary control has been properly instituted. It performs the following important functions: Budgets serve as job descriptions. They define the tasks, which have to be performed at various levels in the organisation. Budgetary control involves continuous comparison of actual results with the planned ones and taking corrective actions in the organisation. Budgets are not only a means of control; they also help the managers in performing other functions of management. Budgeting is closely associated with planning, organising and directing. It also helps in pointing deviations from the planned results. When these deviations are reported to manager, he can control them in time in the organisation. Objectives of Budgetary Control: The main purpose of budgetary control is to enable the management to conduct the business in the most efficient manner in the organisation. Budgetary control has the following specific objectives: Budgets are the plans to be pursued during the designed period of time to attain certain objectives in the organisation. Budgetary control will force the management at all levels to plan various activities well in advance in the organisation. This help in making and revising business policies in the organisation. Budgetary control is an important instrument of managerial control in any enterprise. Budgetary control helps in comparing the performance of various individuals and departments with the predetermined standards laid down in various budgets. Budgetary control reports the significant variations from the budgets to the top management in the organisation. Since separate budgets are prepared for each department becomes easier to determine the weak points and the sources of waste of time, money and resources. Budgetary control involves the participation of a master budget, which helps in bringing effective coordination among different departments of a business enterprise in the organisation. It force the executive to make plans as a group in the organisation. Delays involved in the red tapism and discussing matters with one another sets procedural wrangles aside. Budgetary controls lay down the standards of production, sales, costs and overheads taking into consideration various internal and external factors. This compels and stimulates every department to attain maximum efficiency over the use of men, machine, material, methods and money. Budgets are generally expressed in financial terms in the organisation. They provide the estimates of expenditures and revenues in the organisation. This helps the management to make plans about the flow of cash in such a way that it would never run short of working capital in the organization. Cash budget is also useful to convince the financial institution that their loans will be paid back in time. Benefits of Budgetary Control: Business enterprises can obtain the following advantages from efficient system of budgetary control: Budgeting is an all inclusive management tool. It integrates and ties together various organisational activities in the organization right from planning to controlling. Budgets provide standards against which actual performance can be measured. This helps in taking corrective action, which is an important part of controlling. Budgets are an important tool to coordination in the organisation. In preparation of various budgets, knowledge, skill and experience of many executives are combined and business plans are reduced into concrete numerical terms in the organisation. This leads to proper coordination of the efforts of various departments of the enterprise in the organisation. Budgeting in the organisation helps in reducing unproductive operations by minimizing waste of resources. Budgets are prepared after considerable thought and are directed towards certain aims and objectives. Budgeting in the organisation makes financial planning and control easy. The ultimate effect of budgeting is the thorough examination and scrutinizing the financial aspect of the business enterprise. This helps in optimum use of financial resources of the enterprise. It helps in focusing the time and effort of the managers upon areas, which are most important for the survival of the organisation. Budgeting in the organisation is an important device for fixing the responsibility of various positions. The persons occupying various positions can be made to understand their responsibilities with the help of budgets. Limitations of Budgetary Control:

Too much emphasis on budgeting in the organization may bring about rigidity in the enterprise. It may deprive the managers of the flexibility they require in managing their departments. Budgeted estimates in the organisation are generally based on the price level at a particular period of time. These estimates may become useless when there is either inflation or depression in the market. Sometimes budgets in the organization are tested as an end in themselves. Some people may be extra cautious to function within the boundaries of budget figures rather than achieving the enterprise objectives. A budget, which allows liberal expenditure, may be used to hide inefficiency. For instance, a department may be inefficient even though its expenses are within the budget limits in the organisation. Budgetary control in itself does not prevent deviation from appearing. It neither ensures satisfactory results nor control automatically in the organisation. A deliberate effort has to be made in this direction in the organisation. Budgetary control in the organisation requires expenditure of time, money and effort. Moreover, it is not easy to prepare various kinds of budgets in the organisation because of obvious difficulties in forecasting to be used in budgeting.

**Essential of Effective Budgetary Control:** Following are requirements of a good system of budgetary control: A good system of budgetary control in the organisation requires the establishment of such procedures, which will provide reports on the performance of various operations. The reports should reach the persons concerned with the implementation of budgets without any delay so that quick actions may be taken wherever necessary in the organization. There should be a detailed organization structure with precisely designed authorities, responsibilities and lines of communication so that everybody in the organisation understands the significance of objectives in detail. There should be frequent comparison between budget estimates and operating results in the organisation. Alford and Beatty are of opinion that careful analysis of both operating results and budget estimates is the essence of budgetary control in the organisation. There should be comprehensive planning in the enterprise. All the operations in the organisation should be planned in clear terms. The administration of the budgets should also be properly planned in the organisation. It must be pre-determined who is to be held responsible for the implementation of budget in the organisation. **Responsibility Matched by the Authority:** Those assigned with the responsibility to implement the budgets should also be given the necessary authority to achieve the budgeted targets in the organisation. Lack of sufficient authority will make the implementation of budgets ineffective in the organisation. The purpose of budgetary control is to achieve coordination of various functions of the business in the organisation. Therefore, it is essential that participation up to the lowest level in the enterprise be ensured to make the people committed to the budgets. Everybody in the organisation should understand his role in achieving the budgeted targets. **Support of the Management:** The top management in the organisation supports a good system of budgetary control. Top management in the organisation should take the preparation of budgets and their implementation seriously in order to achieve the objectives of the enterprise. Budgets should not be rigid, but flexible enough to allow altering or remodelling in the light of any change in circumstances in the organization. Budgets are a means to an end. They must be flexible to achieve the desired objectives in the organisation. A good system of budgetary control allows sufficient flexibility to the persons concerned with the implementation of budgets in the organisation.

**Precautions in the Use of Budgets:** Following precautions could be taken while preparing and using budgets for the purpose of managerial planning and control: Estimates are not too high to be attained in the organisation. Budgets are not prepared and installed hurriedly in the organization. Administration and supervision of the operations are not insufficient in the organisation. Organisational structure is not defective in the organisation. Accounting and cost systems are not inadequate in the organisation. Statistics of past operations are not inadequate and unreliable in the organisation. Results are not expected in too short period in the organisation. Costing is concerned with cost determination and indicates what is the approximate cost of a process or a product under existing conditions in the organisation. Control through costing involves the control over costs in the light of certain predetermined costs usually known as standard costs in the organisation. Standard costs are predetermined operation costs computed to reflect quantities, prices and level of operations in the organisation. Control through standard costing involves the following steps: The standards are fixed for different components of cost separately in the organisation.

## 5: Budgetary Controlling Techniques

*Financial planning and budgetary control systems and procedures that exist throughout the Yukon Government must ensure that financial resources are managed and accounted for in a manner that meets legislative and management requirements.*

**Financial Budgets** Such budgets detail where the organization expects to get its cash for the coming time period and how it plans to spend it. Usual sources of cash include sales revenue, the sales of assets, the issuance of stock, and loans. On the other hand, the common uses of cash are to purchase new assets, pay expenses, repay debts, or pay dividends to shareholders. Financial budgets may be of the following types: It provides an important control in an enterprise since it breaks down incoming and outgoing cash into monthly, weekly, or even daily periods so that the organization can make sure it is able to meet its current obligations. Cash budget also shows the availability of excess cash, thereby making it possible to plan for profit-making investment of surpluses. Capital expenditure budget This type of financial budget concentrates on major assets such as a new plant, land or machinery. Organizations often acquire such assets by borrowing significant amounts through, say, long-term bonds or securities. All organizations, large or small, business or non-business, pay close attention to such budget because of the large investment usually associated with capital expenditure. Hence it serves the purpose of an overall control to ensure that other budgets mesh properly and yield results that are in the best interests of the organization. They are usually of the following types: The sales or revenue budget It focuses on income the organization expects to receive from normal operations. It is important since it helps the manager understand what the future financial position of the organization will be. The expense budget It outlines the anticipated expenses of the organization in a specified time period. It also points out upcoming expenses so that the manager can better prepare for them. The project budget It focuses on anticipated differences between sales or revenues and expenses i. If the anticipated profit figure is too small, steps may be needed to increase the sales budget or cut the expense budget. Non-monetary budgets Budgets of this type are expressed in non-financial sales or revenues and expenses, i. If the anticipated profit figure is too small steps may be needed to increase the sales budget or cut the expense budget. Fixed and variable budgets Regardless of their purpose, most budgets must account for the three following kinds of costs: Fixed costs They are the expenses which the organization incurs whether it is in operation or not. Salaries of managers may be an example of such a cost. Variable costs Such costs vary according to the scope of operations. The best example may be the raw materials used in production. Semi-variable costs They also vary, but in less direct fashion. Costs for advertising, repairs, and maintenance, etc. All these categories of cost must be accurately accounted for in developing a budget. Fixed costs are usually the easiest to deal with. Variable costs can also be forecast, although with less precision from projected operations. Semi-variable costs are the most difficult to predict because they are likely to vary, but not in direct relation to operations. For these costs, the manager must often rely on experience and judgment. Advantages and disadvantages of budgeting As a matter of fact, budgets offer a number of advantages. They have potential drawbacks as well. Both are summarized below; Strengths.

## 6: Budgetary Control : Meaning, Objectives and Essentials

*The complexities involved in preparing the budget and implementing the budgetary control system are many. Management has to put in an effort to ensure that the basic objectives of budgeting are achieved.*

Budgetary control is the process by which budgets are prepared for the future period and are compared with the actual performance for finding out variances, if any. The comparison of budgeted figures with actual figures will help the management to find out variances and take corrective actions without any delay.

**Budgetary Control** The main objectives of budgetary control are given below: Defining the objectives of the enterprise. Providing plans for achieving the objectives so defined. Coordinating the activities of various departments. Operating various departments and cost centres economically and efficiently. Increasing the profitability by eliminating waste. Centralizing the control system. Correcting variances from set standards. Fixing the responsibility of various individuals in the enterprise. Refer this article for other objectives of budgetary control: General objectives of budgetary control Advantages of Budgetary Control Budgetary control has become an important tool of an organization to control costs and to maximize profits. Some of the advantages of budgetary control are: It defines the goals, plans and policies of the enterprise. If there is no definite aim then the efforts will be wasted in achieving some other aims. Budgetary control fixes targets. Each and every department is forced to work efficiently to reach the target. Thus, it is an effective method of controlling the activities of various departments of a business unit. It secures better co-ordination among various departments. In case the performance is below expectation, budgetary control helps the management in finding up the responsibility. It helps in reducing the cost of production by eliminating the wasteful expenditure. By promoting cost consciousness among the employees, budgetary control brings in efficiency and economy. Budgetary control facilitates centralized control with decentralized activity. As everything is planned and provided in advance, it helps in smooth running of business enterprise. It tells the management as to where action is required for solving problems without delay.

**Disadvantages or Limitations of Budgetary Control** The following are the limitations of budgetary control: It is really difficult to prepare the budgets accurately under inflationary conditions. Budget involves a heavy expenditure which small business concerns cannot afford. Budgets are prepared for the future period which is always uncertain. In future, conditions may change which will upset the budgets. Thus, future uncertainties minimize the utility of budgetary control system. Budgetary control is only a management tool. It cannot replace management in decision-making because it is not a substitute for management. The success of budgetary control depends upon the support of the top management. If there is lack of support from top management, then this will fail. Refer this article for more limitations or disadvantages of budgetary control:

## 7: Introduction And Objectives Of Budgetary Controls | TutorsOnNet

*financial management and budgetary control systems that are responsive to the needs of Non-Governmental Organisations (NGOs) in West Africa, while leveraging on the rich experiences of participants from different countries in the sub-region.*

**Determination of Key Factor.** Organization for Budgetary Control: The proper organization is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed, which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets. The Chief Executive is the overall in-charge of budgetary system. He constitutes a budget committee for preparing realistic budgets. A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made responsible for their departmental budgets. A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres are also necessary for cost control purposes. The appraisal performance of different parts of the organization becomes easy when different centres are established. A budget manual is a document which spells out the duties and also the responsibilities of various executives concerned with the budgets. It specifies the relations amongst various functionaries. The Chief Executive, who is at the top of the organization, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them, if the situations so demand. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and the actual performance and takes necessary steps to rectify the deficiencies, if any. He works as a coordinator among different departments and monitors the relevant information. He also informs the top management about the performance of different departments. The budget officer will be able to carry out his work fully well only if he is conversant with the working of all the departments. In small-scale concerns the accountant is made responsible for preparation and implementation of budgets. In large-scale concerns a committee known as Budget Committee is formed. The heads of all the important departments are made members of this committee. The Committee is responsible for preparation and execution of budgets. The members of this committee put up the case of their respective departments and help the committee to take collective decisions if necessary. The Budget Officer acts as convener of this committee. A budget period is the length of time for which a budget is prepared and employed. The budget period depends upon a number of factors. It may be different for different industries or even it may be different in the same industry or business. The budget period depends upon the following considerations: A capital expenditure budget may be for a longer period i. All the above-mentioned factors are taken into account while fixing period of budgets

**7. Determination of Key Factor:** The budgets are prepared for all functional areas. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as Key Factor or Principal Factor. There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all other budgets will be prepared by keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited, so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available. The key factor may not necessarily remain the same. The raw materials supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sales staff, etc. Similarly, other factors may also improve at different times. The key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exists.

**Advantages of Budgetary Control:** The budgetary control system help in fixing the goals for the organization as whole and concerted efforts are made for its achievements. Some of the

advantages of budgetary control are: The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and co ordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use. The working of different departments and sectors is properly coordinated. The budgets of different departments have a bearing on one another. The co-ordination of various executives and subordinates is necessary for achieving budgeted targets. The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal, of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims. Tool for Measuring Performance: By providing targets to various departments, budgetary control provides a tool for measuring managerial performance. The budgeted targets are compared to actual results and deviations are determined. The performance of each department is reported to the top management. This system enables the introduction of management by exception. The planning of expenditure will be systematic and there will be economy in spending. The finances will be put to optimum use. The benefits derived for the concern will ultimately extend to industry and then to national economy. The national resources will be used economically and wastage will be eliminated. The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts are concentrated on those aspects where performance is less than the stipulated. The management will be able to take corrective measures whenever there is a discrepancy in performance. The deviations will be regularly reported so that necessary action is taken at the earliest. In the absence of a budgetary control system the deviations can be determined only at the end of the financial period. It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted. In the present day competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more. Introduction of Incentive Schemes: Budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes. Limitations of Budgetary Control: Despite of many good points of budgetary control there are some limitations of this system. Some of the limitations are discussed as follows: The budgets are prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation which is presumed to prevail in future may change. The change in future conditions upsets the budgets which have to be prepared on the basis of certain assumptions. The future uncertainties reduce the utility of budgetary control system. Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail necessitating the revision of budgetary targets. The frequent revision of targets will reduce the value of budgets and revisions involve huge expenditures too. Under budgetary control system the targets are given to every person in the organization.

## 8: Corporate Financial Planning, Budgeting & Control - Oxford Management

*planning and control process, and how the process is to be conducted â€¢ a budget committee, which organises the process of budgetary planning and control; this committee brings together representatives from the main functions of the business -.*

Make an Enquiry Introduction Corporate planning, budgeting and control are essential for effective management of modern organizations. Effective planning, budgeting and control leads companies to their Mission, Vision and Goals. This seminar is designed to enable delegates to make corporate financial decisions in an increasingly volatile international marketplace in order to increase profitability, maintain liquidity and reduce financial risk. The module follows the growth of a company from the development of a strategic corporate financial plan, the raising of finance, the preparation and management of budgets to support the plan, the management of financial risk and ultimately the measurement and evaluation of performance. This seminar will highlight: Objectives The objectives of the seminar are to provide delegates with the necessary tools and techniques to enable delegates to: Develop effective corporate financial plans aimed at maximising return and minimising risk Evaluate the various methods of finance and make successful capital investment decisions Prepare, manage and control budgets to support the corporate financial plans Identify and manage financial risk effectively Measure and manage performance effectively Create opportunities for your personal development and increased financial awareness At the end of this seminar, you will learn to: The concept of agency theory. Risk management Managing and controlling cash flow. Training Methodology This seminar is based on a practical case study requiring delegates to develop and manage a strategic corporate financial plan. As a result it is highly participative with extensive use of practical examples, case studies, exercises and discussion sessions to ensure the development of transferable skills as well as knowledge and understanding. It will enable delegates to make and justify finance decisions, prepare and manage budgets, minimise risk and evaluate performance. Organisational Impact By attending this seminar: Delegates will develop a set of transferable skills which will improve their powers of financial planning helping the company to increase profit, improve cash flow whilst minimizing costs and risk The new skills will help them to make more informed and hence better management decisions. Delegates will not only be able to analysis various business problems but will also be able to evaluate various seminars of action and make sound recommendations for action using leading software They will become more aware of the importance of effective planning, budgeting and forecasting making the capital budgeting process more cost effective The use of practical case studies and illustrations of real companies will help delegates understand how to apply different planning, forecasting and analysis techniques in a work situation. The knowledge gained can be shared amongst other departments of the company to improve the financial culture of the entire organisation. Personal Impact As a delegate you will: Be able to make more informed and hence better planning, budgeting and forecasting decisions using various models and software. Make improved finance and capital budgeting decisions, which will increase your importance to your organization. Be better placed to liaise effectively with other departments on matters of finance and budgeting Be able to identify areas in which they may be able to contribute to improvements in the financial performance of your company which will help improve your career development. This seminar is suitable for: Non-financial and financial personnel Managers and those with financial responsibilities Financial decision makers, whose techniques of decision making and analysis will be improved through attendance Professionals acting upon the financial decisions of others, who will gain an appreciation for decision making thereby ensuring shared values within the organisation Analysts whose role involves evaluating and identifying market and competitive trends Junior managers involved in risk managements. Managers involved in planning and decision making.

## 9: What is Budgetary Control? - Definition | Meaning | Example

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Some of the Benefits of Budgetary Control! Budgeting is a significant part of both planning and the controlling processes and is widely used by managers to plan, monitor and control various activities at every level of the organization. Thus budgets can be highly useful and functional. Some of the functional benefits of preparing and using budgets as control techniques are given by D. These are as follows: Budgets help managers in integrating personnel efforts within the organization towards a common goal. By properly appropriating adequate budgets to different activities within the organization, all activities can be synchronized and all efforts can be coordinated to achieve the organizational objectives. Budgets act as controlling devices to correct any deviations. If the expenditures for a given activity exceed the allotted budget at any point in time, this will signal a deviation from the prescribed course, requiring attention and action by the management. Budgets help in the just measurement of performance. Due to quantification of budgets, the measurement of performance becomes more objective in nature thus eliminating biases that might be introduced due to subjective evaluations. The budgeting process helps management learn from past experience. The management can critically look at the success or failure of the past budgets and isolate errors and analyze their causes and establish steps to be taken to avoid repetition of such errors. The budgeting process induces the management to shift attention to the future operations. Since budgets are a part of the planning process, they force managers to anticipate and forecast the trends and changes in the external environment. For example, the airline industry, when allocating budgets, must keep in mind the future changes in the price of fuel that would affect the aviation industry. Budgets facilitate communications throughout the organization. They let these managers know how their operations relate to other units or departments within the organization. This improved communication reduces the risk of failure due to any miss-understanding. Budgets help new people and lower-level managers see where the organization is going and where they fit in the organization. Such budgets assist the junior managers to be acquainted with the organizational goals and priorities and their own responsibilities and how their operations relate to other units or departments within the organization.

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