

TYPES OF CONTROL

The main types of control can be grouped under seven headings, as shown below:

- Production control
- Quality control
- Sales control
- Labour utilisation control.
- Materials control
- Maintenance control
- Financial control

All these types of control are inter-related, for example, production with quality, production with material, or production with labour utilisation. This gives total or fully integrated control. Budgets are used extensively as a control device, it is therefore necessary to consider budgeting before examining each area individually.

Budgeting is a word given to the formulation of plans for a given future period. These plans are expressed in quantitative terms. Budgets can be stated in financial terms, for example, capital and revenue expenditure budgets, or in non-financial terms, for example, units of production.

The Purpose of Budgeting

If the organisation structure is taken into consideration, then the numerical statements can be broken down into constituent parts. This enables the budgeters to co-relate planning and allows authority to be delegated without loss of control.

Plans reduced to specific figures show where the money is going, or where physical input and output have taken place. With this knowledge, it is easier for a manager to delegate authority, in order to make plans effective, within the budgeting constraints.

The Method of Budgeting

In order to locate responsibility, it is necessary to divide a business into areas which coincide with functional responsibility. Examples of normal divisions are: production or manufacturing, selling and distribution, administration, research and development. In addition to functional budgets there must also be departmental budgets.- The areas which are selected here comply with the normal responsibilities of the supervisors and they are known as budget or cost centres. Departmental budgets are an integral, part of the functional budgets and are incorporated into a master budget.

Co-ordination is essential. It means that the system should be viewed as a whole, and the various budgets should be harmoniously fitted together so that all restraining factors- are noted, 'so that the organisational policy is followed. For example, a key restraining factor could be that finance is in short supply.

Budgets are also used as checks on the actual results of a business; Deviations from pre-determined plans are seen by comparing actual and budgeted performances and costs. The subsequent analysis of the variances and the action taken are a vital part of the control mechanism.

An integral, part of budgetary control, is the recognition that performances and costs can be traced to the people concerned, for example, manager or foreman. In variance analysis, an attempt is made to isolate any controllable variances from the budgeted costs. They are controllable if they can be attributed to a person or a group, and if they are influenced by factors which are internal to the organisation.

A system of budgetary control enables members of the management team to work together according to a clearly defined financial policy, and to authorise specific expenditure to executives. Requirements which are above the budget would necessitate special authority and would have to be carefully examined. In this way control can be centralised and responsibility and authority can be delegated.

Where budgeted and actual figures agree, no action is normally required. Only exceptions are reported, thus enabling corrective action to be taken.

