

The **procedures to be followed in designing and operating a budgetary control** system vary from business to business, but a brief summary of the usual forecasts which would be made is as follows:

- ❑ Sales
- ❑ Production
- ❑ Stocks
- ❑ Costs - broken down into production, administration, selling and distribution.
- ❑ Capital expenditure, including research and development.
- ❑ Cash
- ❑ Credit - debtors and creditors
- ❑ Purchasing
- ❑ Master forecast, incorporating the forecast of profit and loss, and the balance sheet.

In building up the master budget, alternative combinations of forecasts are considered and a note of the restraining factors is taken. These forecasts are possible plans, and when they are co-ordinated in the master plan, they become budgets.

The period covered by a budget can vary from months to many years. Obviously, the longer the period, the less reliable will be the figures in the budget.

Budgetary Control.

Budgetary control concerns itself with the total costs for each department. Each variance is the responsibility of the official, who is in charge of the department in which it arises. This official must then explain the cause of the variance and take steps to prevent its recurrence.

Standard Costing

This is a method of pre-determining the cost of each product. This is done by breaking down the product into each element of cost, that is, labour, material and overhead. These costs are the standard costs representing what they should be under stated conditions and a given volume of output. The use of a flexible budget allows standard costs to be set for different levels of output.

As the work proceeds, actual costs are compared with the standard and any variances are analysed.

Under suitable conditions, budgetary control, and standard costs may be used in conjunction with each other. If this is done, planning and control can be more effective, because one helps to strengthen the other. The detailed analysis and control which is provided by standard costing and the overall co-ordination and control of budgetary control can be most effective, if it is wisely used.

Points to Consider on Budgeting

Too much detail in budgetary control, renders it meaningless and expensive. Too rigid and detailed control may mean that the cost of budgeting exceeds the cost which is controlled. Some flexibility of action must be given to the managers.

Budgets may hide inefficiencies. If an expense is allowed in one budget, it may always be provided for in the future, whether or not it is essential. As budget requests are usually scaled down, managers often ask for more than they need. Therefore, a constant re-examination of standards is required.

Budget control must not supersede organisational goals. Departmental goals may take precedence, because department budget limits are very important, but they must not override the main objectives of the organisation. For example, the sales department should not be refused information because the cost of getting it would exceed the budget of the accounting department. Common sense must not be replaced by strict budgetary roles.

Too much dependence may be placed upon the budget by management, and the scope and the limitations of budgets must be noted.

Inflexibility is a danger, because numerical terms appear very definite. Sometimes certain expenses must be incurred, in excess of the budget, in order to increase profits.

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