

BUDGET AND BUDGETARY CONTROL

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ABSTRACT

Every organization needs Budget for smooth running of its activities. It serves as a link between inflow and outflow process of funds. The budget and budgetary control constitutes the most significant part for making profit by reducing expenditures. The purpose of budget and budgetary control is to compare actual with budgets and find the differences to have proper control over every activity. The data used for the study is secondary data .The secondary data was collected through the journals, magazines, websites, company annual reports and other relevant records. The data was evaluated with the help of budgets like cash budget, sales budget, selling overhead budget and comparing budget with actual. The analytical research design has been used for the study. So, in order to understand the nature of budget and budgetary control of the organization, in this project analyzing different budgets techniques for maximize the profit.

Keywords: -Budget, Inflow and Outflow of Funds, Reducing Expenditure, Maximizing Profit.

1. INTRODUCTION

Budget is essential in every walk of our life-nation, domestic and business. A budget is prepared to have effective utilization of funds and for the realization of objectives as efficiently, as possible. Budget is a widely practiced technique and most of us use budgets in some way or the other. Budget is one of the emphasized terms used in efficient methods of planning and control. It is employed, no doubt, in large business houses, but even the small businesses are using it, in some informal manner. Budget in common parlance is understood as planning for expenditure. Budgets should not be administered rigidly. Changing conditions usually call for changes in plans. A manager may commit to the budget, but a situation might develop in which some unplanned repairs or an unplanned advertising program would better serve the interest of the company. The managers should not defer the repairs of the advertising as a way of meeting the budget-not if doing so will hurt the company in the long run. Attaining the budget should not be an end in itself.

Budgetary control and Budgeting are often used interchangeably to a system of management control. "Budgetary control" implies the use of a comprehensive system of budgeting to aid management in carrying out its functions like planning, co-ordination and control. The budgetary control integrates key managerial functions as it links top management's planning function with the control function performed at all the levels in the managerial hierarchy. A more accurate budget can be developed for those activities where direct relationship exists between inputs & outputs. These input, output are base for developing budgets & exercising control. Budgeting plays an important role in the effective use of resources and achieving overall organizational goals. It compels and motivates

management to make an early and timely study of its problem. It provides a valuable means of controlling income and expenditure of a business as it is a “plan for spreading”.

Budgeting provides a tool through which managerial policies and goals are periodically evaluated, tested and established as a guidelines for the entire organization. It helps in directing capital and others resources into the most profitable channels. It coordinates and correlates all business activities. The use of budgeting in an organization develops an attitude of “cost consciousness”, stimulates the effective use of resources, and creates an environment of profit-mindedness throughout the organization. Budgeting encourage productive competition.

2. NEED FOR THE STUDY

The need for the study is to analyze about Budget and budgetary control measures followed by AGZSM Enterprises. So that the performance of the company is measured, that helps to take remedial measures to boost the performance of the company to succeed in the competitive market in terms of Budgetary Control and regulatory measures.

3. OBJECTIVES OF THE STUDY

- ❖ To compare the budgeted figures with actual figures.
- ❖ To know the cash balance for different financial years.
- ❖ To find out the corrective measures to enhance its business through proper budgetary control.

4. SCOPE OF THE STUDY

This analysis will help the company to improve its performance by using budgetary control. This will also help the company to reduce the cost and maximizing its profit. Through this the past year budgets are analyzed and used to frame the budgets for future. Through this the company would able to know its budgetary performance and can have proper control over its budget in future.

5. REVIEW OF LITERATURE

[1] Wnder Agbenyo, Frank Osei Danquah and Wang Shuangshuang, “*Budgeting and Its Effect on the Financial Performance*”, in Research Journal of Finance and Accounting ,Vol.9, No.8, 2018, “Organizations in both developed and developing countries face high competition in the business sectors. It is essential that businesses that want to remain competitive develop the desire of identifying the role of budgeting and its effect on their financial performance. It provides the detail that when to monitor them and to plan for future operations, refine existing strategic plans and considers how they can responds to current competitions”.

[2] Santoshi Aru, “*Purpose for Budgeting*”, International journal of Science Technology and Management, Vol. No.6, Issue No.05, 2017, “This paper studies the literature regarding budgets and their importance within a company. In the current economic climate, companies are starting to pay more attention to efficient management of resources and, for this purpose, use budgets as tools for financial management at company’s level of the main types of company’s activities. So, the budget is the most important tool in conducting any activity successfully. A budget is the tool by which a company’s management translates into action the corporate strategies and quantitative mission statement”.

[3] Onho Stepen Ioryer, Iortyer Doo Boniface and Zayol Patrick, “*A Critical Appraisal of Budgeting and Budgetary Control*”, International Journal of Scientific and Engineering Research ,Volume 8, Issue 1, 2017. A Critical Appraisal of Budgeting and Budgetary Control, “To ascertain the effectiveness of budgets control and the problems affecting budgeting and budgetary control. The budgeting and budgetary control in public sector is weak and despite the effort of government, it has failed because of dependence on federation account, untrained budget staff, non-adherence to budgetary control measures, corruption, inflation and political environment. The author recommended among others that there is a need for budget culture in the public sector, sharpening the budget monitoring and implementation procedures in the public sector, sustaining greater accountability and transparency and making the need for budgeting realistic and not just a formality”.

[4] Prof. Mubina Shaikh, “*A Study on Budget and budgetary control*”, International Journal of Commerce ‘Vol 4, Issue 1, 2016, A Study on Budget and budgetary control, “Budgetary control is a system in which income

and spending are compared with a company's budget to make sure the plans are being followed. It allows companies to adjust their spending as necessary to make a profit. Every company has a budget, and at times, that budget need to be revised to account for spending and an increase or decrease or in income".

[5] Dr. Abhijit Pandit, "*Budgets and Budgetary control*", Journal of Business Management & Social Sciences Research, Volume 5, No.6, 2016, "A budget is a formal expression of policies, plans, objectives and goals laid down for a definite period in the future. The budget expresses revenue goals in the sales budget and expense limitations in the expense budgets that must be attained in order to realize the desired profit objective. Budgetary control involves the use of budgets and budgetary reports throughout the period of budget to co-ordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget".

[6] James D. Savage, "*Budgeting in economic function*", International Encyclopedia of the Social & Behavioral Sciences (Second Edition) 2015, "Budgeting is a process of governments allocate public resources to bureaucracies, other governmental units, and client groups. This process usually takes place on an annual basis, involves procedural rules and institutional arrangements, often invokes intense political conflict, and, together with taxation, forms the basis for fiscal and macro economic policy. Because it fundamentally determines political winners and losers through its allocative function, budgetary processes and outcomes serve as a distinct guide to a state's philosophy of government and public policy. The act of budgeting, therefore, lies at the heart of politics and government".

[7] S Kimunguyi, F Memba and A Njeru, "*Effect of Budgetary Process on Financial Performance*", International Journal of Business ,2015 , "The main objective of this study was to establish the effect of budgetary process on financial performance of NGOs in health sector in Kenya, applying priority based budgetary theory. Regression results revealed that budgetary process had significant influence on financial performance".

[8] Lambe Issac, Mary Lawal and Theresa Okoli, "*A Systematic Review of Budgeting and Budgetary Control*", Research Journal of Finance and Accounting ,Volume 6, No.6,2015, A Systematic Review of Budgeting and Budgetary Control, "Budget and budgetary control entails the establishment of goals by the management of an organization and designing a process which serves as a framework within which an organization effectively articulates overall planned activities. The quantification of these planned activities in financial terms is known as budgeting, while the establishment of an effective mechanism to guarantee desired result is known as budgetary control. It therefore recommended that since budgeting and budgetary control contributes to management efficiency and high productivity of an organization, all relevant stakeholders must be involved in the budget process, from preparation to implementation, in order to guarantee overall goal attainment".

[9] Faculty of Economics and Business Administration, "*New Trends in Budgeting*", SEA- Practical Application of Science ,Volume11, Issue 2(4)/2014. Tanase GabrielaLidia, "*Difficulties of the Budgeting Process and Factors Leading to the Decision to Implement this Management Tool*", Procedia Economics and Finance ,Volume 15, 2014, "Budgeting is universally used all over the world. Budgets are the most powerful tool for management control, they are the key drivers and evaluators of managerial performance. However, in recent years criticism towards traditional budgeting has been notably increased. Researchers consider that traditional budgeting is a relic of the past; it cannot keep up with the changes and requirements of today's business world"

[10] Tanase GabrielaLidia, "*Difficulties of the Budgeting Process and Factors Leading to the Decision to Implement this Management Tool*", Procedia Economics and Finance ,Volume 15, 2014, "Budgets are management tools universally recognized for their ability to support planning and efficient management of resources and activities in economic entities. The preparation and use of budgets is not without difficulties. This presents a synthesis of the studies on the difficulties of the budgeting process and the factors that determine nevertheless the adoption and use of this tool. The result show that budgets are useful tools and offer numerous advantages, despite the issues generated, which determines their importance and use in economic entities".

6. RESEARCH DESIGN

Research design aids the researcher in the allocation of limited resources by posing crucial choices in methodology. Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the over all scheme or program of there search. It includes an outline of what the investigator will do from writing hypothesis and their operational implications to the final analysis of data.

ANALYTICAL RESEARCH:

In analytical research, the researcher has to use facts or information already available, and analyze them to make a critical evaluation of the material. It involves the in-depth study and evaluation of available information in an attempt to explain complex phenomenon.

7. RESULTS AND DISCUSSION**7.1 CASH BUDGET**

Cash budget is an important budget. It estimates the amount of cash receipts and payments and the balance of cash during a specific budget period. The cash budget is based on forecasts of cash or estimates of cash showing what funds would be available at what times and whether the funds available would meet requirements. The objective of cash budget is to provide for all cash requirements in time and avoid accumulation of excess cash.

Table-1 Table showing Cash budget for the financial years 2012-13, 2013-14, 2014-15, 2015-16 & 2016-17

PARTICULARS	2012-13	2013-14	2014-15	2015-16	2016-17
Opening cash balance	650000	2000000	2810000	3620000	4380000
Add: Receipts:					
cash sales	500000	700000	1200000	700000	800000
cash collected from debtors	300000	250000	350000	600000	500000
Borrowings	850000	360000	0	0	0
Total receipts(a)	2300000	3310000	4360000	4920000	5680000
Less: Payments:					
Salaries	200000	300000	200000	300000	200000
selling, administration and other costs	100000	200000	290000	160000	150000
Borrowings (loan)repaid	0	0	250000	80000	70000
Total payments(b)	300000	500000	740000	540000	420000

Closing balance of cash(a-b)	2000000	2810000	3620000	4380000	5260000
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INTERPRETATION

From the above table it is observed that the total receipts is Rs.5680000 for the financial year 2016-17 and the payment is Rs.420000. So the cash balance was increased to Rs.5260000 in the financial year 2016-17 when compared to other financial years.

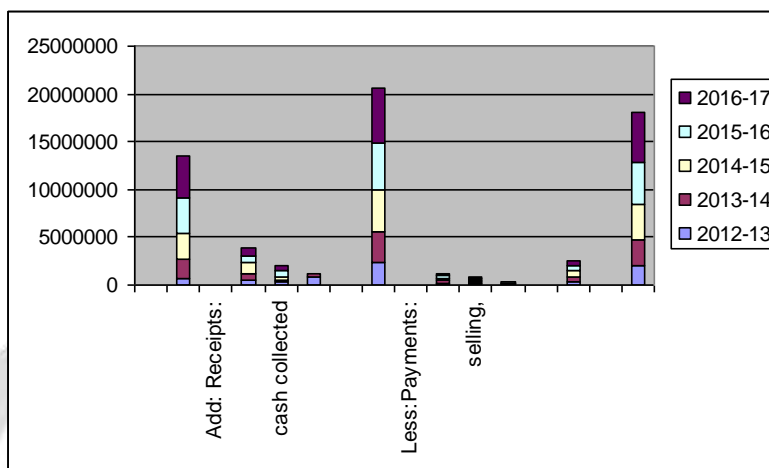


Chart -1 Chart showing Cash budget for the financial years 2012-13, 2013-14, 2014-15, 2015-16 & 2016-17

7.2 SALES BUDGET

A Sales Budget is an estimate of expected sales during a budget period. A sales budget is known as a nerve center or backbone of the enterprise. Sales budget is prepared to forecast the quantity which the business entity expects to sale and the amount of revenue that can be generated from sale of such expected quantity in the future period which is based on the management’s judgment related to the competition in the market, economic conditions, consumer prevailing market demands, and past trends.

Table-2 Table showing Sales budget for the financial years 2012-13, 2013-14, 2014-15, 2015-16 & 2016-17

	Value (Rs.)																
2016-17	96000	93000	280000	55000	150000	136000	120000	180000	195000	25000	1330000		30000				1300000
	Price (Rs.)																
	2400	3000	14000	5500	10000	8500	12000	18000	19500	500							
	Qt y. (u)																
	40	31	20	10	15	16	10	10	10	50							
	Value (Rs.)																
	115000	60000	130000	82500	100000	160000	220000	255000	190000	27500	1340000		40000				1300000
2015-16	Price (Rs.)																
	2300	3000	13000	5500	10000	8000	11000	17000	19000	500							
	Qt y. (u)																
	50	20	10	15	10	20	20	15	10	55							

PARTICULARS	2012-13		2013-14		2014-15		2015-16	
	Qty. (unit)	Price (Rs.)	Qty. (unit)	Price (Rs.)	Qty. (unit)	Price (Rs.)	Qty. (unit)	Price (Rs.)
Forklift	30	2000	30	2000	50	2200	50	110000
Forklift	23	2000	14	2500	30	2500	30	75000
Lift Cylind	5	12000	10	12000	15	12500	15	187500
Forklift	12	4500	15	5000	20	5000	20	100000
Operator	10	9000	10	9500	10	9500	10	95000
Drive Wheel	20	7000	20	7500	30	8000	30	240000
LED Head	10	10000	10	10000	25	10500	25	262500
Fork	10	15000	10	16000	15	16500	15	247500
Battery	10	18000	10	18500	15	18500	15	277500
Forklift	50	400	50	400	50	500	50	25000
Total Sales								1620000
Less: Sales								70000
Net Sales								1550000

INTERPRETATION

From the above table it was observed that Net sales for the year 2012-13 is Rs.800000, for the year 2013-14 it is increased to Rs.950000, for the year 2014-15 it is increased to Rs.1550000, for the year 2015-16 it is decreased to Rs.1300000 and for the year 2016-17 it is Rs.1300000. The company has more sales of Rs.1550000 for the financial year 2014-15 when compared to other financial years.

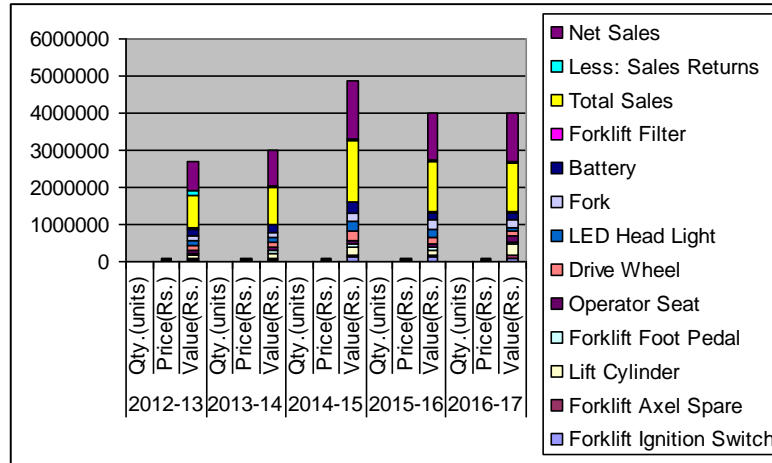


Chart-2 Chart showing Sales budget for the financial years 2012-13, 2013-14, 2014-15, 2015-16 & 2016-17

7.3 SELLING OVERHEAD BUDGET

The selling overhead budget is prepared to estimate expenditure to be incurred to sell the product and its distribution. It is prepared in consultation with sales manager.

Table-3 Table showing Selling overhead budget for the financial year 2016-17

PARTICULARS	ESTIMATED SALES		
	Rs.1290000	Rs.1310000	Rs.1340000
Fixed selling overheads:			
Establishment expenses of sales dept.	30000	30000	30000
other expenses of sales dept.	15000	15000	15000
Advertisement	25000	25000	25000
Salaries to counter salesmen	20000	20000	20000
Total fixed overhead(a)	90000	90000	90000
Variable selling overheads:			
Counter salesmen’s commission at 2% on their sales	24000	25000	2540
Travelling salesmen’s commission at 5% on their	6000	6250	6350

sales			
Travelling salesmen's out of pocket expenses at 3% on their sales	3600	3750	3810
Total variable overhead(b)	33600	35000	12700
Total selling overhead(a+b) (2016-17)	56400	55000	77300

INTERPRETATION:

From the above table it is observed that the total fixed overhead is Rs.90000 will remain constant for all estimated sales during the financial year 2016-17. The total variable overhead will vary to Rs.33600 for Rs.1290000 estimated sales, Rs.35000 for Rs.1310000 estimated sales and Rs.12700 for Rs.1340000 estimated sales for the financial year 2016-17. The total selling overhead of Rs.77300 has incurred more expenses for the estimated sales Ra.1340000 in the financial year 2016-17.

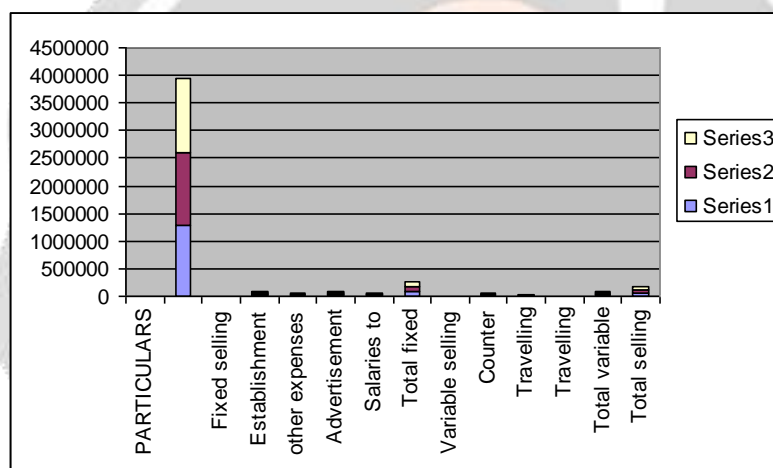


Chart-3 Chart showing Selling overhead budget for the financial year 2016-17

7.4 COMPARING BUDGET WITH ACTUAL

The business study budget to actual to evaluate their performance, forecast future income and identify any operational centers that are performing differently than expected.

Table-4 Table showing Comparative budget for the financial year 2016-17:

PARTICULARS	BUDGET (RS)	ACTUAL (RS)	DIFFERENCES (RS.)
Income:			
Income from rent	1000000	1200000	-200000
Services	850000	900000	-50000

Sales	1330000	1300000	30000
Total Income:	3180000	3400000	-220000
Expenses:			
Rent	100000	110000	-10000
Office Expenses	40000	35000	5000
Advertisement	25000	20000	5000
Electricity	18000	19000	-1000
Insurance	18000	17000	1000
Taxes	15000	12000	3000
Travelling Expenses	25000	22000	3000
Interest	12000	11000	1000
Salaries	190000	200000	-10000
Total Expenses:	443000	446000	-3000
Net Income(2016-17)	2737000	2954000	-217000

INTERPRETATION:

From the above table it was observed that the actual total income Rs.3400000 is greater than the budget Rs.3180000 and the actual total expenses is Rs.446000 is greater than the budget Rs.443000 for the financial year 2016-17. The company earned more income of Rs.217000 for the financial year 2016-17 than the budget.

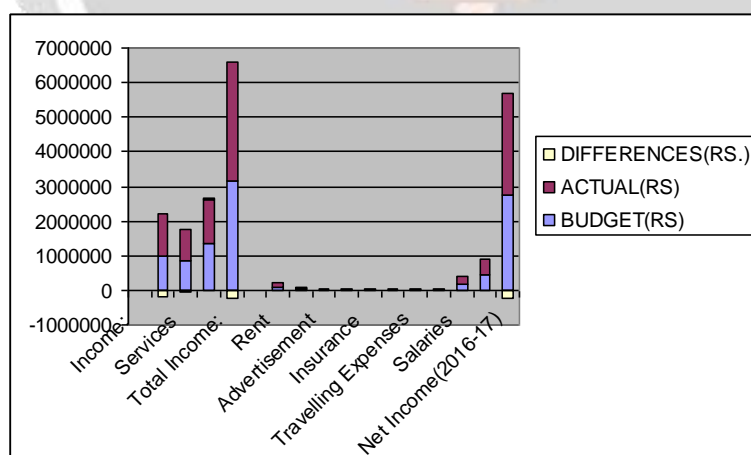


Chart-4 Chart showing Comparative budget for the financial year 2016-17

8. FINDINGS

- The total receipt for the financial year 2016-17 is Rs.5680000 higher than other years.
- The total payment for the financial year 2014-15 is Rs.740000 higher than other financial years.

- The closing cash balance for this financial year will be the opening balance for the next financial year.
- The sales Rs.1550000 for the financial year 2014-15 is more than other financial years.
- The sales for the financial year 2015-16 is declined to Rs.1300000 & will remain same for the year 2016-17.
- The net sales obtained by reducing sales returns from the total sales.
- In the financial year 2016-17 the total selling overhead Rs.77300 for Rs.1340000.
- In the financial year 2012-13 the actual is Rs.1300000 is lesser than the budget Rs.1480000.

9. SUGGESTION

- The company may have good Cash balance of Rs.5260000 in the financial year 2016-17. So the company can follow the same strategy when framing the future Cash budgets.
- The company may reduce the travelling salesmen's commission from 5% to 3%, to reduce the total variable overhead in order to reduce the total Selling overhead.

10. LIMITATIONS OF THE STUDY

- ❖ Budget provides only approximate estimates. Hence results cannot be measured accurately.
- ❖ Budgets are prepared on the basis of certain prevailing conditions. If the conditions change budgets are also to be revised.

11. CONCLUSION

Budget is one of the emphasized terms used in efficient methods of planning and controlling used in AGZSM Enterprises. Proper Budgetary control will help the top management to have proper control over its company activities. In this study the cash budget, sales budget, selling overhead budget and comparing budgets with actual was undertaken. The study on budgetary control in AGZSM Enterprises will helps to know the cash inflow and outflow of the company. Budgetary control is important for estimating the future expenditure by using its past performance. The cash receipts and payments will be known and the total sales can also be known, this will helps the company to take remedial measures to improve its company performance. The research has come out with valuable suggestion of reducing the traveling salesmen's commission from 5% to 3%, which may be adopted in "AGZSM Enterprises".

12. REFERENCE

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