

# A STUDY ON BUDGET AND BUDGETARY CONTROL WITH REFERENCE TO PARAMESWARI PAPER STORES IN PPS ARTS AND CARDS , COIMBATORE

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## Abstract

*Budget and budgetary control both at management and operational level looks at the future and lays down what has to be activated. Control checks whether or not the plans are realized and puts into effect corrective measures where deviation or shortfall is occurring. This study examines how budget and budgetary control can impact on the performance the PARAMESWARI PAPERSTORES(PPS) arts and cards. The question as to whether budgeting is a relevant tool in the financial management and control of organizations has gone on for long while proponents of beyond budgeting have stood for the eradication of budgeting in the running of organization other have stood for a maintenance because it plays more than just the role of regulating finances of an organization. Thus, showing the relevance of budgeting as an effective control tool. The study argues that in order for budgeting to fit well as a control tool in organizations. The positive elements of the various budgeting school should be merged to make the budgeting process simpler and less time consuming so as to encourage stakeholders to see its usefulness*

*Following the findings it is advised to managers and business operators to pay more attention to their budgetary control systems for those without an existing budgetary control system they should put one in place and those with a dummy or passive budgetary control system it is time they re-established a result oriented budgetary control system as it goes a long way in repositioning the manufacturing industry from its creeping performance level to an improved high-capacity vitalization point.*

**Keywords:** Maintenance, Deviation, Beneficiaries

## 1.Introduction

A budget is a defined in the Institute of cost and management accountants 1966 edition of Terminology as a "financial and / or quantitative statement prepare and approved prior to a defined period of the policy to be pursued during that period for the purpose of attaining a given objective . It may include income , expenditure and employment of capital" . The I.C.M.A definition of budgetary control is " the establishment of budgets relating to the responsibilities of executives to the requirement of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objectives of that policy or to provide a basis for its version " .

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A budget is a formal quantitative expression of Management plans. Budgets can be made by managers at any level including a single person managing a machine or operating a machine. In the context of business, budget may have revenue expenses and profits, all in a single statement. But one can think of a budget for revenues alone, budget for expenses alone

**A good budget is characterized by the following:**

- Participation: involve as many people as possible in drawing up a budget
- Comprehensive: embrace the whole organization.
- Standards: base it on established standards of performances.
- Flexibility: Allow for changing circumstances.
- Feedback: Constantly monitor performance.
- BUDGET ORGANIZATION AND ADMINISTRATION:
- In Organization and administering a budget system the following characteristics may apply:
- Budget centers :units responsible for the preparation of budgets . A budget center may encompass several cost centers.
- Budget committee: This may consists of senior members of the organization, e.g. departmental heads and executives (with the managing director as chairman). Every part of the organization should be represented on the committee, so there should be a representative from sales, production, marketing and so on.

**ADVANTAGES OF 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. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organization purpose and direction.
- Promotes coordination and communication.
- Clearly defines areas of responsibility. Requires managers of budget centers to be made responsible for the achievement of budget targets for the operation under their personal control.
- LIMITATIONS OF BUDGETARY CONTROL
- Despite the benefits mentioned above, the budgetary control suffers from serious limitations. Management must keep them in mind while using the tool of budgetary control. Following are drawbacks of the budgeting system:
- Budget estimates are often wrong as they are based on approximation and person judgement. Therefore, the quality of budgets is associated with the intelligence. Skills and experience of the budget persons.
- Budgeting premises change rapidly with the change in business condition is known to all.

**. DEFINITION**

According to Brown and Howard, "Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability." Weldon characterizes budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

**2.BUDGETARY CONTROL METHODS**

a)Budget:

A formal statement of the financial resources set aside for carrying out specific activities in a given period of time.

It helps to coordinate the activities of the organization.

An example would be an advertising budget or sales force budget.

b) Budgetary control:

A control technique whereby actual results are compared with budgets.

Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

### CHARACTERISTICS OF A BUDGET

A good budget is characterized by the following:

Participation: involve as many people as possible in drawing up a budget

Comprehensive: embrace the whole organization.

Standards: base it on established standards of performances.

Flexibility: Allow for changing circumstances.

Feedback: Constantly monitor performance.

Analysis of costs and revenues: This can be done on the basis of product lines, departments or cost centers.

### 3. OBJECTIVES OF THE STUDY

The primary objectives of the project are as follows:

- To recognize the budget and budgetary control system of PARAMESWARI PAPER STORES
- To identify variations of components of revenue budget and components of operational budget.
- To analyze and compare the variation of estimated budget and actual budget for both revenue budget and operational budget
- To Suggest the effective budgetary mechanism for PARAMESWARI PAPER STORES
- To Suggest measures to reduce the costs and improve the financial position

### 4. REVIEW OF LITERATURE

**Hand (1986)** in his position, identified

three basic stages in budgetary control processes and they include the following:

Setting of predetermined standards

Measurements of actual performance against predetermined standards.

Corrective action if necessary to bring the actual performances in line with the predetermined standard. The concept of budgetary control cannot be divorced from that of an executive responsibility. Furthermore, the objective of budgetary control is to enable management to conduct business in the most efficient manner

**According to Walter (1988)**, control involves the making of decisions based on relevant information which leads to plans and actions that improve the utilization of the productive assets and services available to organizations management. Effective and efficient control is said to be based on standards with which actual performance can be compared. If there are no standards, then there can be no effective measure of attainment. Effective control is a key

management task which ensures that efforts produced at all level are commensurate with those required to ensure that long-term effectiveness and success of the organization

**Professor Pogue (1997)** in his article titled 'Budgeting as an aid to management performance' viewed fixed budgeting as being based on one level of activity to which the various costs are related thus materials, labour and overhead costs are related to this one level of activity. Control of cost is difficult with a fixed budgeting because if actual activity is different from budgeted activity, then the budgeted costs or yardstick costs, by which actual costs are measured by management information and action, becomes meaningless. Fixed budgets is sometime criticized by analysts as being destructive because it establishes expense limit that cannot be exceeded and again for does not give room for comparison between the actual performance and the budgeted result.

**Scott (2000)** also lends credence to this fact when he posited that budgetary control is more than an administrative technique which aims to ensure that management functions are carried out in a well organize and co-ordinated fashion. According to him, budgetary control rather aims at straightening communication within an organization in order to ensure that budgetary provisions remain goal oriented.

**Jensen (2003)** states that the emergence of scientific management philosophy with its emphasis on detailed information as a basis for making decision provided a tremendous impetus for the development of management accounting and indeed budgeting techniques. In the early stage of budgeting development however, it focused on preparation and presentation of credible information to legitimize accountability and transparency and to permit correct performance appraisal and consequently rewards.

**Onuorah (2005)** however holds the view that budgeting spells out management plan in quantitative terms. According to him, it also helps to evaluate organizational plans, while at the same time performing two vital

**According to Lambe (2014)**, one of the effective ways to prepare for changing conditions is to provide a frame work that contains specific plan that is sufficiently flexible to adapt to unanticipated changes. A comprehensive process of providing such frame work is known as budgeting. It involves the setting of targets, and effectively monitoring of actual performance against those budgeted.

Therefore, in order to **N.Frow(2005)** According to, achieve company objectives, there should be a budgeting system that is appropriate to the culture of the organization. Additionally, both knowledge of management and attitude vis-a-vis characteristics of budgeting system together with the impact of the budgeting system on employee behavior are fundamental factors for determining the effectiveness of budgeting system

**According to Chika (2006)** in the case study of budgeting and budgetary Control in Business Organization, Budgetary control is the use of the budget as an instrument for the guidance of business operations. In that case, budgets serve as a yardstick to execute the control of operations, to determine the extent to which planned goals and objectives are being attained and to arrest off-line drifts on "time"; on the other hand, agreeing that budgetary control follows budget preparation. Prior studies on budget systems have ended in inconsistent results, and the cause behind this is the result of choosing a wrong budget planning model or framework

**According to Qi (2011)** The budgetary control comprises of three phases namely: budgeting and planning, modelling and control, and Analyzing and feedback. Financial performance comprises of three phases namely: infrastructural development, service delivery and expenditure related activities. This framework also introduces intervening variables between dependent and independent variables.

## 5. RESEARCH METHODOLOGY

Research methodology is the basic frame work which provides guidelines for the rest of research process. It is a map or a blueprint according to which the research is conducted. It specifies the methods for data collection and data analysis.

### RESEARCH DEFINITION

Research is organized, systematic, database, critical, objectives, scientific enquiry or investigation into a specific problem undertaken the purpose of finding answers or solutions to it. In research provides the needs information that guides managers to make informed decision to successfully

## SECONDARY DATA COLLECTION

The secondary data were collected from the secondary sources, which include Annual Reports, internal record and text book pertaining to the financial analysis.

The data thus collected is about the history and accounting policies of the organization. However, the entire study was based on the secondary data, which are collected from the books, records journals and profiles of the organization.

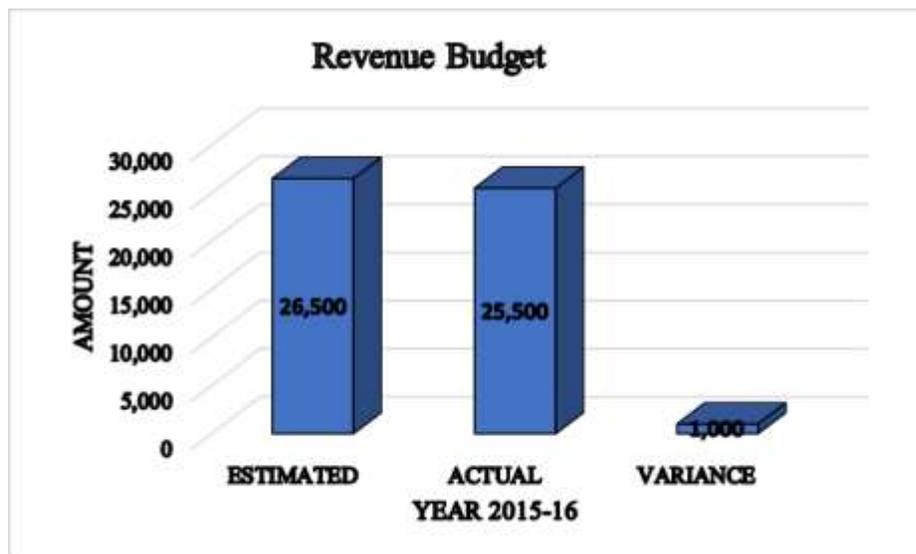
The study covers five years 2014-2019 based on the balance sheet and profit and loss account of the company

### 6. Findings

#### Revenue Budget For 2015-16

PARTICULAR	BUDGETED ESTIMATED FOR THE 2015-2016(1)		ACTUAL FOR THE YEAR 2015-2016(2)		VARIANCE (1)-(2) = (3)	PERCENTAGE (3)/ (1)
	AMOUNT	%	AMOUNT	%		
<b>FIXED ASSET</b>	2,65,000	26,500	2,55,000	25,500	1,000	3.77
<b>TOTAL OF 1</b>	2,65,000	26,500	2,55,000	25,500	1,000	3.77
<b>OTHER INCOME</b>						
<b>CLOSING STOCK</b>	45,000	4,500	42,320	4,232	268	5.95
<b>LOANS &amp; ADVANCES</b>	22,00,000	22,0000	2166.768	21,6676.8	3,323.2	1.5
<b>DEBTORS</b>	1,60,000	16,000	1,50,000	15,000	1,000	6.25
<b>CASH &amp; BANK</b>	65,000	6,500	61,811	6,181.1	318.9	4.9
<b>GRAND TOTAL</b>	27,35,000	2,73,500	26,75,899	2,67,589.9	5,910.1	2.16

**Revenue Budget For 2015-16**



**Interpretation:**

The data pertaining to the generation and consumption have been obtained from the year 2015-16 and represented.

Finally with regard to the result in revenue budget of PARAMESWARI PAPERSTORES(PPS)cards and art totally decreased 267589.9% in the year 2015-16 respectively.

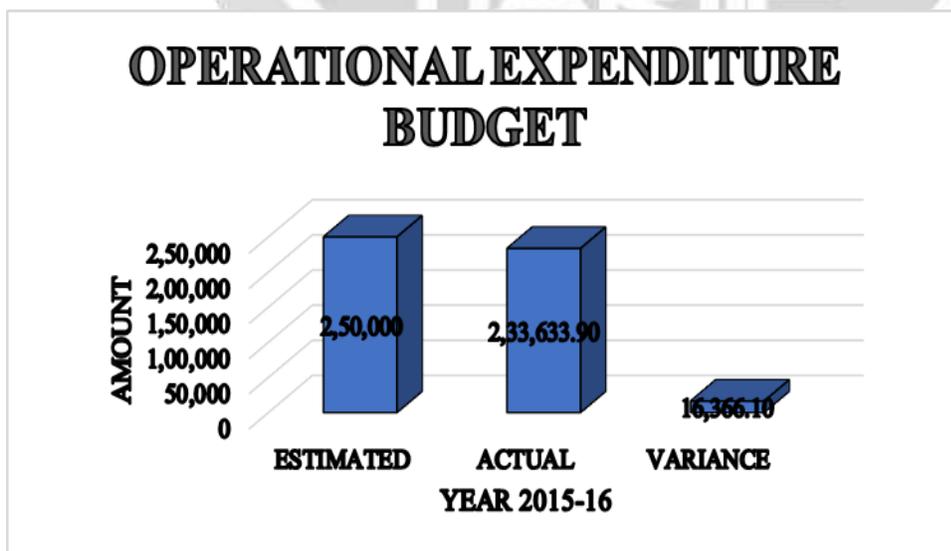
**Operational Expenditure Budget**

**For the Year 2015-16**

PARTICULAR	BUDGETED ESTIMATED FOR THE 2015-2016(1)		ACTUAL FOR THE YEAR 2015-2016(2)		VARIANCE (1)-(2) = (3)	PERCENTAGE (3)/ (1)
	AMOUNT	%	AMOUNT	%		

<b>CURRENT ACCOUNT</b>	25,00,000	2,50,000	23,36,339	2,33,633.9	16,366.1	6.5
<b>TOTAL OF 1</b>	25,00,000	2,50,000	23,36,339	2,33,633.9	16,366.1	6.5
<b>LOAN LIABILITES</b>						
<b>EXPENSES PAYABLE</b>	6,000	600	5,000	500	100	16.6
<b>CREDITOR</b>	35,000	3,500	34,560	3,456	44	1.2
<b>GRAND TOTAL</b>	25,41,000	2,54,100	23,75,899	2,37,589.9	16,510.1	24.3

**Operational Expenditure Budget**



**Interpretation:**

The data pertaining to the generation and consumption have been obtained from the year 2015-16 and represented.

Finally with regard to the result in revenue budget of PARAMESWARI PAPERSTORES(PPS)cards and art totally decreased 237589.9% in the year 2015-16 respectively.

## 7. SUGGESTIONS OF THE STUDY

Planning has become the primary function of management most of the planning relates to individual and individual proposals. Budgets are nothing but the expressions, largely in financial terms. Budgetary control has, therefore become an essential tool of management for controlling and maximizing profits.

The company's objectives and how it can be achieved through budgetary control process. Time tables for all stages of budgeting should be followed regularly by all the departments.

Reports, statements, forms and other record should be maintained if any information is needed.

Continuous comparison of actual performance with budgeted performance will result in knowing whether the company is in profit or loss.

The unnecessary and avoidable expenditures may be reduced and controlled by the general manager to reduce the deviations existed in the expenditure budget.

The general manager shall find the causes of the deviations existed in various budgets and take corrective actions to reduce them in the future.

## 8. Conclusion

The project was carried out with the objective of analyzing the budgets. The budget targets are compared to actual result and deviations are determined. The deviation in budgeted and actual performance will enable the determination of weak spots. The management will be able to take corrective measures when there is a discrepancy in performance. It creates budget consciousness among all employees. The planning of expenditure will also be systematic and there will be economy in spending.

The finances will be put to optimum use. In the present days of competitive world budgetary control system has a significant role to play budgetary control system also enables the introduction of incentives schemes of remuneration.

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