
**A STUDY ON BUDGET AND BUDGETARY CONTROL:
ANALYSIS OF CASH BUDGET**

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ABSTRACT

The companies must aim at achieving growth on consisting and continuous basis .The growth rate of company is generally influenced by its profitability. Therefore, it is necessary for the companies to plan and work properly. Planning is basic managerial function. It helps in determining the course of action to be followed for achieving organizational goals. In order to maximize the profit of the business, effective control on cost is . in budgetary control, plans are made in advance in various business activities like purchases ,sales and production etc. The plan are term as budgets and the actual results are compared with the budgets and the variances are discussed and analyzed.

Keywords: Budget, Budgetary Control, Analysis of Cash budget, Table figure

1. INTRODUCTION

The word ‘Budget’ is derived from French word “Bougette” representing leather pouch into which funds are appropriated to meet the anticipate expenses. The word “budget “therefore refers the monetary or quantitative expression of business plans and policies to be perused in future. Every organization achieves it purposes by coordinating different activities. For the execution of goals efficient planning of these activities is very important and that is why the management has a crucial role to play in drawing out the plans for its business. Various activities within a company should be synchronized by the preparation of plans of actions for future periods. These comprehensive plans are usually referred to as budgets. Budgeting is a management device used for short-term planning and control.

MEANING AND DEFINATION

Meaning of budget:

According to I.C.M.A., London “ Budget is a financial and /or quantitative statement ,prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose

of attaining a given objective. It may include income, expenditure and the employment of capital.”

According to George R. Terry “A budget is an estimate of future needs arranged according to an orderly basis, covering some or all the activities of an enterprise for a definite period of time.”

In short, a budget is a quantitative expression of the plan of action. It means that a budget reflects the financial or quantitative outline of what is to be done in future.

Meaning of Budgetary control:

The word ‘control’ refers to a systematic and an organized effect to keep the costs under control and the revenue at the high level.

It aims at mobilization and utilization of available resources more efficiently, productively and effectively to achieve the targets set for the period.

According to I. C.M. A., London “ Budgetary control is the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and continuous comparison of actual with budget results, either to secure by individual action of objectives of that policy or to provide a solid basis for its revision.”

According to Wheldon “Budgetary control is the planning in advance of the various functions of a business so that the business as a whole can be controlled.”

1.2 LITERATURE REVIEW

Carr and Joseph (2000) ascertain that, budgetary controls help management teams in making future plans through implementation of short term plans and monitoring activities aimed at conforming to the plans. The authors further argue that effective implementation of budgetary control techniques is a guarantee for the effective implementation of budget in the firm. Effective management is crucial for managers in helping them perform major routine functions. Ineffective management and improperly conceived budgeting procedures, can however be frustrating to managers and they often result to very stringent outcomes such as downsizing, retrenchments, company buy-outs due to insolvency and possible business failure due to continued mismanagement and hence the need for a closure.

Dunk (2009) defines budgetary control as the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. The process of budgetary control is necessary in ensuring that spending is controlled to meet various financial goals. Firms should rely more on

budgetary control in order for them to control intra-firm spending activities. This technique is applicable both for the private and public sector institutions as well as individuals who want to make sure they live within their means.

The process of budgetary control is a management control process in which the actual income and spending are controlled viz a viz the planned income and spending so that the firm can make decisions if plans are being followed and if those plans need to be changed in order to make a profit. Organizations according to Epstein and McFerlan (2011) should use budgetary control in projection in order to plan for the future.

According to Uyar and Bilgin (2011), budgets are used to aid longer planning, co-ordinate the operation, control expenses, profitability, aid short-term planning, evaluate performance, motivate managers, motivate employees and communicate plans with employees. Organizations should have both recurrent and capital budgets in order to control and plan for both short term and long term cash flows.

Riley (2012) asserts that budgets are a source of income control used to establish priorities and set targets in order to provide direction and co-ordination, so that business objectives can be turned into practical reality, to assign responsibilities to budget holders (managers) and allocate resources, to communicate targets from management to employees, to motivate staff, to improve efficiency and to monitor performance

Mohamed *et al.* (2015) recommends that management in various organizations should put in place measures to solve the budgetary control system problems such as enhancing better understanding of budgetary control techniques, their behavior and institutional dynamics among the staff, developing strong financial integration with performance management, quarterly revision of financial plan to redirect resources at frequent intervals and better engagement between organizational leaders, managers and finance staff with proper timing of the financial plan.

According to Scott (2005), budgeting and budgetary control processes allow for a subsequent comparison of actual results with the expected results. According to Selznick (2008), budgets play a number of roles which include coding, learning, making goals explicit, contracting with external parties as well as facilitating control.

1.3 OBJECTIVES OF BUDGETARY CONTROL

The main objective of budgetary control is to maximize the profits by proper use of limited business resources. It is an important tool for policy planning and control. The main objectives of budgetary control are as follows:

- To help in policy making.
- To determine the capital requirement.
- To coordinate the activities of different departments.
- To control the costs of various departments.
- To control research and development activities.
- To eliminate the wastage and increase in profitability.
- To anticipate capital expenditures for future.
- To increase the efficiency of production.
- To draw up long range plans with a fair degree of accuracy.
- To ensure the best use of all available resources to maximize profits

1.4 RESEARCH DESIGN AND METHODOLOGY

Research design

It is an empirical study, so the research has applied the budgetary control technique to design the research work. For the study purpose collection of primary data for this research work cash budget technique has been used. The techniques are suitable for the study because the study is a problem with analysis topic. This study is using secondary data as a source of information for thus research e.g. Book, websites and other publications.

2. TYPES OF BUDGET

2.1 Functional budget:

Sales budgets:

Sales budgets are a forecast of total sales expressed in quantities and money. It is the sales manager who prepares the sales budget. While preparing the sales budgets, the following factors should be considered:

- (i) Past sales data.
- (ii) Market conditions
- (iii) General trade and business conditions
- (iv) Advertisement campaign.
- (v) Reports of salesmen

Selling and Distribution cost Budget:

This is the forecast of selling and distribution expenses during the budget period. This is the inter-related with sales budgets because it is based on the quantity of sales estimated as per the sales budget.

Production Budget:

Production budget is usually based on the sales budget and the desired inventory levels. It is the forecast of the quantity of production for the budget period. Production budget is usually expressed in physical quantity –units of output, material requirements and labour requirements.

Units to be produced=Budgets sales +desired closing stock of finished goods –opening stock of finished goods. Production budget shows the units that must be produced to meet anticipated sale.

Distribution Expenses Budget: The budget is made/up of transportation, freight charges, stock control, warehousing, wages, expenses, and/elated administrative costs.

Marketing Budget : Apart from details of all advertising, promotional activities, public relations, marketing research, customer service, and so forth, the marketing budget can also include a summary of the sales, selling expenses and distribution expenses budgets.

Research and Development Budget: The budget covers materials, equipment and supplies, salaries, expenses, and other costs relating to design, development and technical research projects.

Production Budget : The aim of the production function is to supply finished goods of a specified quality to meet marketing demands. The distribution budget specifies finished goods stock levels, and this can be related to the sales budget to give detailed production requirements. Following from this, it is necessary to consider a series of subsidiary budgets: i. Raw Materials Budget.; It paying appropriate attention to the desired stock levels.

Labour Budget: It ensuring that the plan will make available at the right times the required number of employees of suitable skills

Manufacturing Overheads budget: It covering items such as consumable materials and waste disposal.

Manpower Budget: The budget must take an overall view of the organization's needs of manpower for all areas of activity sales, manufacturing, administrative, executive, and so on for

a period of years. Based on the manpower budget and policies, training expenses budget and recruitment expenses budget can be formulated.

Purchasing Budget: Raw materials, consumable items, office supplies and equipment, and the whole range of an organization's requirements, must be considered while preparing this budget, along with the answers to the questions when, where, at what price, and how often to buy.

Administration Expenses Budget: The budget deals with such expenses as office salaries and upkeep, depreciation, stationery, management salaries, telephones, postage, etc

2.2 Financial Budget

The financial budget which summarizes the whole pack-age of budgets is made up of five individual budgets:

Cash Budget: It is concerned with liquidity. It shows the requirements of cash in respect of various functional budgets as well as anticipated cash receipts.

Budgeted Profit and Loss Account: It is concerned with profitability. It reflects the matching of budgeted revenues during the period with budgeted costs during the same period.

Budgeted Balance Sheet: It is concerned with the structure of assets and the pattern of liabilities.

Budgeted Funds Flow Statement: It is concerned with the sources of funds and their application in the organization's objective-striving endeavors.

Capital Budget: It is concerned with the questions of capacity and strategic direction. It deals with the evaluation of alternative dispositions of capital funds as well as with the choice of the best capital structure.

2.3 Flexible Budget

In some businesses it is extremely difficult to estimate future levels of activity with any accuracy because of external uncontrollable influences. For example, a business providing luxury goods and services may be very sensitive to changes in the economic climate. Some businesses are affected by weather, and weather conditions are difficult to predict. The main requirement of a flexible budget is that expenses should be analyzed into three distinct categories:

(a) Fixed expenses, i.e., expenses which would remain the same irrespective of levels of activity?

(b) Variable expenses, i.e., expenses which would change in proportion to levels of activity.

(c) Semi-variable expenses, i.e., expenses which would need to be analyzed into the fixed and variable elements.

The advantage of flexing a budget, as already stated, is that actual performance can be compared with the flexed budget for purposes of control and performance appraisal.

2.4 Zero-Base Budgeting (ZBB)

As a modern technique of budgeting, considered ideal for planning and decision making, ZBB was first applied by the United States department of agriculture as early as in 1964. The conceptual framework and structural development of ZBB was made by Peter A. Pyhrr who applied it in Texas Instruments, a multinational company of United States in 1969. Peter A. Pyhrr is regarded as the "father of zero-base budgeting owing to his contribution towards the development of the technique and making of the conceptual framework. President Jimmy Carter, while in the presidential chair of the U.S.A., issued an official order in 1979 for using the technique by all federal government agencies throughout the United States. The technique was then gradually adopted by various countries all over the world. ZBB Concept

The following are the principal of zero base budget;

- a. Zero (or scratch) is taken as the basis of budgeting and not the targets of previous budgets.
- b. Management of each decision unit must have to justify the fund demanded.
- c. All proposed activities are grouped into various decision packages.
- d. All decision packages are adequately evaluated and arranged according to priority.

Various types of Budget are already mentioned previously but analyzing the cash budget presently.

3. CASH BUDGET:

The cash budget is a sketch of the business estimated cash inflows and outflows over a specific period of time. Cash budget is one of the most important and one of the last to be prepared. It is a detailed projection of cash receipts from all sources and cash payments for all purposes and the resultant cash balance during the budget. It is a mechanism for controlling and coordinating the fiscal side of business to ensure solvency and provides the basis for forecasting and financing required to cover up any deficiency in cash. Cash budget thus plays a vital role in the financing management of a business undertaken.

Cash budget assists the management in determining the future liquidity requirements of the firm, forecasting for business of those needs, exercising control over cash. So, cash budget thus plays a vital role in the financial management of a business enterprise.

IMPORTANCE OF CASH BUDGET

The importance of preparing a cash budget is as follows;

- 1-It serves as a device for planning and controlling of receipts and payment of cash to ensure availability of cash in an adequate amount.
- 2-It enables the management to prepare borrowing and repayment schedule will in advance
- 3-It enables the management to take advantages of cash discount
- 4-It enables the management to plan for financing a new project and expansion/modernization of an existing project.
- 5- It enables the management to plan for dividend payment

3.1 ANALYSING THE CASH BUDGET

From the following information, prepare a cash budget for 3 months ending 31.9.2014.

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Expenses Rs.
June 2014	2,00,000	1,30,000	20,000	10,000
July 2014	1,50,000	1,40,000	30,000	10,000
Aug. 2014	2,50,000	1,60,000	20,000	15,000
Sep.2014	2,20,000	1,80,000	15,000	15,000

Additional Information's:

1. Opening cash balance on 1st July is Rs. 60,000.
2. Debtors (Cr. Sales) pays in the month of following the month of sales.
3. Creditors (purchase) are paid in the month, following the month of purchases.
4. Expenses are paid on monthly basis on the first of very next month.

3.4 Table-1, Cash Budget

	July	August	September
Opening Balances	60,000	1,00,000	65,000
Collections from Debtors	2,00,000	1,50,000	2,50,000
Total Receipts	2,60,000	2,50,000	3,15,000
Payments			
Creditors	1,30,000	1,40,000	1,60,000
Wages	20,000	30,000	20,000
Expenses	10,000	15,000	15,000
Closing	1,60,000	1,85,000	1,95,000
Balance	1,00,000	65,000	1,20,000

4. CONCLUSION

The study sought to find out how evaluation of cash budget control and the process of forecasting the expected receipts (in flow) and expected payment (out flow) of cash to meet the future obligation. The budget showing various estimates regarding receipts and payments for a particular period that is estimated total receipts of July-2,60,000 ,payment-1,60,000 & Balance-1,00,000, Similarly for August and September.

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