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A STUDY ON BUDGETARY CONTROL SYSTEM

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ABSTRACT

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 needs to be revised to account for spending and an increase or decrease in income. In essence, budgetary control compares actual results with budgets. If discrepancies are found, key players within a company have two choices. They can either control the spending of the company or revise the original budgets. Budgetary control helps to coordinate and organize a company's financial activities. The study of budgetary control is very helpful for management of companies for control of their expenditure through a powerful instrument that the name is budget. In fact it will provide a yardstick for measuring and evaluating the performance of individuals and their departments.

Keywords: Budget, Budgetary Control, Cost, Financial Planning, Financial Performance, Performance Measurement, Monitoring, Evaluating, Motivation, Productivity.

1. INTRODUCTION

BUDGET:

According to Institute of Chartered Management Accountants (ICMA) England "A plan qualified in monetary term prepared and approved prior to a defined period of time usually showing planned income to be generated and or to be incurred during that period and the capital to be employed to attain a given objective".

BUDGETORY CONTROL:

The Chartered Institute of Management Accountants (CIMA) London defines budgetary control as establishment budget relating to the responsibility of executives to the requirement policy and the continuous comparison of actuals with budgeted results either to secure individuals action the objective of policy or to provide a basic for its revision.

A budget is the monetary and quantitative expressions of business plans and policies to be pursued in the future period of time the term budgeting is used for preparing budgets and other procedures for planning co-ordination and control of business enterprise. Budgetary control is the process of determining various budgeted figures for the enterprises for the future period and then comparing the budgeted figures with the actual performance for calculating variations, if any first of all budgets are prepared and then actual results are recorded.

Characteristics of a budget

A good budget is characterized by the following:

- Participation: involve as many people as possible in drawing up a budget.
- Comprehensiveness: embrace the whole organization.
- Standards: base it on established standards of performance.
- 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.

There are typically four steps in any budgetary control process that managers follow. First, a budget needs to be created. To put it simply, a company performance budget is really just a set of financial goals that management wants to achieve. These could be sales or spending goals. Second, after the budget is created, management needs to compare, analyze, and interpret the actual performance results with the budgeted goals. Management typically uses a report for this comparison. Third, after the comparison has been made, managers need to improve the underperforming operations and continue to strengthen the favorable ones. The budget report easily allow managers to focus on unfavorable operations because all areas that meet the budget are marked with an F for favorable variance while the poorly performing areas are marked with a U for unfavorable variance.

The fourth and final step usually occurs at the end of an accounting period. After management has a chance to look over the entire last period, they can start making plans for the next year. For example, they will most likely review the original budget that was created and why certain goals were set. Then they will compare the actual with the budgeted performance over the entire period. Lastly, management will focus on how they tried to correct the problem operations and develop a plan to fix them in the next period.

2. REVIEW OF LITERATURE

ARTICLE: 1

Tile: The Impact Of Budgeting And Budgetary Control On The

Performance Of Manufacturing Company

Author: Siyanbola, Trimisiu Tunji

Source: Journal of Business Management & Social Sciences Research (JBM&SSR)

Abstract

This study, the impact of budgeting and budgetary control on the performance of manufacturing company in Nigeria, was conducted using Cadbury Nigeria Plc, as case study. Since wants are plenty while resources are limited, every organisation tends to find means by which it can get what it wants with the limited resources at its disposal. Therefore, firms seek to adopt the concept of budgeting and budgetary control to satisfy their needs at the least possible cost and at the same time fulfill their stewardship obligations to the numerous stakeholders. We adopted a descriptive research design with data gathered through questionnaire administered to respondents. Non-parametric tool of chi square was employed to analyse the data. Hypotheses were tested and analysed on a 5% level of significance and it was revealed that budgeting is a useful tool that guides firms to evaluate whether their goals and objectives are actualised. Considering the changing environment in which firms now operate, it can be concluded that budget, which is a continous management activity, should adapt to changes in the dynamic business environment.

ARTICLE: 2

Tile: A Systematic Review of Budgeting and Budgetary Control in

Government Owned Organizations.

Source: Research Journal of Finance and Accounting

Author: Lambe Isaac

Budgeting 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. This study therefore seeks to undertake a systematic review of budgeting and budgetary control in Government owned organizations and given the importance of the foregoing, attention was focused on the Nigerian National petroleum Cooperation (NNPC). To achieve the objective of the study, primary data were obtained through the use of a well structured questionnaire administered to the respondents, while the secondary data were obtained from the annual financial statements, files, memos, tax laws and gazette of the NNPC. The findings revealed that a necessary and sufficient condition for achieving effective budgeting and budgetary control is the involvement of all relevant stakeholders in the preparation of the budget, given the established processes in government circles, while emphasizing a deliberate and faithful implementation, by all responsible officers.

RESEARCH GAP:

To examine relationships between their own operation and those of other departments in a way to control resources; communicate plans to various responsibility center mangers, motivate managers to strive to achieve budget goals , evaluating the performance of managers , provide visibility into the company's performance.

OBJECTIVES:

- To know plastics industry profile.
- To know company profile of Sujala Pipes Pvt. Ltd. Company.
- To study the budgeted estimates and accruals of the revenue expenditure and revenue receipts.
- To study the variations of the accruals from the budgeted estimates.
- To study the working of the financial department at Sujala Pipes Pvt. Ltd. Co.

3. RESEARCH METHODOLOGY

Need For The Study

1) To know about the budget and budgetary control of a "SUJALA PIPES PVT LTD." Company.

2) To know about the status of a company by different financial budgetary policies.

3) To know about the present scenario of plastic companies Investment estimation that is existed in the market.

4).To knows about the present impact of budgetary control on the financial position of the company.

5) To know about the fast performance to based on future Estimation of the budgetary control of the techniques.

Scope Of The Study:

The scope of the study limited to collecting the data published in the reports of the company and opinions of the employees of the organization with reference to the objective stated above and theoretical framework of the data. With a view to suggest solutions to various problems relating to budget and budgetary control.

Methodology

DATA COLLECTION

Research is the systematic investigation of fact that seeks to establish relationship between two types.

Primary data:

- Officers of accounts sections.
- Executives and staff of financial and accounts department.
- Meeting with concerned people.
- Personal observation.

Secondary data:

- Annual reports of Sujala Pipes Pvt. Ltd. Co.
- Financial management text books.
- Printed Materials.
- Journals and magazines

Limitations Of The Study

- The study is purely based on the information provided by the company and the data is collected form the reports, annual reports, magazines of the company.
- To study is restricted to Sujala Pipes Pvt. Ltd. Co.
- To study is restricted to limited period.

4. DATA ANALYSIS & INTERPRETATION

Payback Period:

Project1:

As the project doesn't get equal cash inflow, cumulative cash inflows are taken as under.

Years	Cash inflows(cr)	Cumulative Cash inflows(cr)
1	11	11
2	12	23
3	13	36
4	16	52

Payback period: Base year+ (required cash inflows/next year cash inflows).

PBP=3+ (4/16).

=3+(0.25)

=3.25years.

Project - 2:

As the project doesn't get equal inflow, cumulative cash inflow, cumulative cash flows are take as under

Years	Cash inflows(cr)	Cumulative cash inflows
1	12	12
2	13	25

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3	14	39
4	16	55
5	15	70

Pay back period: Base year+(required cash inflows/next Yearcashinflows)
PBP= 3+(11/16)years
= 3+0.6875years
= 3.6875year

Net present value:

Project 1:

Years	Cash inflows(CFAT)	PV factor (10%)	PVCFT
1	11,00,00,000	0.909	9,99,90,000
2	12,00,00,000	0.826	9,91,20,000
3	13,00,00,000	0.751	9,76,30,000
4	16,00,00,000	0.683	10,92,80,000

Total of PVCFAT=40,60,20,000
Net present value (NPV)=TOTAL OF PVCFAT-Cash out flow
=40,60,20,000-40,00,00,000
=60,20,000

Project2:

Years	Cash Inflows(CFAT)	PV Factor (10%)	PVCFAT
1	12,00,00,000	0.909	10,90,80,000
2	13,00,00,000	0.826	10,73,80,000
3	14,00,00,000	0.751	10,51,40,000
4	16,00,00,000	0.683	10,92,80,000
5	15,00,00,000	0.621	9,31,50,000

Total of PVCFAT=52,40,30,000
Net present value (NPV)=TOTAL OF PVCFAT-Cash out flow
=52,40,30,000-50,00,00,000
=2,40,30,000

Profitability index:

Project 1

Years	Cash inflows(CFAT)	PV factor (10%)	PVCFAT
1	11,00,00,000	0.909	9,99,90,000
2	12,00,00,000	0.826	9,91,20,000
3	13,00,00,000	0.751	9,76,30,000
4	16,00,00,000	0.683	10,92,80,000

Total = 40,60,20,000
Profitability index=total of PVCFAT/ cash out flow
=40,60,20,000/40,00,00,000
=1.015

Project2:

Years	CashInflows(CFAT)	PVFactor (20%)	PVCFAT
1	12,00,00,000	0.909	10,90,80,000
2	13,00,00,000	0.826	10,73,80,000
3	14,00,00,000	0.751	10,51,40,000
4	16,00,00,000	0.683	10,92,80,000
5	15,00,00,000	0.621	9,31,50,000
6			

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Total =52,40,30,000
Profitability index=total of PVCFAT/ cash out flow
=52,40,30,000/50,00,00,000
=1.048

Internal Rate of return

Project 1

years	CFAT	PVF@10%	PVCFAT	PVF@20%	PVCFAT
1	11,00,00,000	0.909	9,99,90,000	0.833	9,16,30,000
2	12,00,00,000	0.826	9,91,20,000	0.694	8,32,80,000
3	13,00,00,000	0.751	9,76,30,000	0.579	7,52,70,000
4	16,00,00,000	0.683	10,92,80,000	0.482	7,71,20,000
Total			40,60,20,000		32,73,00,000

Net present value at lower rate = total of PVCFAT-Cash out flow
=40,60,20,000-40,00,00,000
=60,20,000
Net present value at higher rate = total of PVCFAT-Cash out flow
=32,73,00,000-40,00,00,000
=(-)72,70,000
IRR=lower rate+(difference b\n A and B)/(difference b\n B and C)*HR-LR
Where A=initial outlay
B=total of PVCFAT at lower rate
C=total of PVCFAT at higher rate
IRR=10%+(40,00,00,000-40,60,20,000)/(40,60,20,000-32,73,00,000)*(20%-10%)
=10%+(60,20,000/7,87,20,000)*10%
=10%+0.0764
=10.76%

Internal Rate of return

Years	CFAT	PVF@10%	PVCFAT	PVF20%	PVCFAT
1	12,00,00,000	0.909	10,90,80,000	0.833	9,99,60,000
2	13,00,00,000	0.826	10,73,80,000	0.694	9,02,20,000
3	14,00,00,000	0.751	10,51,40,000	0.579	8,10,60,000
4	16,00,00,000	0.683	10,92,80,000	0.482	7,71,20,000
5	15,00,00,000	0.621	9,31,50,000	0.402	6,03,00,000
TOTAL			52,40,30,000		40,86,60,000

Net present value at lower rate = total of PVCFAT-Cash out flow
=52,40,30,000-50,00,00,000
=2,40,30,000
Net present value at higher rate = total of PVCFAT-Cash out flow
=40,86,60,000-50,00,00,000
=(-)9,13,40,000
IRR=lower rate+(difference b\n A and B)/(difference b\n B and C)*HR-LR
Where A=initial outlay
B=total of PVCFAT at lower rate
C=total of PVCFAT at higher rate
=10%+(50,00,00,000-52,40,30,000)/(52,40,30,000-40,86,60,000)*(20%-10%)
=20% +(2,40,30,000/11,53,70,000)*10%
=10%+2.08
=12.08%

5. CONCLUSION

The fundamental difference between the classical approach to project capital investing and budgeting, with its emphasis on form as described by King, and contemporary practices, is the recognition of the need to employ systems that underpin the delivery of shareholder value.

By factoring cost of capital metrics (what companies need to return to investors and lenders) into discounting formulae such as Net Present Value (NPV) companies are effectively and efficiently enabled to identify satisfactory returns. Compensating managers to achieve in excess of the shareholder return requirement is another key element of the modern approach Shareholders want managers to invest only if the expected rate of return exceeds the cost of capital. Because of this managers cannot ignore the cost of capital imperative and indeed their focus should be on returns over and above the cost of capital. This has given rise to a growing number of companies using EVA in manager compensation packages, especially since it resolves agency problems and generates incentives for managers to focus on increasing shareholder wealth.

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