BUDGETARY CONTROL AND NON - BUDGETARY CONTROL

BUDGETARY CONTROL

Budgetary control refers to the process of planning, controlling, and monitoring the organization's revenue and expenses to ensure that they align with the budget. It involves creating budgets for various business activities, monitoring actual performance against the budget, identifying variations, and taking corrective actions to bring the budget back on track.

The main aim of budgetary control is to ensure the efficient use of resources and achieve the organization's objectives. It is the setting and adjusting of the financial plans for a business, organization, or individual to check whether they are utilizing their resources productively and systematically. Budgetary control aims to help organizations achieve their financial goals and objectives by ensuring that they are not overspending or underutilizing their resources. It is an essential tool for planning and managing financial resources and can help organizations to make informed financial decisions. It is important for the financial management of the company.

Objectives of Budgetary Control

The main objectives of budgetary control are as follows:

1. **Planning:** Planning is an initial and basic step of any organization. It involves creating a financial plan for a specific time on which the future actions and decisions of the organization depend. Budgetary control lays out a plan for income and money to be spent, providing a direction for the company's financial activities over a

predetermined period. This ensures that the company's financial resources are carefully allocated and productively employed.

2. **Coordination:** The next objective is to coordinate or align the business or financial operations with the organization's overall goals and objectives, ensuring that all departments and activities work towards a common goal. Since the departments discuss and coordinate with each other, it also helps to ensure that financial information is accurate, consistent, and transparent throughout the organization, which is essential for effective budgetary control.

3. **Decision Making:** It is one of the primary steps of budgetary control which provides a solid foundation on which to make crucial decisions that affect the future and working of the organization. With the help of budgetary control, management has access to precise and timely information on the organization's financial performance. Making wise decisions about the allocation of resources, capital expenditures, and other important business decisions can be accomplished with the use of this information.

4. **Cost Control:** Cost control is a way in which the organization can keep a check on the budget and expenses and ensure that they do not exceed revenue goals. It is also important to identify the areas where the costs can be reduced. It prevents wastage or misuse of resources and increases efficiency. A budgetary control technique for comparing actual spending to the budgeted amount. A company can then take the necessary corrective action after identifying any potential expenditures or inefficiencies.

5. **Resource Allocation:** It is necessary to ensure the optimum utilization of resources by allocating them to the most significant areas according to the priority and requirements that promote the organization’s objectives. A budget allows a company to prioritize its expenditures and direct resources to where they are most required or will yield the highest returns.

6. **Performance Measurement:** Performance measurement is a tool or a way to evaluate the actual performance of the organization concerning the budget, analyze and understand the problems in different areas and take appropriate actions where needed. This improves the overall efficiency of the organization. Business owners and staff are held responsible for their financial performance by creating and monitoring budgets. This may promote an environment of understanding and answerability within the company.

Advantages of Budgetary Control

The advantages of budgetary control are:

1. **Reduce cost:** It manages the cost of production of the company by effective planning of financial activities and ensures that the resources are being utilized properly so that there is minimum wastage. This brings down the cost of operation to the organization.

4. **Maximization of profit:** Through planned goals and proper coordination, the organization functions efficiently as all the activities are adequately performed and the expenditures and capital are put to use correctly with the help of the process of budgetary control.

5. **Specific aims:** The process of budgetary control makes the goal of the organization clearer and easier to accomplish. The expenses and resources are well allocated into areas required and help avoid unnecessary wastage in terms of time and money. Therefore, the improved control over activities and finance makes the goal more definite for the organization.

6. **Tool for measuring performance:** The budgetary control acts as a tool for measuring performance. It helps compare the result achieved by the organization and the objectives that were set earlier while planning. It detects the areas that need attention and provides assistance or solutions.

Limitations of Budgetary Control

While budgetary control is important in achieving the goal set by the organization but there are also a number of limitations to it. Some of them are as follows:

1. **Limited to the financial aspect:** The concept or process of budgetary control solely focuses on only the financial outlook of the organization. The other issues like customer satisfaction, employee benefit, safety issues, etc. are disregarded.
3. **Inflexibility:** Budgetary control depends on specific capital and limited time. However, this can create inflexibility in the organization as the employees might not be ready for a change and keep new ideas and projects to themselves, which would have benefited the organization.
5. **Time-consuming:** Making a detailed budget report can take up a lot of time and effort that otherwise would have been used for other important activities such as strategic planning, customer service, and product development. Though budgeting helps reduce the wastage of resources, a long process of monitoring, planning, and adjusting can exhaust a lot of resources too.

How to make Budgetary Control Effective

Not all budgetary control processes prove to be effective for the company. Due to its drawbacks, it may face hardships. But there are several ways through which an organization can improve its process of budgetary control. Here are a few steps that can be followed-

1. **Establish clear financial goals:** The organization should set goals or objectives that are practical, doable, and in line with the organization's overall plan. This is the first step in the budgetary control process. This can work only when the organization is working according to the strategy planned and making a budget.
2. **Include relevant stakeholders:** The stakeholders have an important role in the organization. Therefore, the stakeholders, managers, executives, and department heads should all be included in the budgetary control process. This makes sure that

everyone has a stake in meeting the budgeted goals and helps to focus everyone's efforts on the organization's objectives. They understand the importance of their roles and work diligently towards the goal.

3. **Regular monitoring:** Monitoring of the actual performance should be done regularly. As part of the budgetary control process, actual performance should be regularly compared to predetermined budgetary goals. This enables managers to spot any deviations in the early stages of the process of budgeting and take steps to fix them.
4. **Effective communication:** The budgetary control information should be effectively communicated to all important stakeholders. This ensures that the information is delivered frequently, and the directors and stakeholders are updated on the performance of the organization, identifying any areas that need attention, and involving stakeholders in decision-making.
5. **Use performance indicators:** Performance indicators and benchmarks can assist firms in comparing their performance to industry norms and determining where there is a need for improvement, and actions can be taken accordingly.
6. **Constant review and adjustment:** The budgetary control process should be regularly examined, and changes should be made by the business environment, performance statistics, and stakeholder feedback.

NON – BUDGETRY TECHNIQUES :

Traditional Non-Budgetary Techniques

Statistical Data: Analysis of historical or forecasted operational numbers presented through charts or reports to track performance trends.

Break-Even Analysis: A chart-based tool tracking the relationship between sales volume and expenses to find the exact point where revenue covers total costs.

Operational Audit: An internal appraisal or independent review of an organization's work methods, efficiency, and effectiveness.

Personal Observation: Direct, on-site supervision by managers to gauge employee morale, workflow quality, and daily operations.

Modern Non-Budgetary Techniques

PERT (Program Evaluation and Review Technique): A flowchart-based project management tool mapping out activity sequences, time estimates, and critical paths to finish projects on schedule.

Gantt Chart: A visual bar chart mapping planned and actual output or task progress across a timeline.

Benchmarking: Comparing company performance, processes, or quality metrics against industry leaders or best practices.

Management Information Systems (MIS): Timely and systematic delivery of processed data to managers to support daily decision-making and control.